



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4**

Meeting Date: 9 September 2020

Subject: Proposed ASRS 4400 *Agreed-Upon Procedures Engagements*

Date Prepared: 10 July 2020

Prepared by: Rene Herman

☒ Action Required

☐ For Information Purposes Only

A. Agenda Item Objectives

1. To consider and approve the compelling reason modifications to ISRS 4400 *Agreed-Upon Procedures Engagements*;
2. To consider and provide input into the Basis of Conclusions document; and
3. To vote to approve ASRS *Agreed-Upon Procedures Engagements* (subject to NZAuASB feedback).

B. Background

1. ED 01/20 was issued in February 2020 with a 60-day comment period initially ending 20 April 2020. Owing to the COVID-19 environment, the AUASB Technical Group (ATG) facilitated an extension to this period to 11 May 2020 to give Australian stakeholders additional time to feedback into this process.
2. The AUASB held a webinar on 27 April 2020 taking stakeholders through the main changes from extant ASRS 4400 to the proposed revised standard.
3. The AUASB received submissions/comments from 8 stakeholders¹ - all of which were considered and discussed by the AUASB at the June 2020 AUASB meeting.
4. At the June 2020 AUASB meeting, the AUASB considered and provided input into the way forward on the finalisation of the proposed standard in relation to the matters of independence, professional judgement, restriction on use and the term practitioner. The AUASB agreed the following:
 - a) The Basis of Conclusions document (refer Agenda Item 4.7) would provide specific details on:

¹ Deloitte, EY, KPMG, PWC, CPA, CAANZ, IPA, BDO

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- why the AUASB supports independence not being a pre-condition of AUP engagements;
 - why the AUASB supports the requirement around professional judgement in the revised ASRS 4400; and
 - the broad use of the term practitioner.
- b) Example wording would be included in the Illustrative Engagement Letter for situations where the practitioner is required to be independent – refer C1 below.
- c) The Illustrative Agreed-Upon Procedures Report would include illustrative wording that the practitioner is always objective when performing an agreed-upon procedures engagement – refer C2 below.
- d) Based on compelling reasons, largely around consistency in practice, Australian established practices and to ensure clearer differentiation between an assurance engagement and AUP engagements, the AUASB supported an Australian amendment to ISRS 4400 Agreed-Upon Procedures Engagements in relation to the restriction of use of an Agreed-Upon Procedures Report – refer C3 below.
- e) The term ‘Practitioner’ would be updated in the AUASB Glossary.
- f) The ATG would monitor IAASB implementation support, particularly around the differences between assurance engagements and Agreed-Upon procedures engagements, with a view to issue Australian specific support if necessary – refer C4 below.

C. Matters to Consider

1. The ATG has prepared a compelling reasons modification test in relation to the **example wording in the Illustrative Engagement Letter for situations where the practitioner is required to be independent**. Refer Agenda Item 4.1 for the compelling reasons test.

Suggested modification to the first paragraph in the example engagement letter Appendix 1 (including additional footnote):

[In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent / In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], including [describe the relevant independence requirements]^{2,3}.

The AUASB is requested to consider this test along with the proposed modification.

2. The ATG has prepared a compelling reasons modification test in relation to the **example wording in the Illustrative Agreed-Upon Procedures Report to indicate that the practitioner is always objective** when performing an agreed-upon procedures engagement – refer Agenda Item 4.2 for the compelling reasons test.

² For example, if the APESB Code is the relevant ethical requirements and Part 4A of the APESB Code is the relevant independence requirements, this sentence may be worded along the following: ‘In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code), including independence requirements in Part 4A of the APESB Code.’

³ For example, if the IESBA Code is the relevant ethical requirements and Part 4A of the IESBA Code is the relevant independence requirements, this sentence may be worded along the following: “In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and the independence requirements in Part 4A of the IESBA Code.”

Proposed amendment to Appendix 2, Illustrative AUP Report, Illustration 1, under the subheading 'Professional Ethics and Quality Control':

We have complied with the ethical requirements in [describe the relevant ethical requirements], including the fundamental principle of objectivity.

The AUASB is requested to consider this test along with the proposed modification. The ATG has only included the objectivity wording whether the practitioner is not required to be independent. The AUASB is requested to consider whether this example wording is also required to be included where the practitioner is independent.

3. The ATG has prepared a compelling reasons modification test in relation to **restriction on use** of the AUP report – refer Agenda Item 4.3 for the compelling reasons test. The AUASB is requested to consider this test along with the proposed amendments.

There are multiple areas of the standard that require modification to facilitate restriction on use and the following Aus amendments are suggested:

- Aus 22(f): Engagement acceptance and continuance
- Aus 24(k): Contents of engagement letter
- Aus 30(s): Contents of AUP report
- A38, A52, A53: Deletion of AM regarding Restriction of Use/Distribution considerations
- App 1: Example engagement letter wording
- App 2: Example AUP report wording

These differences are all highlighted in the final version of ASRS 4400 for AUASB approval - refer Agenda Item 4.5.

4. *Extant ASRS 4400 Appendix 1 table of differences between assurance engagements and Agreed-Upon procedures engagements*

The AUASB found the **table of differences between assurance engagements and Agreed-Upon procedures engagements** (as currently included in extant ASRS 4400) to be particularly beneficial to practitioners and users. At the June 2020 AUASB meeting, it was agreed that the ATG would monitor IAASB implementation support particularly around the differences between assurance engagements and Agreed-Upon procedures engagements, with a view to issue Australian specific support if necessary. On reflection, the ATG notes that implementation support from the IAASB on their more recent projects has been delayed. Considering that the AUASB already has this table of differences in extant ASRS 4400, the ATG is proposing retaining this Appendix as an [Aus] Appendix to revised ASRS 4400, modified for changes in the revised standard. The AUASB is requested to consider this proposal - refer Agenda Item 4.4 for the compelling reasons test.

Part B – NZAuASB

1. The NZAuASB issued the final ISRS 4400 as an ED in NZ in June 2020, with a 90-day comment period ending early September 2020.
2. The ATG will seek to understand whether the NZ ED process raises any issues. These will be discussed with the AUASB at our joint meeting with the NZAuASB scheduled for 21 October 2020.

Part C – “Compelling Reasons” Assessment

1. For AUASB consideration – as outlined in this paper under Section C ‘Matters to Consider’ above.

D. AUASB Technical Group Recommendations

1. The AUASB recommends that the proposed modifications to ISRS 4400 are agreed by the AUASB and that the AUASB approves modified ASRS 4400, subject to the resolution of any differences to the standard being proposed by the NZAuASB and subsequent approval of the NZ version of the standard by the NZAuASB.

E. Way forward

2. ATG to liaise with NZAuASB staff on their comments received, to understand whether their stakeholders raise any matters for further consideration. The NZAuASB exposed the international standard in June 2020 with an exposure period ending beginning of September 2020.
3. In order to meet the AUASB/NZAuASB Principles of Convergence policy, the AUASB will need to wait for the NZAuASB to finalise their position on ED-ISRS 4400 before issuance of the final standard in Australia. i.e.: Final AUASB board approval and release of the standard would be subject to NZAuASB deliberations expected in October 2020.

F. Material Presented

Agenda Item 4.0	AUASB Board Meeting Summary Paper
Agenda Item 4.1	Compelling reason modification (1) – independence
Agenda Item 4.2	Compelling reason modification (2) – objectivity
Agenda Item 4.3	Compelling reason modification (3) – restriction on use
Agenda Item 4.4	Compelling reason modification (4) – [Aus] Appendix 3
Agenda Item 4.5	Proposed Final ASRS 4400 – Marked up
Agenda Item 4.6	Proposed Final ASRS 4400 - Clean
Agenda Item 4.7	Basis of Conclusions



COMPELLING REASONS TEST FOR PROPOSED MODIFICATIONS TO ISRS 4400 *Agreed-Upon Procedures Engagements*

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Objective:

To present compelling reasons, in accordance with the [Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board \(IAASB\) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board \(NZAuASB\)](#) (August 2014), proposed by the AUASB to be made to modify IAASB standards.

Proposed modification (1) to ISRS 4400	
<p>Proposed modification</p> <p>The AUASB supports the proposed ED 4400 not including a precondition for the practitioner to be independent. However, in situations where the practitioner is independent, the example engagement letter does not contain example wording. To aid consistency in practise the AUASB ATG is proposing example independence wording in the AUP engagement letter where the practitioner is independent. There is no modification needed in the example AUP report as the example report already provides this example by way of footnote.</p> <p><i>Suggested modification to the first paragraph in the example engagement letter Appendix 1 (including additional footnote):</i></p> <p>[In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent / <u>In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], including [describe the relevant independence requirements]</u>^{1,2}.</p>	
Rationale for the proposed modification	
The international standard is not consistent with Australian regulatory arrangements.	
OR	
The international standard does not reflect principles and practices that are considered appropriate in Australia.	The example engagement letter does not contain example wording of where the practitioner is independent. While being independent is not a requirement of the standard, the practitioner may still be independent, as such, it is considered beneficial to provide practitioners with example wording that would aid in consistency of practice.
A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The standard can be modified so as to result in a standard the application of	N/A

¹ For example, if the APESB Code is the relevant ethical requirements and Part 4A of the APESB Code is the relevant independence requirements, this sentence may be worded along the following: 'In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code), including independence requirements in Part 4A of the APESB Code.'

² For example, if the IESBA Code is the relevant ethical requirements and Part 4A of the IESBA Code is the relevant independence requirements, this sentence may be worded along the following: "In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and the independence requirements in Part 4A of the IESBA Code."

which results in effective and efficient compliance with the legal framework in Australia.	
2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	N/A
B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.	Even though being independent is not a requirement of the standard, the international standard still facilitates practitioners being independent; for example, where required by the engaging party or where the practitioner may already be independent as they are the statutory auditor. The modification is to the Appendices only and provides example wording where the practitioner is independent, such example text would promote consistency in practise.
2. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)	As above.
3. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)	As above.
4. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	There is not expected to be any cost associated with the modification since the change is consistent with existing practice. The benefit is consistency in practice which is beneficial for intended users.
5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	The standard facilitates practitioners being independent, so this modification does not conflict or lesser the requirements of the international standard.
6. The proposed modification overall does not result in the standard being overly complex and confusing.	No.

7. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.	The standard facilitates practitioners being independent, so this modification does not change the meaning of the international standard wording. Additionally, this change is to the appendices only.
C. Conclusion	
Compelling reasons test met/not met?	The compelling reasons test has been met.
Does the Board agree that the proposed modification meets the compelling reason test, and that ISRS 4400 should be modified as described above?	



COMPELLING REASONS TEST FOR PROPOSED MODIFICATIONS TO ISRS 4400 *Agreed-Upon Procedures Engagements*

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Objective:

To present compelling reasons, in accordance with the [Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board \(IAASB\) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board \(NZAuASB\)](#) (August 2014), proposed by the AUASB to be made to modify IAASB standards.

Proposed modification (2) to ISRS 4400

Proposed modification

At the time of the AUASB response to the IAASB on the IAASB ED-ISRS 4400, the AUASB supported the proposed ED 4400 not including a precondition for the practitioner to be independent. However, the AUASB considered that ED 4400 should include an explicit reference to the fundamental principles of the Code of Ethics when reporting on AUP engagements, in particular as a minimum the practitioners' requirement to be Objective.

The requirement of paragraph 17 of ISRS 4400 is for the practitioner to comply with relevant ethical requirements, and there is application material associated referring to the IESBA Code which requires practitioners to comply with fundamental principles, including objectivity. This fundamental principle requires practitioners not to compromise their professional or business judgement due to bias, conflict of interest or the undue influence of others.

The ATG recommends that the Appendix 2, Illustrative AUP Reports, under the subheading 'Professional Ethics and Quality Control' include a statement about the practitioner needing to be objective when performing an AUP engagement.

Proposed amendment:

We have complied with the ethical requirements in [describe the relevant ethical requirements], including the fundamental principle of objectivity.

Rationale for the proposed modification

The international standard is not consistent with Australian regulatory arrangements.

OR

The international standard does not reflect principles and practices that are considered appropriate in Australia.

While being independent is not a requirement of the standard, the Code of Ethics requires practitioners to comply with fundamental principles, including objectivity. As such, relevant ethical requirements which the practitioner is subject to would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement. The example AUP report refers to compliance with ethical requirements but does not contain a statement about the practitioner needing to be objective. The ATG considers that for consistency and user understandability, a specific statement of objectivity should be included in the AUP report.

A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia.	N/A
2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	N/A
B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.	The requirement of paragraph 17 of ISRS 4400 is for the practitioner to comply with relevant ethical requirements, and there is application material associated referring to the IESBA Code requiring practitioners to comply with fundamental principles, including objectivity. The modification is to the Appendices only, is consistent with the body of the standard, and provides example wording consistent with existing principles and practices in Australia.
2. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)	As above.
3. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)	As above.
4. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	There is not expected to be any cost associated with the modification since the change is consistent with existing practice. The benefit is to enhance consistency in practice, which is beneficial for intended users.

5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	The standard expects that practitioners are objective under the Code. Accordingly this modification does not conflict or lesser the requirements of the international standard.
6. The proposed modification overall does not result in the standard being overly complex and confusing.	No.
7. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.	The standard facilitates practitioners being independent, so this modification does not change the meaning of the international standard wording. Additionally, this change is to the appendices only.
C. Conclusion	
Compelling reasons test met/not met?	The compelling reasons test has been met.
Does the Board agree that the proposed modification meets the compelling reason test, and that ISRS 4400 should be modified as described above?	



COMPELLING REASONS TEST FOR PROPOSED MODIFICATIONS TO ISRS 4400 *Agreed-Upon Procedures Engagements*

Objective:

To present compelling reasons, in accordance with the [Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board \(IAASB\) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board \(NZAuASB\)](#) (August 2014), proposed by the AUASB to be made to modify IAASB standards.

Proposed modification (3) to ISRS 4400

Proposed modification

At the time of the AUASB response to the IAASB on the IAASB's ED-ISRS 4400, the AUASB considered that the use of an AUP report should be restricted to parties that have agreed to the procedures performed or have been identified as intended users in the report. The IAASB finalised ISRS 4400 with there being no such requirement to restrict use. The rationale for the IAASB not having this restriction in the standard is because in some jurisdictions, it may be possible to restrict the use of the AUP report but not its distribution and in other jurisdictions, it may be possible to restrict the distribution of the AUP report but not its use. While the international standard addresses public interest needs by allowing flexibility in this regard (owing to jurisdictional differences), the ATG considers that from a public interest perspective, leaving the determination of whether or not to include such a restriction to practitioner's judgement, may result in **inconsistencies in practice**. Considering this, the matters outlined in the proposed modifications below and the AUASB's original position at the time of the IAASB's ED, the ATG considers that the Australian current practices provide the compelling reason to amend the proposed standard.

The ATG notes that while the application material to ISRS 4400 uses the terms restriction on use/distribution together, there is a difference between restriction of use and restriction of distribution. The AUASB, when it last revised the Australian AUP standard, made a distinction between the use of an AUP report and the distribution of such a report. This distinction was deliberately included in the requirements of the Australian standard with reliance on that report effectively restricted to the intended users identified, even if the report is distributed to other parties. The purpose of this distinction was not to prevent distribution of a report per se, but to deter the use of that report by those other than the intended users who 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 and the AUASB did not support a reference to restriction on distribution as this is often not practically possible. The AUASB considers that the current AUP approach in extant ASRS 4400 works well in practice.

The ATG is suggesting that modifications to ISRS 4400 reflect the extant ASRS 4400 in relation to restriction on use.

There are multiple areas of the standard that require modification to facilitate restriction on use and the following Aus amendments are suggested:

- Aus 22(f): Engagement acceptance and continuance
- Aus 24(k): Contents of engagement letter
- Aus 30(s): Contents of AUP report
- A38, A52, A53: Deletion of AM regarding Restriction of Use/Distribution considerations
- App 1: Example engagement letter wording
- App 2: Example AUP report wording

Rationale for the proposed modification	
The international standard is not consistent with Australian regulatory arrangements.	
OR	
The international standard does not reflect principles and practices that are considered appropriate in Australia.	<p>A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years. The reasons to continue with the established practice in Australia include:</p> <ul style="list-style-type: none"> • Since the AUP engagement is only required to be agreed with the engaging party, a restriction of use requirement is seen to be a public interest safeguard. While the international standard addresses public interest needs by allowing flexibility in this regard (owing to jurisdictional differences), the ATG considers that from a public interest perspective, leaving the determination of whether or not to include such a restriction to practitioner's judgement, may result in inconsistencies in practice. Variation in practice diminishes the effectiveness of reporting. • Such a restriction limits the likelihood that the AUP report will be used for a wrong purpose. There are multiple requirements and application material paragraphs in ISRS 4400 that demonstrates that an AUP engagement is for a very specific purpose with an intended audience and accordingly it is reasonable that such a report shouldn't be expected to be used by others. • There may be a perceived expectation gap between an assurance engagement and an AUP engagement where an AUP engagement is seen to be 'assurance light'. An AUP engagement is not assurance light – there is no assurance obtained at all in an AUP engagement. Extant ASRS 4400 contains an appendix to the standard containing Differentiating Factors between Agreed-Upon Procedures Engagements and Assurance Engagements, such an appendix is not contained in ISRS 4400, but we understand that implementation guidance will be developed by the IAASB. The ATG considers that a restriction on the use of an AUP report may further aid users understanding of the differential between an assurance and an AUP engagement since an

	assurance engagement report is not restricted in its use.
A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The standard can be modified so as to result in a standard, the application of which results in effective and efficient compliance with the legal framework in Australia.	A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years since its first approval in 2011.
2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	The international standard does not disallow a restriction on use clause, rather, ISRS 4400 leaves this open to jurisdictions providing application material to assist practitioners in making this determination. Accordingly, the proposed modification does not conflict or lessen the requirements in the international standard.
B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.	A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years since its first approval in 2011.
2. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)	Refer Section A1 and A2 above.
3. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)	A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years. The reasons to continue with the established practice in Australia are included in the rationale for the proposed modification section in this Compelling Reason Test. .
4. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing	There is not expected to be any cost associated with the modification since the change is consistent with existing practice. The benefit is consistency in practice which is beneficial for intended users.

from the international standard, and benefit relating to audit quality).	
5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	The international standard does not disallow a restriction on use clause, rather, ISRS 4400 leaves this open to practitioner determination providing application material to assist practitioners in making this determination. Accordingly, the proposed modification does not conflict or lessen the requirements in the international standard.
6. The proposed modification overall does not result in the standard being overly complex and confusing.	No.
7. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.	The international standard does not disallow a restriction on use clause, rather, ISRS 4400 leaves this open to practitioner determination providing application material to assist practitioners in making this determination. Accordingly, the proposed modification does not conflict or lessen the requirements in the international standard.
C. Conclusion	
Compelling reasons test met/not met?	The compelling reasons test has been met.
Does the Board agree that the proposed modification meets the compelling reason test, and that ISRS 4400 should be modified as described above?	



COMPELLING REASONS TEST FOR PROPOSED MODIFICATIONS TO ISRS 4400 *Agreed-Upon Procedures Engagements*

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Objective:

To present compelling reasons, in accordance with the [Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board \(IAASB\) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board \(NZAuASB\)](#) (August 2014), proposed by the AUASB to be made to modify IAASB standards.

Proposed modification (4) to ISRS 4400	
<p>Proposed modification</p> <p>At the time of the AUASB response to the IAASB on ED-ISRS 4400, the AUASB commented that the table of differences between assurance engagements and Agreed-Upon procedures engagements as currently included in extant ASRS 4400 is particularly beneficial to practitioners and users and could be invaluable to practitioners with a clear public interest benefit of keeping a clear distinction between these service offerings and avoiding any potential creep of an AUP turning into a quasi-assurance engagement.</p> <p>At the June 2020 AUASB meeting, it was agreed that the technical group would monitor IAASB implementation support particularly around the differences between assurance engagements and Agreed-Upon procedures engagements, with a view to issue Australian specific support if necessary.</p> <p>On reflection, based on the public interest benefit of this appendix and considering that the AUASB already has this table of differences in extant ASRS 4400, the ATG is proposing retaining this Appendix as an [Aus] Appendix to revised ASRS 4400, modified for changes in the revised standard.</p> <p><i>Proposed amendment:</i> Refer [Aus] Appendix 3 in ASRS 4400.</p>	
Rationale for the proposed modification	
The international standard is not consistent with Australian regulatory arrangements.	
OR	
The international standard does not reflect principles and practices that are considered appropriate in Australia.	While the introductory paragraphs 4-6 of proposed ASRS 4400 makes some distinction between assurance engagement and AUP engagements, a table of differences between assurance engagements and Agreed-Upon procedures engagements as currently included in extant ASRS 4400 is particularly beneficial to practitioners and users and could be invaluable to practitioners with a clear public interest benefit of keeping a clear distinction between these service offerings and avoiding any potential creep of an AUP turning into a quasi-assurance engagement.
A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>

1. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia.	N/A
2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	N/A
B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.	The proposed modification is an appendix and is intended for guidance only. The modification makes no changes to the requirements or application material of the standard, but rather demonstrates the clear distinction between these service offerings and avoiding any potential creep of an AUP turning into a quasi-assurance engagement – which is often the case in Australia where AUP engagements are seen as ‘assurance light’.
2. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)	As per 1 above.
3. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB’s Framework for Audit Quality)	Modification promotes consistency in understanding and avoids any potential creep of an AUP turning into a quasi-assurance engagement .
4. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	There is not expected to be any cost associated with the modification since the amendment is guidance only and does not create any new requirements.
5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	There is no change to the requirements or application material of the standard.

6. The proposed modification overall does not result in the standard being overly complex and confusing.	The amendment demonstrates the clear distinction between service offerings and assists users in understanding the differences thereby reducing any potential confusion.
7. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.	No.
C. Conclusion	
Compelling reasons test met/not met?	The compelling reasons test has been met.
Does the Board agree that the proposed modification meets the compelling reason test, and that ISRS 4400 should be modified as described above?	

ASRS 4400
(June 2020)

Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements*

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



Australian Government
Auditing and Assurance Standards Board

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This Standard on Related Services is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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PREFACE

Reasons for Issuing ASRS 4400

The AUASB issues Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements* pursuant to the requirements of the legislative provisions and 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 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 *Agreed-Upon Procedures Engagements*.

Main Features

This Standard on Related Services represents the Australian equivalent of the IAASB's revised ISRS- 4400 *Agreed-Upon Procedures Engagements* and will replace the current ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* issued by the AUASB in July 2013.

This Standard on Related Services contains differences from the current ASRS 4400, which are detailed in the Explanatory Memorandum accompanying the ASRS 4400.

The main features of this standard include:

- a) Professional judgement — new requirements and application material on the role of professional judgement.
- b) Independence — new requirements and application material on disclosures relating to the practitioner's independence.
- c) Engagement acceptance and continuance considerations — new requirements and application material addressing conditions for engagement acceptance and continuance.
- d) Use of a practitioner's expert — new requirements and application material to address the use of the work of a practitioner's expert, including the practitioner's responsibilities when using the work of an expert.
- e) Agreed-upon procedures report restrictions — clarification that the agreed-upon procedures report is ~~not~~ restricted to parties that have agreed to the procedures to be performed ~~and any intended users identified unless the practitioner decides to do so, and new application material on the practitioner's considerations if the practitioner wishes to place restrictions on the agreed-upon procedures report.~~
- f) ISRS 4400 also addresses non-financial subject matters and includes new definitions, requirements and application material on written representations, recommendations arising from the performance of agreed-upon procedures engagements, and documentation.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Related Services 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: <TypeHere>

R Simnett AO
Chair - AUASB

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

Conformity with International Standards on Related Services

This Standard on Related Services conforms with International Standard on Related Services ISRS 4400 *Agreed-Upon Procedures 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 Standard on Related Services are identified with the prefix “Aus”.

Compliance with this Standard on Related Services enables compliance with ISRS 4400.

STANDARD ON RELATED SERVICES ASRS 4400

Agreed-Upon Procedures Engagements

The grey shaded materials relate to Australian Standard on Quality Control (ASQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*.

Application

Aus 0.1 This Australian Standard on Related Services (ASRS) applies to the performance of agreed-upon procedures engagements on financial or non-financial subject matters. (Ref: Para. A1–A2)

Operative Date

Aus 0.2 This ASRS is operative for agreed-upon procedures engagements for which the terms of engagement are agreed on or after 1 January 2022. (Ref: Para. A9) Early adoption of this ASRS is permitted prior to this date.

Introduction

Scope of this ASRS

1. This ~~Australian Standard on Related Services (ASRS)~~ deals with:
 - (a) The practitioner's responsibilities when engaged to perform an agreed-upon procedures engagement; and
 - (b) The form and content of the agreed-upon procedures report.
2. ~~This ASRS applies to the performance of agreed-upon procedures engagements on financial or non-financial subject matters. (Ref: Para. A1–A2) [Deleted by the AUASB. Refer Aus 0.1]~~

Relationship with ASQC1¹

3. ~~Quality control systems, policies and procedures are the responsibility of the firm. ASQC 1 applies to firms of professional accountants in respect of a firm's agreed-upon procedures engagements. The provisions of this ASRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to ASQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A8) [Deleted by the AUASB. Refer Aus 3.1]~~

Aus 3.1 Quality control systems, policies and procedures are the responsibility of the firm. ASQC 1 applies to firms of assurance practitioners in respect of a firm's agreed-upon procedures engagements. The provisions of this ASRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis

Commented [RH1]: ASQC 1 refers to assurance practitioners while the international equivalent ISQC 1 refers to professional accountants.

¹ Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*.

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Agreed-Upon Procedures Engagements

~~that the firm is subject to ASQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A8)~~

The Agreed-Upon Procedures Engagement

- ~~3.4.~~ In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.
- ~~4.5.~~ The value of an agreed-upon procedures engagement performed in accordance with this ASRS results from:
- (a) The practitioner’s compliance with professional standards, including relevant ethical requirements; and
 - (b) Clear communication of the procedures performed and the related findings.
- ~~5.6.~~ An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form.

Authority of this ASRS

- ~~6.7.~~ This ASRS contains the objectives of the practitioner in following the ASRS, which provide the context in which the requirements of this ASRS are set. The objectives are intended to assist the practitioner in understanding what needs to be accomplished in an agreed-upon procedures engagement.
- ~~7.8.~~ This ASRS contains requirements, expressed using “shall”, that are designed to enable the practitioner to meet the stated objectives.
- ~~8.9.~~ In addition, this ASRS contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of this ASRS.
- ~~9.10.~~ The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. 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 ASRS that assists in the application of the requirements.

Effective Date

- ~~10.11.~~ ~~This ASRS is effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after 1 January 2022. (Ref: Para. A9) [Deleted by the AUASB. Refer Aus 0.2]~~

Objectives

- ~~11.12.~~ The practitioner’s objectives in an agreed-upon procedures engagement under this ASRS are to:
- (a) Agree with the engaging party the procedures to be performed;
 - (b) Perform the agreed-upon procedures; and

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

- (c) Communicate the procedures performed and the related findings in accordance with the requirements of this ASRS.

Definitions

~~42.13.~~ For purposes of this ASRS, the following terms have the meanings attributed below:

- (a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other parties). (Ref: Para. A10)
- (b) Agreed-upon procedures engagement – An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other parties) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. (Ref: Para. A10)
- (c) 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.
- (d) Engaging party – The party(ies) that engage(s) the practitioner to perform the agreed-upon procedures engagement. (Ref: Para. A11)
- (e) Engagement team – All partners and staff performing the agreed-upon procedures engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner's external expert engaged by the firm or a network firm.
- (f) Findings – Findings are the factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. References to findings in this ASRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. (Ref: Para. A12–A13)
- (g) Intended users – The individual(s) or organisation(s), or group(s) that the practitioner expects will use the agreed-upon procedures report. In some cases, there may be intended users other than those to whom the agreed-upon procedures report is addressed. (Ref: Para. A10)
- (h) Practitioner – The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ASRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used.
- (i) Practitioner's expert – An individual or organisation possessing expertise in a field other than assurance and related services, whose work in that field is used to assist the practitioner in fulfilling the practitioner's responsibilities for the agreed-upon procedures engagement. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm) or a practitioner's external expert.
- (j) Professional judgement – The application of relevant training, knowledge and experience, within the context provided by this ASRS and relevant ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the agreed-upon procedures engagement.
- (k) Relevant ethical requirements – Ethical requirements the engagement team is subject to when undertaking agreed-upon procedures engagements. These requirements ordinarily comprise the Accounting Professional & Ethical Standards Board (APESB)'s *Code of Ethics for Professional Accountants (including Independence*

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

Standards) (APESB Code) together with national requirements that are more restrictive.

- (l) Responsible party – The party(ies) responsible for the subject matter on which the agreed-upon procedures are performed.

Requirements

Conduct of an Agreed-Upon Procedures Engagement in Accordance with this ASRS

- ~~13.14.~~ The practitioner shall have an understanding of the entire text of this ASRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

Complying with Relevant Requirements

- ~~14.15.~~ The practitioner shall comply with each requirement of this ASRS unless a particular requirement is not relevant to the agreed-upon procedures engagement, for example, if the circumstances addressed by the requirement do not exist in the engagement.
- ~~15.16.~~ The practitioner shall not represent compliance with this ASRS unless the practitioner has complied with all requirements of this ASRS relevant to the agreed-upon procedures engagement.

Relevant Ethical Requirements

- ~~16.17.~~ The practitioner shall comply with relevant ethical requirements. (Ref: Para. A14–A20)

Professional Judgement

- ~~17.18.~~ The practitioner shall exercise professional judgement in accepting, conducting and reporting on an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A21–A23)

Engagement Level Quality Control

- ~~18.19.~~ The engagement partner shall take responsibility for:

- (a) The overall quality of the agreed-upon procedures engagement including, if applicable, work performed by a practitioner's expert; and (Ref: Para. A24)
- (b) The engagement being performed in accordance with the firm's quality control policies and procedures by:
- (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A25)
- (ii) Being satisfied that the engagement team, and any practitioner's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the agreed-upon procedures engagement;
- (iii) Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, and determining the appropriate actions if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements; (Ref: Para. A26)

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- (iv) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
- (v) Taking responsibility for appropriate engagement documentation being maintained.

~~19-20.~~ If the work of a practitioner's expert is to be used, the engagement partner shall be satisfied that the practitioner will be able to be involved in the work of a practitioner's expert to an extent that is sufficient to take responsibility for the findings included in the agreed-upon procedures report. (Ref: Para. A27)

Engagement Acceptance and Continuance

~~20-21.~~ Before accepting or continuing an agreed-upon procedures engagement, the practitioner shall obtain an understanding of the purpose of the engagement. The practitioner shall not accept or continue the engagement if the practitioner is aware of any facts or circumstances indicating that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. (Ref: Para. A28–A31)

~~21-22.~~ The practitioner shall accept or continue the agreed-upon procedures engagement only when: (Ref: Para. A28–A31)

- (a) The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement;
- (b) The practitioner expects to be able to obtain the information necessary to perform the agreed-upon procedures;
- (c) The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations; (Ref: Para. A32–A36); ~~and~~
- (d) The practitioner has no reason to believe that relevant ethical requirements will not be complied with; ~~and~~
- ~~(e)~~ If the practitioner is required to comply with independence requirements, the practitioner has no reason to believe that the independence requirements will not be complied with; ~~and~~; (Ref: Para. A37–A38)

~~Aus 22(f)~~ The use of the agreed-upon procedures report can be restricted to the engaging party and any intended users identified.

~~22-23.~~ If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take necessary action.

Agreeing the Terms of the Engagement

~~23-24.~~ 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: (Ref: Para. A39–A40)

- (a) Identification of the subject matter(s) on which the agreed-upon procedures will be performed;
- (b) The purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party;

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Agreed-Upon Procedures Engagements

- (c) If applicable, the responsible party as identified by the engaging party, and a statement that the agreed-upon procedures engagement is performed on the basis that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
- (d) Acknowledgement of the relevant ethical requirements with which the practitioner will comply in conducting the agreed-upon procedures engagement;
- (e) A statement as to whether the practitioner is required to comply with independence requirements and, if so, the relevant independence requirements; (Ref: Para. A37–A38)
- (f) The nature of the agreed-upon procedures engagement, including statements that:
 - (i) An agreed-upon procedures engagement involves the practitioner performing the procedures agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
 - (ii) Findings are the factual results of the agreed-upon procedures performed; and
 - (iii) An agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
- (g) Acknowledgement by the engaging party (and if relevant, other parties) that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)
- (h) Identification of the addressee of the agreed-upon procedures report;
- (i) The nature, timing and extent of the procedures to be performed, described in terms that are clear, not misleading and not subject to varying interpretations; ~~and~~ (Ref: Para. A41–A42)
- ~~(j) Reference to the expected form and content of the agreed-upon procedures report; and-~~

~~Aus 24(k) A statement that the use of the agreed-upon procedures report would be restricted to the engaging party, who has agreed to the procedures to be performed, and the intended users identified.~~

~~24.25.~~ If the agreed-upon procedures are modified during the course of the engagement, the practitioner shall agree amended terms of engagement with the engaging party that reflect the modified procedures. (Ref: Para. A43)

Recurring Agreed-Upon Procedures Engagements

~~25.26.~~ On recurring agreed-upon procedures engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of engagement. (Ref: Para. A44)

Performing the Agreed-Upon Procedures

~~26.27.~~ The practitioner shall perform the procedures as agreed upon in the terms of the engagement.

~~27.28.~~ The practitioner shall consider whether to request written representations. (Ref: Para. A45)

Using the Work of a Practitioner's Expert

~~28.29.~~ If the practitioner uses the work of a practitioner's expert, the practitioner shall: (Ref: Para. A46–A47, A50)

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Agreed-Upon Procedures Engagements

- (a) Evaluate the competence, capabilities and objectivity of the practitioner's expert;
- (b) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; (Ref: Para. A48–A49)
- (c) Determine whether the nature, timing and extent of the work performed by the practitioner's expert is consistent with the work agreed with the expert; and
- (d) Determine whether the findings adequately describe the results of the work performed, taking into account the work performed by the practitioner's expert.

The Agreed-Upon Procedures Report

29-30. The agreed-upon procedures report shall be in writing and shall include: (Ref: Para. A51)

- (a) A title that clearly indicates that the report is an agreed-upon procedures report;
- (b) An addressee as set forth in the terms of the engagement;
- (c) Identification of the subject matter on which the agreed-upon procedures are performed; (Ref: Para. A52)
- ~~(d)~~ Identification of the purpose of the agreed-upon procedures report and a statement that the agreed-upon procedures report may not be suitable for another purpose; (Ref: Para. A53–A54)

~~(d)~~(e) A description of an agreed-upon procedures engagement stating that:

- (i) An agreed-upon procedures engagement involves the practitioner performing the procedures that have been agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
- (ii) Findings are the factual results of the agreed-upon procedures performed; and
- (iii) The engaging party (and if relevant, other parties) has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement. (Ref: Para. A10)

~~(e)~~(f) If applicable, the responsible party as identified by the engaging party, and a statement that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;

~~(f)~~(g) A statement that the engagement was performed in accordance with ASRS 4400;

~~(g)~~(h) A statement that the practitioner makes no representation regarding the appropriateness of the agreed-upon procedures;

~~(h)~~(i) A statement that the agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;

~~(i)~~(j) A statement that, had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported;

~~(j)~~(k) A statement that the practitioner complies with the ethical requirements of the APESB Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;

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~~(k)~~(l) With respect to independence:

- (i) If the practitioner is not required to be independent and has not otherwise agreed in the terms of engagement to comply with independence requirements, a statement that, for the purpose of the engagement, there are no independence requirements with which the practitioner is required to comply; or
- (ii) If the practitioner is required to be independent or has agreed in the terms of engagement to comply with independence requirements, a statement that the practitioner has complied with the relevant independence requirements. The statement shall identify the relevant independence requirements;

~~(j)~~(m) A statement that the firm of which the practitioner is a member applies ASQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQC 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 ASQC 1;

~~(m)~~(n) A description of the procedures performed detailing the nature and extent, and if applicable, the timing, of each procedure as agreed in the terms of the engagement; (Ref: Para. A55–A57)

~~(n)~~(o) The findings from each procedure performed, including details on exceptions found; (Ref: Para. A55–A56)

~~(o)~~(p) The practitioner's signature;

~~(p)~~(q) The date of the agreed-upon procedures report; ~~and~~

~~(r)~~ The location in the jurisdiction where the practitioner practices; ~~and~~.

~~Aus 30(s)~~ A statement that the use of the report is restricted to those parties identified in the agreed-upon procedures report, who have agreed to the procedures to be performed or were identified in the terms of engagement.

~~30-31.~~ If the practitioner refers to the work performed by a practitioner's expert in the agreed-upon procedures report, the wording of the report shall not imply that the practitioner's responsibility for performing the procedures and reporting the findings is reduced because of the involvement of an expert. (Ref: Para. A58)

~~31-32.~~ If the practitioner provides a summary of findings in the agreed-upon procedures report in addition to the description of findings as required by paragraph 30(o):

- (a) The summary of findings shall be described in a manner that is objective, in terms that are clear, not misleading, and not subject to varying interpretations; and
- (b) The agreed-upon procedures report shall include a statement indicating that reading the summary is not a substitute for reading the complete report.

~~32-33.~~ The practitioner shall date the agreed-upon procedures report no earlier than the date on which the practitioner completed the agreed-upon procedures and determined the findings in accordance with this ASRS.

Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement

~~33-34.~~ The agreed-upon procedures report shall be clearly distinguished from reports on other engagements. (Ref: Para. A59)

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

Documentation

~~34.~~35. The practitioner shall include in the engagement documentation: (Ref: Para. A60)

- (a) The written terms of engagement and, if applicable, the agreement of the engaging party as to modifications to the procedures;
- (b) The nature, timing and extent of the agreed-upon procedures performed; and
- (c) The findings resulting from the agreed-upon procedures performed.

* * *

Application and Other Explanatory Material

Scope Application of this ASRS (Ref: Para. [Aus 0.12](#))

- A1. Reference to “subject matters” in this ASRS encompasses anything on which agreed-upon procedures are performed, including information, documents, measurements or compliance with laws and regulations, as relevant.
- A2. Examples of financial and non-financial subject matters on which an agreed-upon procedures engagement may be performed include:
- Financial subject matters relating to:
 - The entity’s financial report or specific classes of transactions, account balances or disclosures within the financial report.
 - Eligibility of expenditures claimed from a funding program.
 - Revenues for determining royalties, rent or franchise fees based on a percentage of revenues.
 - Capital adequacy ratios for regulatory authorities.
 - Non-financial subject matters relating to:
 - Numbers of passengers reported to a civil aviation authority.
 - Observation of destruction of fake or defective goods reported to a regulatory authority.
 - Data generating processes for lottery draws reported to a regulatory authority.
 - Volume of greenhouse gas emissions reported to a regulatory authority.

The above list is not exhaustive. Additional types of subject matters may arise as external reporting demands evolve.

Relationship with ASQC 1 (Ref: Para. [Aus 3.1](#))

- A3. ASQC 1 deals with the firm’s responsibilities to establish and maintain its system of quality control for related services engagements, including agreed-upon procedures engagements. Those responsibilities are directed at establishing:
- The firm’s quality control system; and
 - The firm’s related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.
- A4. Under ASQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and

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(b) Reports issued by the firm or engagement partners are appropriate in the circumstances.²

A5. A jurisdiction that has not adopted ASQC 1 in relation to agreed-upon procedures engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ASRS regarding quality control at the engagement level are premised on the basis that quality control requirements adopted are at least as demanding as those of ASQC 1. This is achieved when those requirements impose obligations on the firm to achieve the aims of the requirements of ASQC 1, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements:

- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

A6. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.

A7. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to legal and regulatory requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the agreed-upon procedures engagement, the engagement partner may consider measures taken by the firm to rectify the situation that the engagement partner considers are sufficient in the context of that agreed-upon procedures engagement.

A8. A deficiency in the firm's system of quality control does not necessarily indicate that an agreed-upon procedures engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the agreed-upon procedures report was not appropriate.

Operative Date (Ref: Para. ~~H~~Aus. 0.2)

A9. For terms of engagement covering multiple years, practitioners may wish to update the terms of engagement so that the agreed-upon procedures engagements will be conducted in accordance with this ASRS on or after the effective-operative date.

² ASQC 1, paragraph 11.

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Definitions

Engaging Party and Other Intended Users (Ref: Para. 13(a), 13(b), 13(d), 13(g), 24(f)(i), 24(g), 30(e)(i), 30(e)(iii))

- A10. In some circumstances, the procedures may be agreed with intended users in addition to the engaging party. Intended users other than the engaging party may also acknowledge the appropriateness of the procedures.
- A11. The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user. References to the engaging party in this ASRS include multiple engaging parties when relevant.

Findings (Ref: Para. 13(f))

- A12. Findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results. Findings exclude the expression of an opinion or a conclusion as well as any recommendations that the practitioner may make.

Practitioners may use the term “factual findings” in place of “findings”, for example, in cases when the practitioner is concerned that the term “findings” may be misunderstood. This may be the case in jurisdictions or languages where the term “findings” may be understood as including results that are not factual.

Relevant Ethical Requirements (Ref: Para. 17)

Objectivity and Independence

- A13. A practitioner performing an agreed-upon procedures engagement is required to comply 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.
- A14. The APESB Code does not contain independence requirements for agreed-upon procedures engagements. However, national ethical codes, laws or regulations, other professional requirements, or conditions of a contract, program, or arrangement relating to the subject matter for the agreed-upon procedures engagement may specify requirements pertaining to independence.

*Non-Compliance with Laws and Regulations*³

- A15. Law, regulation or relevant ethical requirements may:

- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.⁴

³ Relevant ethical requirements may indicate that non-compliance with laws and regulations includes fraud. See, for example, 360.5 A2 of the APESB Code.

⁴ See, for example, paragraphs R360.36 to 360.36A3 of the APESB Code.

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- A16. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:
- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
 - (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or
 - (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.
- A17. The practitioner is not expected to have a level of understanding of laws and regulations beyond that necessary to be able to perform the agreed-upon procedures engagement. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgement and expertise in responding to identified or suspected non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- A18. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.⁵
- A19. The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).⁶

Professional Judgement (Ref: Para. 18)

- A20. Professional judgement is exercised in applying the requirements of this ASRS and relevant ethical requirements, and in making informed decisions about courses of action throughout the agreed-upon procedures engagement, as appropriate.
- A21. In accepting, conducting and reporting on an agreed-upon procedures engagement, professional judgement is exercised, for example, in:
- Accepting the engagement
- Discussing and agreeing with the engaging party (and if relevant, other parties) the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement).
 - Determining whether engagement acceptance and continuance conditions have been met.
 - Determining the resources necessary to carry out the procedures as agreed in the terms of the engagement, including the need to involve a practitioner's expert.

⁵ See, for example, paragraphs R114.1, 114.1 A1 and R360.37 of the APESB Code.

⁶ See, for example, paragraph 360.39 A1 of the APESB Code.

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- Determining appropriate actions if the practitioner becomes aware of facts or circumstances suggesting that the procedures to which the practitioner is being asked to agree are inappropriate for the purpose of the agreed-upon procedures engagement.

Conducting the engagement

- Determining appropriate actions or responses if, when performing the agreed-upon procedures, the practitioner becomes aware of:
 - Matters that may indicate fraud or an instance of non-compliance or suspected non-compliance with laws or regulations.
 - Other matters that cast doubt on the integrity of the information relevant to the agreed-upon procedures engagement or that indicate that the information may be misleading.
 - Procedures that cannot be performed as agreed.

Reporting on the engagement

- Describing the findings in an objective manner and in sufficient detail, including when exceptions are found.

A22. In conducting the agreed-upon procedures engagement, the need for the practitioner to exercise professional judgement when performing the agreed-upon procedures is limited for reasons including:

- An agreed-upon procedures engagement involves the performance of procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement.
- The agreed-upon procedures and the findings that result from performing those procedures are capable of being described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.
- The findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results.

Engagement Level Quality Control (Ref: Para. 19–20)

A23. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasise the importance to achieving the quality of the engagement of:

- (a) Performing work that complies with professional standards and regulatory and legal requirements;
- (b) Complying with the firm's quality control policies and procedures as applicable; and
- (c) Issuing the practitioner's report for the engagement in accordance with this ASRS.

A24. ASQC1 requires the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance or continuance of client relationships and agreed-upon procedures engagements is appropriate may include information concerning the integrity of the principal owners, key

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management and those charged with governance. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it may not be appropriate to accept the engagement.

- A25. ASQC1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This ASRS sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements.
- A26. If the practitioner is unable to meet the requirement in paragraph 20, it may be appropriate for the practitioner to agree with the engaging party to limit the scope of the agreed-upon procedures engagement to procedures for which the practitioner can appropriately take responsibility. The engaging party may separately engage an expert to perform the other procedures.

Engagement Acceptance and Continuance (Ref: Para. 21–23)

- A27. In obtaining an understanding of the purpose of the agreed-upon procedures engagement, the practitioner may become aware of indications that the procedures the practitioner is asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. For example, the practitioner may be aware of facts or circumstances that indicate:
- The procedures are selected in a manner intended to bias the intended users' decision-making.
 - The subject matter on which the agreed-upon procedures are performed is unreliable.
 - An assurance engagement or advisory service may better serve the needs of the engaging party or other intended users.
- A28. Other actions that may satisfy the practitioner that the conditions in paragraphs 21 and 22 are met include:
- Comparing the procedures to be performed with written requirements set out, for example, in law or regulation, or in a contractual agreement (sometimes referred to as the "Terms of Reference"), where appropriate.
 - Requesting the engaging party to:
 - Distribute a copy of the anticipated procedures and the form and content of the agreed-upon procedures report as set out in the terms of engagement to the intended user(s).
 - Obtain acknowledgement from the intended user(s) of the procedures to be performed.
 - Discuss the procedures to be performed with appropriate representatives of the intended user(s).
 - Reading correspondence between the engaging party and other intended user(s) if the engaging party is not the only intended user.
- A29. If the conditions in paragraphs 21 and 22 are not met, it is unlikely that an agreed-upon procedures engagement is able to meet the needs of the engaging party or other intended users. In such circumstances, the practitioner may suggest other services, such as an assurance engagement, that may be more appropriate.
- A30. All the conditions in paragraphs 21 and 22 also apply to procedures that have been added or modified during the course of the engagement.

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Descriptions of Agreed-Upon Procedures and Findings (Ref: Para. 22 (c))

- A31. The procedures to be performed during the agreed-upon procedures engagement may be prescribed by law or regulation. In some circumstances, law or regulation may also prescribe the way the procedures or findings are to be described in the agreed-upon procedures report. As set out in paragraph 22(c), a condition of accepting an agreed-upon procedures engagement is that the practitioner has determined that the agreed-upon procedures and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.
- A32. Agreed-upon procedures are described objectively, in terms that are clear, not misleading, and not subject to varying interpretations. This means that they are described at a level of specificity sufficient for an intended user to understand the nature and extent and if applicable, the timing, of the procedures performed. It is important to recognise that any term could potentially be used in an unclear or misleading manner, depending on context or the absence thereof. Assuming that the terms are appropriate in the context in which they are used, examples of descriptions of actions that may be acceptable include:
- Confirm.
 - Compare.
 - Agree.
 - Trace.
 - Inspect.
 - Enquire.
 - Recalculate.
 - Observe.
- A33. Terms that may be unclear, misleading, or subject to varying interpretations depending on the context in which they are used, may include, for example:
- Terms that are associated with assurance under the AUASB's Standards such as "present fairly" or "true and fair," "audit," "review," "assurance," "opinion," or "conclusion."
 - Terms that imply expression of an assurance opinion or conclusion such as "we certify," "we verify," "we have ascertained" or "we have ensured" with regard to the findings.
 - Unclear or vague phrases such as "we obtained all the explanations and performed such procedures as we considered necessary."
 - Terms that are subject to varying interpretations such as "material" or "significant."
 - Imprecise descriptions of procedures such as "discuss," "evaluate," "test," "analyse" or "examine" without specifying the nature and extent, and if applicable, the timing, of the procedures to be performed. For example, using the word "discuss" may be imprecise without specifying with whom the discussion is held or the specific questions asked.
 - Terms that suggest that the findings do not reflect factual results such as "in our view," "from our perspective" or "we take the position that."

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- A34. For example, a procedure such as “review cost allocations to determine if they are reasonable” is unlikely to meet the condition for terms to be clear, not misleading, or not subject to varying interpretations because:
- The term “review” may be misinterpreted by some users to mean that the cost allocation was the subject of a limited assurance engagement even though no such assurance is intended by the procedure.
 - The term “reasonable” is subject to varying interpretations as to what constitutes “reasonable.”
- A35. In circumstances when 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 22(c) by, for example, requesting the engaging party to:
- Modify the procedure or the description of the procedure so that it is no longer unclear, misleading, or subject to varying interpretations.
 - If a term that is unclear, misleading or subject to varying interpretations cannot be amended, for example because of law or regulation, include a definition of the term in the agreed-upon procedures report.

Compliance with Independence Requirements (Ref: Para. 22(e), 24(e))

- A36. Paragraph 22(e) applies when the practitioner is required to comply with independence requirements for reasons such as those set out in paragraph A15. Paragraph 22(e) also applies when the practitioner agrees with the engaging party, in the terms of engagement, to comply with independence requirements. For example, the practitioner may have initially determined that the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. However, when considering engagement acceptance and continuance or agreeing the terms of engagement, the practitioner’s knowledge of the following matters may indicate that a discussion with the engaging party as to whether compliance with certain identified independence requirements is appropriate for the purpose of the agreed-upon procedures engagement:
- The purpose of the agreed-upon procedures engagement;
 - The identity of the engaging party, other intended users and responsible party (if different from the engaging party);
 - The nature, timing and extent of the procedures to be performed; or
 - Other engagements that the practitioner is performing or has performed for the engaging party, other intended users or the responsible party (if different from the engaging party).
- A37. The practitioner may be the auditor of the financial report of the engaging party (or responsible party if different from the engaging party). In such a circumstance, if the practitioner is also engaged to conduct an agreed-upon procedures engagement, intended users of the agreed-upon procedures report may assume that the practitioner is independent for the purpose of the agreed-upon procedures engagement. Therefore, the practitioner may agree with the engaging party that the practitioner’s compliance with the independence requirements applicable to audits of financial report is appropriate for the purpose of the agreed-upon procedures engagement. In such a case, a statement that the practitioner is required to comply with such independence requirements is included in the terms of the engagement, in accordance with paragraph 24(e).

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Agreeing the Terms of the Engagement (Ref: Para. 24–25)

- A38. When relevant, additional matters may be included in the engagement letter, for example:
- Arrangements concerning the involvement of a practitioner's expert in some aspects of the agreed-upon procedures engagement.
 - ~~Any restrictions on the use or distribution of the agreed-upon procedures report.~~
- A39. An illustrative engagement letter for an agreed-upon procedures engagement is set out in Appendix 1.
- A40. The practitioner may agree with the engaging party that the procedures to be performed will include quantitative thresholds for determining exceptions. If so, these quantitative thresholds are included in the descriptions of the procedures in the terms of the engagement.
- A41. In some circumstances, law or regulation may prescribe only the nature of the procedures to be performed. In such circumstances, in accordance with paragraph 24(i), the practitioner agrees the timing and extent of procedures to be performed with the engaging party so that the engaging party has a basis to acknowledge that the procedures to be performed are appropriate for the purpose of the engagement.
- A42. In some circumstances, agreeing the terms of engagement and performing the agreed-upon procedures takes place in a linear and discrete manner. In other circumstances, agreeing the terms of engagement and performing the agreed-upon procedures is an iterative process, with changes to the agreed-upon procedures being agreed as the engagement progresses in response to new information coming to light. If procedures that have been previously agreed upon need to be modified, paragraph 25 requires the practitioner to agree the amended terms of engagement with the engaging party. The amended terms of engagement may, for example, take the form of an updated engagement letter, an addendum to an existing engagement letter, or other form of written acknowledgement.

Recurring Engagements (Ref: Para. 26)

- A43. The practitioner may decide not to send a new engagement letter or other written agreement for a recurring engagement. However, the following factors may indicate that it is appropriate to revise the terms of the engagement, or to remind the engaging party of the existing terms of the engagement:
- Any indication that the engaging party misunderstands the purpose of the agreed-upon procedures engagement or the nature, timing or extent of the agreed-upon procedures.
 - Any revised or special terms of the engagement, including any changes in the previously agreed-upon procedures.
 - A change in legal, regulatory or contractual requirements affecting the engagement.
 - A change in management or those charged with governance of the engaging party.

Performing the Agreed-Upon Procedures (Ref: Para. 28)

- A44. The practitioner may decide to request written representations in some circumstances, for example:
- If the agreed-upon procedures involve enquiries, the practitioner may request written representations on the responses that have been provided verbally.

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- If the engaging party is not the responsible party, the practitioner may agree with the engaging party to include, as an agreed-upon procedure, requests for written representations from the responsible party.

Using the Work of a Practitioner's Expert (Ref: Para. 29)

- A45. Using the work of a practitioner's expert may involve the use of an expert to assist the practitioner in:
- Discussing with the engaging party the agreed-upon procedures to be performed. For example, a lawyer may provide suggestions to the practitioner on the design of a procedure to address legal aspects of a contract; or
 - Performing one or more of the agreed-upon procedure(s). For example, a chemist may perform one of the agreed-upon procedures such as determining the toxin levels in a sample of grains.
- A46. A practitioner's expert may be an external expert engaged by the practitioner or an internal expert who is part of the firm and therefore subject to the firm's system of quality control. The practitioner is entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The extent of that reliance will vary with the circumstances and may affect the nature, timing and extent of the practitioner's procedures with respect to matters such as:
- Competence and capabilities, through recruitment and training programs.
 - The practitioner's evaluation of the objectivity of the practitioner's expert.
 - Agreement with the practitioner's expert.
- Such reliance does not reduce the practitioner's responsibility to meet the requirements of this ASRS.
- A47. If the practitioner's expert is performing one or more of the agreed-upon procedure(s), the agreement of the nature, scope and objectives of that expert's work as required by paragraph 29(b) includes the nature, timing and extent of the procedure(s) to be performed by the practitioner's expert. In addition to the matters required by paragraph 29(b), it may be appropriate for the practitioner's agreement with the practitioner's expert to include matters such as the following:
- (a) The respective roles and responsibilities of the practitioner and that expert;
 - (b) The nature, timing and extent of communication between the practitioner and that expert, including the form of any report to be provided by that expert; and
 - (c) The need for the practitioner's expert to observe confidentiality requirements.
- A48. The matters noted in paragraph A47 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. The agreement between the practitioner and the practitioner's external expert is often in the form of an engagement letter.
- A49. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 29 at the engagement acceptance or continuance stage.

The Agreed-Upon Procedures Report (Ref: Para. 30–33)

- A50. Appendix 2 contains illustrations of agreed-upon procedures reports.

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Subject Matter on which the Agreed-Upon Procedures Are Performed (Ref: Para. 30(c))

- A51. If applicable, to avoid misunderstanding, the practitioner may wish to clarify that the agreed-upon procedures report does not extend to information beyond subject matters on which the agreed-upon procedures are performed. For example, if the practitioner was engaged to perform agreed-upon procedures on an entity's accounts receivable and inventory, the practitioner may wish to include a statement that the agreed-upon procedures report relates only to these accounts and does not extend to the entity's financial report taken as a whole.

Purpose of the Agreed-Upon Procedures Report (Ref: Para. 30(d))

- A52. ~~In addition to the statement required by paragraph 30(d), the practitioner may consider it appropriate to indicate that the agreed-upon procedures report is intended solely for the engaging party and the intended users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the agreed-upon procedures report. In some jurisdictions, it may be possible to restrict the use of the agreed-upon procedures report but not its distribution. In other jurisdictions, it may be possible to restrict the distribution of the agreed-upon procedures report but not its use. [Deleted by the AUASB. Refer Aus 30(s)]~~
- A53. ~~[Deleted by the AUASB. Refer Aus 30(s)] Factors that the practitioner may consider in deciding whether to restrict the distribution or use of agreed-upon procedures report (if permitted to do so) include, for example whether:~~
- A54. ~~There is an elevated risk of users other than the intended users misunderstanding the purpose of the agreed-upon procedures engagement or misinterpreting the findings.~~
- A55. ~~The agreed-upon procedures are designed solely for the use of internal users such as management and those charged with governance of the engaging party.~~
- ~~A56-A53. The agreed-upon procedures or findings involve confidential information.~~

Agreed-Upon Procedures and Findings (Ref: Para. 30(n)–30(o))

- ~~A57-A54.~~ If the practitioner is unable to describe the agreed-upon procedures or findings without including confidential or sensitive information, the practitioner may consider:
- Consulting internally (for example, within the firm or network firm);
 - Consulting externally (for example, with the relevant professional body or another practitioner); or
 - Obtaining legal advice,
 - to understand the professional or legal implications of taking any particular course of action.
- ~~A58-A55.~~ There may be circumstances when the fact that previously agreed-upon procedures have not been performed or have been modified is important to the intended users' consideration of the agreed-upon procedures and findings. For example, this may be the case when the procedures are set out in law or regulation. In such circumstances, the practitioner may identify, in the agreed-upon procedures report, the procedures agreed in the original terms of the engagement which could not be performed or were modified, and why that has arisen.
- ~~A59-A56.~~ The practitioner may refer to the date when the agreed-upon procedures were agreed in the terms of the engagement.

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Reference to Practitioner's Expert (Ref: Para. 31)

~~A60.~~~~A57.~~ In some circumstances, law or regulation may require a reference, in the agreed-upon procedures report, to a practitioner's expert who performed any of the agreed-upon procedures. For example, such a reference may be required for the purposes of transparency in the public sector. The practitioner may also consider it appropriate in other circumstances, for example, when referring to the practitioner's expert when describing the agreed-upon procedures. Nonetheless, the practitioner has sole responsibility for the findings included in the agreed-upon procedures report, and that responsibility is not reduced by the use of the practitioner's expert. It is important therefore that if the agreed-upon procedures report refers to the practitioner's expert, the report does not imply that the practitioner's responsibility is reduced because of the reference to the practitioner's expert.

Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement (Ref: Para. 34)

~~A61.~~~~A58.~~ A practitioner may be requested to perform other engagements together with the agreed-upon procedures engagement, such as providing recommendations arising from the agreed-upon procedures engagement. Such requests may take the form of one request for the practitioner to perform agreed-upon procedures and make recommendations, and the terms of the various engagements may be set out in a single engagement letter. To avoid misunderstanding, paragraph 34 requires that the agreed-upon procedures report be clearly distinguished from the reports of other engagements. For example, the recommendations may be:

- Provided in a separate document from the agreed-upon procedures report; or
- Included in a document that contains both the agreed-upon procedures report and recommendations but the recommendations are clearly differentiated from the agreed-upon procedures report, for example, by including the agreed-upon procedures report and the recommendations in separate sections of the document.

Documentation (Ref: Para. 35)

~~A62.~~~~A59.~~ Documentation of the nature, timing and extent of the agreed-upon procedures performed may include a record of, for example:

- The identifying characteristics of the subject matter(s) on which the agreed-upon procedures are performed. Identifying characteristics will vary depending on the nature of the agreed-upon procedure and the subject matter(s) on which the agreed-upon procedure is performed. For example:
 - For a procedure on purchase orders, the practitioner may identify the documents selected by their dates and unique purchase order numbers.
 - For a procedure requiring selection of all items over a specific amount from a given population, the practitioner may record the scope of the procedure and identify the population (for example, all journal entries over a specified amount from the journal register for a specific period, all timesheets for hours recorded over a certain number for specified months or every tenth item on a specific list).
 - For a procedure requiring enquiries of specific personnel, the practitioner may record the dates of the enquiries, the names and job designations of the personnel and the specific enquiries made.
 - For an observation procedure, the practitioner may record the process or matter being observed, the relevant individuals, their respective responsibilities, and where and when the observation was carried out.

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- Who performed the agreed-upon procedures and the date such procedures were performed.
- Who reviewed the agreed-upon procedures performed, and the date and extent of such review.

Appendix 1

(Ref: Para A40)

Grey Shaded Text: Australian Amendment

Illustrative Engagement Letter for an Agreed-Upon Procedures Engagement

The following is an example of an engagement letter for an agreed-upon procedures engagement that illustrates the relevant requirements and guidance contained in this ASRS. This letter is not authoritative and is intended only to be a guide that may be used in conjunction with the considerations outlined in this ASRS. It will need to be adapted according to the requirements and circumstances of individual agreed-upon procedures engagements. It is drafted to refer to an agreed-upon procedures engagement for a single reporting period and would require adaptation if intended or expected to apply to a recurring engagement as described in this ASRS. It may be appropriate to seek legal advice that any proposed letter is suitable.

To [Engaging Party]

You have requested that we perform an agreed-upon procedures engagement on the procurement of [xyz] products. This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent /- In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], including [describe the relevant independence requirements]^{7,8}.

Commented [RH2]: Refer compelling reason test – proposed modification 1 to ISRS 4400

An agreed-upon procedures engagement performed under ASRS 4400 involves our performing the procedures agreed with you, and communicating the findings in the agreed-upon procedures report. Findings are the factual results of the agreed-upon procedures performed. You [and if relevant, other parties] acknowledge that the procedures are appropriate for the purpose of the engagement. We make no representation regarding the appropriateness of the procedures. This agreed-upon procedures engagement will be conducted on the basis that [Responsible Party] is responsible for the subject matter on which the agreed-upon procedures are performed. Further, this agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

The procedures that we will perform are solely for the purpose of assisting you in determining whether your procurement of [xyz] products is compliant with your procurement policies.⁹ Accordingly, our report will be addressed to you and our report may not be suitable for another purpose.

We have agreed to perform the following procedures and report to you the findings resulting from our work:

⁷ For example, if the APESB Code is the relevant ethical requirements and Part 4A of the APESB Code is the relevant independence requirements, this sentence may be worded along the following: "In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code), including independence requirements in Part 4A of the APESB Code."

⁸ For example, if the IESBA Code is the relevant ethical requirements and Part 4A of the IESBA Code is the relevant independence requirements, this sentence may be worded along the following: "In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and the independence requirements in Part 4A of the IESBA Code."

⁹ In this case, the engaging party is also the intended user.

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- Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.
- For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether each contract was subject to bidding by at least 3 contractors from [Engaging Party]’s “Pre-qualified Contractors List.”
- For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the contractor and determine whether the amount ultimately paid is the same as the agreed amount in the contract.

The procedures are to be performed between [Date] and [Date].

Our Agreed-Upon Procedures Report

As part of our engagement, we will issue our report, which will describe the agreed-upon procedures and the findings of the procedures performed [insert appropriate reference to the expected form and content of the agreed-upon procedures report]. 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 engagement, including the specific procedures which we have agreed will be performed and that they are appropriate for the purpose of the engagement.

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Firm’s name]

Acknowledged and agreed on behalf of [Engaging party’s name] by:

[Signature]

[Name and Title]

[Date]

Commented [RH3]: Refer compelling reasons test – proposed modification 3.

Appendix 2

(Ref: Para A51)

Illustrations of Agreed-Upon Procedures Reports

Illustration 1

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the addressee and the only intended user. The engaging party is not the responsible party. For example, the regulator is the engaging party and intended user, and the entity overseen by the regulator is the responsible party.
- No exceptions were found.
- The practitioner did not engage a practitioner's expert to perform any of the agreed-upon procedures.
- There is ~~no~~ restriction on the use ~~or distribution~~ of the report.
- There are no independence requirements with which the practitioner is required to comply.
- A quantitative threshold of \$100 for reporting exceptions in Procedure 3 has been agreed with the engaging party.
- Australian inserted text highlighted in grey shade.

AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS

To [Addressee]

Purpose of this Agreed-Upon Procedures Report and Restriction on Use

Our report is solely for the purpose of assisting [Engaging Party] in determining whether its procurement of [xyz] products is compliant with its procurement policies and may not be suitable for another purpose. 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.

Commented [RH4]: Refer compelling reason – proposed modification 3.

Responsibilities of the Engaging Party and the Responsible Party

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Responsible Party], as identified by [Engaging Party], is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements in [describe the relevant ethical requirements], including the fundamental principle of objectivity. For the purpose of this engagement, there are no independence requirements with which we are required to comply.

Commented [RH5]: Refer compelling reason test – proposed modification 2.

Our firm applies Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with [Engaging Party], on the procurement of [xyz] products.

	Procedures	Findings
1	Obtain from management of [Responsible Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1]. Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.
2	For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Responsible Party]’s “Pre-qualified Contractors List.”	We inspected the records of bidding related to the 37 contracts valued at over \$25,000. We found that all of the 37 contracts were subject to bidding by at least 3 contractors from the [Responsible Party]’s “Pre-qualified Contractors List.”
3	For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Responsible Party] to the contractor and determine whether the amount ultimately paid is within \$100 of the agreed amount in the contract.	We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Responsible Party] to the contractor. We found that the amounts ultimately paid were within \$100 of the agreed amounts in all of the 37 contracts with no exceptions noted.

[Practitioner’s signature]

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

[Date of practitioner's report]

[Practitioner's address]

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

Illustration 2

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the responsible party. The intended user, who is different from the engaging party, is an addressee in addition to the engaging party. For example, the regulator is the intended user and the entity overseen by the regulator is the engaging party and responsible party.
- Exceptions were found.
- The practitioner engaged a practitioner's expert to perform an agreed-upon procedure and a reference to that expert is included in the agreed-upon procedures report.
- There is a restriction on the use ~~and distribution~~ of the report.
- The practitioner is the auditor of the financial report of the engaging party (who is the responsible party). The practitioner has agreed with the engaging party that the practitioner's compliance with the independence requirements applicable to audits of financial reports is appropriate for the purpose of the agreed-upon procedures engagement. The practitioner has agreed to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial reports for the purpose of the agreed-upon procedures engagement.
- ~~The practitioner included a reference to the date when the agreed-upon procedures were agreed in the terms of the engagement.~~
- Australian inserted text highlighted in grey shade.

AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS

To [Addressees]

Purpose of this Agreed-Upon Procedures Report and Restriction on Use ~~and Distribution~~

Our report is solely for the purpose of assisting [Intended User] in determining whether the [Engaging Party]'s procurement of [xyz] products is compliant with [Intended User]'s procurement policies and may not be suitable for another purpose. ~~This report is intended solely for [Engaging Party] and [Intended Users], and should not be used by, or distributed to, any other parties. 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.~~

Responsibilities of the Engaging Party

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Engaging Party (also the Responsible Party)] is responsible for the subject matter on which the agreed-upon procedures are performed.

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements in [describe the relevant ethical requirements], and the independence requirements in accordance with [describe the relevant independence requirements].¹⁰

Our firm applies Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with [Engaging Party] in the terms of engagement dated [DATE], on the procurement of [xyz] products.

	Procedures	Findings
1	Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products ("listing") and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1]. Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.

¹⁰ For example, if the APESB Code is the relevant ethical requirements and Part 4A of the APESB Code is the relevant independence requirements, this sentence may be worded along the following: "We have complied with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code) and the independence requirements in Part 4A of the APESB Code."

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

	Procedures	Findings
2	For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Engaging Party]'s "Pre-qualified Contractors List." For records of bidding that were submitted in [foreign language], translate the records of bidding with the assistance of a translator engaged by the practitioner before performing the comparison.	<p>We inspected the records of bidding related to the 37 contracts valued at over \$25,000. Of the records of bidding related to the 37 contracts, 5 were submitted in [foreign language]. We engaged a translator to assist us in the translation of these 5 records of bidding.</p> <p>We found that 36 of the 37 contracts were subject to bidding by at least 3 contractors from [Engaging Party]'s "Pre-qualified Contractors List."</p> <p>We found 1 contract valued at \$65,000 that was not subject to bidding. Management has represented to us that the reason that this contract was not subject to bidding was due to an emergency to meet a contractual deadline.</p> <p>The engagement of the translator to assist us in the translation of the records of bidding does not reduce our responsibility for performing the procedures and reporting the findings.</p>
3	For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the supplier and determine whether the amount ultimately paid is the same as the agreed amount in the contract.	<p>We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Engaging Party] to the supplier.</p> <p>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, management has represented to us that the difference in the amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that became effective in September 20X1.</p>

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

Differentiating Factors between Agreed-Upon Procedures Engagements and Assurance Engagements

Differentiating Factor	Agreed-Upon Procedures Engagement	Assurance Engagement
Nature, timing and extent of procedures responsibility of:	<u>Responsibility of the engaging party to acknowledge that the agreed-upon procedures are appropriate for the purpose of the engagement.</u> Engaging party	<u>Responsibility of the assurance practitioner to design and perform procedures for the purpose of obtaining sufficient appropriate evidence.</u> Assurance practitioner
<u>Independence requirement:</u>	<u>ASRS 4400 does not require the practitioner to be independent, however independence may be required under the terms of engagement when the practitioner agrees with the engaging party or where laws or regulations require independence.</u> <u>ASRS 4400 requires the practitioner to comply with relevant ethical requirements which under the APES Code 110 Code of Ethics for Professional Accountants (including Independence Standards) includes the fundamental principle of objectivity.</u>	<u>ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements requires assurance practitioners to comply with relevant ethical requirements, including those pertaining to independence.</u>
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 <u>performing</u> 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. <u>The need for the practitioner to exercise professional judgement when performing the agreed-upon procedures is limited.</u>	Professional judgement exercised in <u>performing</u> procedures
Sufficiency and appropriateness of evidence assessed by:	<u>Engaging party and intended users</u>	Assurance practitioner
Form and content of report:	Factual findings, no conclusion or assurance provided	<u>Opinion or c</u> 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.

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

Differentiating Factor	Agreed-Upon Procedures Engagement	Assurance Engagement
<u>Restriction of use of the report;</u>	<u>Use of the agreed-upon procedures report is restricted to engaging party or other intended users.</u>	<u>Use of the assurance report is not restricted.</u>

ASRS 4400
(June 2020)

Standard on Related Services ASRS 4400 ***Agreed-Upon Procedures Engagements***

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



Australian Government
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

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PREFACE

Reasons for Issuing ASRS 4400

The AUASB issues Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements* pursuant to the requirements of the legislative provisions and 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 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 *Agreed-Upon Procedures Engagements*.

Main Features

This Standard on Related Services represents the Australian equivalent of the IAASB's revised ISRS 4400 *Agreed-Upon Procedures Engagements* and will replace the current ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* issued by the AUASB in July 2013.

This Standard on Related Services contains differences from the current ASRS 4400, which are detailed in the Explanatory Memorandum accompanying the ASRS 4400.

The main features of this standard include:

- a) Professional judgement — new requirements and application material on the role of professional judgement.
- b) Independence — new requirements and application material on disclosures relating to the practitioner's independence.
- c) Engagement acceptance and continuance considerations — new requirements and application material addressing conditions for engagement acceptance and continuance.
- d) Use of a practitioner's expert — new requirements and application material to address the use of the work of a practitioner's expert, including the practitioner's responsibilities when using the work of an expert.
- e) Agreed-upon procedures report restrictions — clarification that the agreed-upon procedures report is restricted to parties that have agreed to the procedures to be performed and any intended users identified.
- f) ISRS 4400 also addresses non-financial subject matters and includes new definitions, requirements and application material on written representations, recommendations arising from the performance of agreed-upon procedures engagements, and documentation.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Related Services 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: <TypeHere>

R Simnett AO
Chair - AUASB

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

Conformity with International Standards on Related Services

This Standard on Related Services conforms with International Standard on Related Services ISRS 4400 *Agreed-Upon Procedures 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 Standard on Related Services are identified with the prefix “Aus”.

Compliance with this Standard on Related Services enables compliance with ISRS 4400.

STANDARD ON RELATED SERVICES ASRS 4400

Agreed-Upon Procedures Engagements

The grey shaded materials relate to Australian Standard on Quality Control (ASQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*.

Application

- Aus 0.1 This Australian Standard on Related Services (ASRS) applies to the performance of agreed-upon procedures engagements on financial or non-financial subject matters. (Ref: Para. A1–A2)

Operative Date

- Aus 0.2 This ASRS is operative for agreed-upon procedures engagements for which the terms of engagement are agreed on or after 1 January 2022. (Ref: Para. A9) Early adoption of this ASRS is permitted prior to this date.

Introduction

Scope of this ASRS

1. This ASRS deals with:
 - (a) The practitioner's responsibilities when engaged to perform an agreed-upon procedures engagement; and
 - (b) The form and content of the agreed-upon procedures report.
2. [Deleted by the AUASB. Refer Aus 0.1]

Relationship with ASQC 1¹

3. [Deleted by the AUASB. Refer Aus 3.1]

- Aus 3.1 Quality control systems, policies and procedures are the responsibility of the firm. ASQC 1 applies to firms of assurance practitioners in respect of a firm's agreed-upon procedures engagements. The provisions of this ASRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to ASQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A8)

Commented [RH1]: ASQC 1 refers to assurance practitioners while the international equivalent ISQC 1 refers to professional accountants.

The Agreed-Upon Procedures Engagement

4. In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the

¹ Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*.

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.

5. The value of an agreed-upon procedures engagement performed in accordance with this ASRS results from:
 - (a) The practitioner's compliance with professional standards, including relevant ethical requirements; and
 - (b) Clear communication of the procedures performed and the related findings.
6. An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form.

Authority of this ASRS

7. This ASRS contains the objectives of the practitioner in following the ASRS, which provide the context in which the requirements of this ASRS are set. The objectives are intended to assist the practitioner in understanding what needs to be accomplished in an agreed-upon procedures engagement.
8. This ASRS contains requirements, expressed using "shall", that are designed to enable the practitioner to meet the stated objectives.
9. In addition, this ASRS contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of this ASRS.
10. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. 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 ASRS that assists in the application of the requirements.

Effective Date

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

Objectives

12. The practitioner's objectives in an agreed-upon procedures engagement under this ASRS are to:
 - (a) Agree with the engaging party the procedures to be performed;
 - (b) Perform the agreed-upon procedures; and
 - (c) Communicate the procedures performed and the related findings in accordance with the requirements of this ASRS.

Definitions

13. For purposes of this ASRS, the following terms have the meanings attributed below:
 - (a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other parties). (Ref: Para. A10)

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

- (b) Agreed-upon procedures engagement – An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other parties) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. (Ref: Para. A10)
- (c) 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.
- (d) Engaging party – The party(ies) that engage(s) the practitioner to perform the agreed-upon procedures engagement. (Ref: Para. A11)
- (e) Engagement team – All partners and staff performing the agreed-upon procedures engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner's external expert engaged by the firm or a network firm.
- (f) Findings – Findings are the factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. References to findings in this ASRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. (Ref: Para. A12–A13)
- (g) Intended users – The individual(s) or organisation(s), or group(s) that the practitioner expects will use the agreed-upon procedures report. In some cases, there may be intended users other than those to whom the agreed-upon procedures report is addressed. (Ref: Para. A10)
- (h) Practitioner – The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ASRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used.
- (i) Practitioner's expert – An individual or organisation possessing expertise in a field other than assurance and related services, whose work in that field is used to assist the practitioner in fulfilling the practitioner's responsibilities for the agreed-upon procedures engagement. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm) or a practitioner's external expert.
- (j) Professional judgement – The application of relevant training, knowledge and experience, within the context provided by this ASRS and relevant ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the agreed-upon procedures engagement.
- (k) Relevant ethical requirements – Ethical requirements the engagement team is subject to when undertaking agreed-upon procedures engagements. These requirements ordinarily comprise the Accounting Professional & Ethical Standards Board (APESB)'s *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code) together with national requirements that are more restrictive.
- (l) Responsible party – The party(ies) responsible for the subject matter on which the agreed-upon procedures are performed.

Requirements

Conduct of an Agreed-Upon Procedures Engagement in Accordance with this ASRS

14. The practitioner shall have an understanding of the entire text of this ASRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

Complying with Relevant Requirements

15. The practitioner shall comply with each requirement of this ASRS unless a particular requirement is not relevant to the agreed-upon procedures engagement, for example, if the circumstances addressed by the requirement do not exist in the engagement.
16. The practitioner shall not represent compliance with this ASRS unless the practitioner has complied with all requirements of this ASRS relevant to the agreed-upon procedures engagement.

Relevant Ethical Requirements

17. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A14–A20)

Professional Judgement

18. The practitioner shall exercise professional judgement in accepting, conducting and reporting on an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A21–A23)

Engagement Level Quality Control

19. The engagement partner shall take responsibility for:
- (a) The overall quality of the agreed-upon procedures engagement including, if applicable, work performed by a practitioner's expert; and (Ref: Para. A24)
 - (b) The engagement being performed in accordance with the firm's quality control policies and procedures by:
 - (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A25)
 - (ii) Being satisfied that the engagement team, and any practitioner's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the agreed-upon procedures engagement;
 - (iii) Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, and determining the appropriate actions if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements; (Ref: Para. A26)
 - (iv) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
 - (v) Taking responsibility for appropriate engagement documentation being maintained.
20. If the work of a practitioner's expert is to be used, the engagement partner shall be satisfied that the practitioner will be able to be involved in the work of a practitioner's expert to an

Standard on Related Services ASRS 4400
Agreed-Upon Procedures Engagements

extent that is sufficient to take responsibility for the findings included in the agreed-upon procedures report. (Ref: Para. A27)

Engagement Acceptance and Continuance

21. Before accepting or continuing an agreed-upon procedures engagement, the practitioner shall obtain an understanding of the purpose of the engagement. The practitioner shall not accept or continue the engagement if the practitioner is aware of any facts or circumstances indicating that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. (Ref: Para. A28–A31)
22. The practitioner shall accept or continue the agreed-upon procedures engagement only when: (Ref: Para. A28–A31)
 - (a) The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement;
 - (b) The practitioner expects to be able to obtain the information necessary to perform the agreed-upon procedures;
 - (c) The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations; (Ref: Para. A32–A36);
 - (d) The practitioner has no reason to believe that relevant ethical requirements will not be complied with;
 - (e) If the practitioner is required to comply with independence requirements, the practitioner has no reason to believe that the independence requirements will not be complied with; and (Ref: Para. A37–A38)
- Aus 22(f) The use of the agreed-upon procedures report can be restricted to the engaging party and any intended users identified.
23. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take necessary action.

Agreeing the Terms of the Engagement

24. 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: (Ref: Para. A39–A40)
 - (a) Identification of the subject matter(s) on which the agreed-upon procedures will be performed;
 - (b) The purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party;
 - (c) If applicable, the responsible party as identified by the engaging party, and a statement that the agreed-upon procedures engagement is performed on the basis that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
 - (d) Acknowledgement of the relevant ethical requirements with which the practitioner will comply in conducting the agreed-upon procedures engagement;

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- (e) A statement as to whether the practitioner is required to comply with independence requirements and, if so, the relevant independence requirements; (Ref: Para. A37–A38)
 - (f) The nature of the agreed-upon procedures engagement, including statements that:
 - (i) An agreed-upon procedures engagement involves the practitioner performing the procedures agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
 - (ii) Findings are the factual results of the agreed-upon procedures performed; and
 - (iii) An agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
 - (g) Acknowledgement by the engaging party (and if relevant, other parties) that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)
 - (h) Identification of the addressee of the agreed-upon procedures report;
 - (i) The nature, timing and extent of the procedures to be performed, described in terms that are clear, not misleading and not subject to varying interpretations; (Ref: Para. A41–A42)
 - (j) Reference to the expected form and content of the agreed-upon procedures report; and
- Aus 24(k) A statement that the use of the agreed-upon procedures report would be restricted to the engaging party, who has agreed to the procedures to be performed, and the intended users identified.
25. If the agreed-upon procedures are modified during the course of the engagement, the practitioner shall agree amended terms of engagement with the engaging party that reflect the modified procedures. (Ref: Para. A43)

Recurring Agreed-Upon Procedures Engagements

26. On recurring agreed-upon procedures engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of engagement. (Ref: Para. A44)

Performing the Agreed-Upon Procedures

27. The practitioner shall perform the procedures as agreed upon in the terms of the engagement.
28. The practitioner shall consider whether to request written representations. (Ref: Para. A45)

Using the Work of a Practitioner's Expert

29. If the practitioner uses the work of a practitioner's expert, the practitioner shall: (Ref: Para. A46–A47, A50)
- (a) Evaluate the competence, capabilities and objectivity of the practitioner's expert;
 - (b) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; (Ref: Para. A48–A49)
 - (c) Determine whether the nature, timing and extent of the work performed by the practitioner's expert is consistent with the work agreed with the expert; and

- (d) Determine whether the findings adequately describe the results of the work performed, taking into account the work performed by the practitioner's expert.

The Agreed-Upon Procedures Report

30. The agreed-upon procedures report shall be in writing and shall include: (Ref: Para. A51)
- (a) A title that clearly indicates that the report is an agreed-upon procedures report;
 - (b) An addressee as set forth in the terms of the engagement;
 - (c) Identification of the subject matter on which the agreed-upon procedures are performed; (Ref: Para. A52)
 - (d) Identification of the purpose of the agreed-upon procedures report and a statement that the agreed-upon procedures report may not be suitable for another purpose; (Ref: Para. A53–A54)
 - (e) A description of an agreed-upon procedures engagement stating that:
 - (i) An agreed-upon procedures engagement involves the practitioner performing the procedures that have been agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
 - (ii) Findings are the factual results of the agreed-upon procedures performed; and
 - (iii) The engaging party (and if relevant, other parties) has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement. (Ref: Para. A10)
 - (f) If applicable, the responsible party as identified by the engaging party, and a statement that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
 - (g) A statement that the engagement was performed in accordance with ASRS 4400;
 - (h) A statement that the practitioner makes no representation regarding the appropriateness of the agreed-upon procedures;
 - (i) A statement that the agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
 - (j) A statement that, had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported;
 - (k) A statement that the practitioner complies with the ethical requirements of the APESB Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;
 - (l) With respect to independence:
 - (i) If the practitioner is not required to be independent and has not otherwise agreed in the terms of engagement to comply with independence requirements, a statement that, for the purpose of the engagement, there are no independence requirements with which the practitioner is required to comply; or
 - (ii) If the practitioner is required to be independent or has agreed in the terms of engagement to comply with independence requirements, a statement that the

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practitioner has complied with the relevant independence requirements. The statement shall identify the relevant independence requirements;

- (m) A statement that the firm of which the practitioner is a member applies ASQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQC 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 ASQC 1;
 - (n) A description of the procedures performed detailing the nature and extent, and if applicable, the timing, of each procedure as agreed in the terms of the engagement; (Ref: Para. A55–A57)
 - (o) The findings from each procedure performed, including details on exceptions found; (Ref: Para. A55–A56)
 - (p) The practitioner’s signature;
 - (q) The date of the agreed-upon procedures report;
 - (r) The location in the jurisdiction where the practitioner practices; and
- Aus 30(s) A statement that the use of the report is restricted to those parties identified in the agreed-upon procedures report, who have agreed to the procedures to be performed or were identified in the terms of engagement.
31. If the practitioner refers to the work performed by a practitioner’s expert in the agreed-upon procedures report, the wording of the report shall not imply that the practitioner’s responsibility for performing the procedures and reporting the findings is reduced because of the involvement of an expert. (Ref: Para. A58)
32. If the practitioner provides a summary of findings in the agreed-upon procedures report in addition to the description of findings as required by paragraph 30(o):
- (a) The summary of findings shall be described in a manner that is objective, in terms that are clear, not misleading, and not subject to varying interpretations; and
 - (b) The agreed-upon procedures report shall include a statement indicating that reading the summary is not a substitute for reading the complete report.
33. The practitioner shall date the agreed-upon procedures report no earlier than the date on which the practitioner completed the agreed-upon procedures and determined the findings in accordance with this ASRS.

Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement

34. The agreed-upon procedures report shall be clearly distinguished from reports on other engagements. (Ref: Para. A59)

Documentation

35. The practitioner shall include in the engagement documentation: (Ref: Para. A60)
- (a) The written terms of engagement and, if applicable, the agreement of the engaging party as to modifications to the procedures;
 - (b) The nature, timing and extent of the agreed-upon procedures performed; and
 - (c) The findings resulting from the agreed-upon procedures performed.

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Application and Other Explanatory Material

Application of this ASRS (Ref: Para. Aus 0.1)

- A1. Reference to “subject matters” in this ASRS encompasses anything on which agreed-upon procedures are performed, including information, documents, measurements or compliance with laws and regulations, as relevant.
- A2. Examples of financial and non-financial subject matters on which an agreed-upon procedures engagement may be performed include:
- Financial subject matters relating to:
 - The entity’s financial report or specific classes of transactions, account balances or disclosures within the financial report.
 - Eligibility of expenditures claimed from a funding program.
 - Revenues for determining royalties, rent or franchise fees based on a percentage of revenues.
 - Capital adequacy ratios for regulatory authorities.
 - Non-financial subject matters relating to:
 - Numbers of passengers reported to a civil aviation authority.
 - Observation of destruction of fake or defective goods reported to a regulatory authority.
 - Data generating processes for lottery draws reported to a regulatory authority.
 - Volume of greenhouse gas emissions reported to a regulatory authority.

The above list is not exhaustive. Additional types of subject matters may arise as external reporting demands evolve.

Relationship with ASQC 1 (Ref: Para. Aus 3.1)

- A3. ASQC 1 deals with the firm’s responsibilities to establish and maintain its system of quality control for related services engagements, including agreed-upon procedures engagements. Those responsibilities are directed at establishing:
- The firm’s quality control system; and
 - The firm’s related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.
- A4. Under ASQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
 - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.²

² ASQC 1, paragraph 11.

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A5. A jurisdiction that has not adopted ASQC 1 in relation to agreed-upon procedures engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ASRS regarding quality control at the engagement level are premised on the basis that quality control requirements adopted are at least as demanding as those of ASQC 1. This is achieved when those requirements impose obligations on the firm to achieve the aims of the requirements of ASQC 1, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements:

- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

A6. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.

A7. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to legal and regulatory requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the agreed-upon procedures engagement, the engagement partner may consider measures taken by the firm to rectify the situation that the engagement partner considers are sufficient in the context of that agreed-upon procedures engagement.

A8. A deficiency in the firm's system of quality control does not necessarily indicate that an agreed-upon procedures engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the agreed-upon procedures report was not appropriate.

Operative Date (Ref: Para. Aus. 0.2)

A9. For terms of engagement covering multiple years, practitioners may wish to update the terms of engagement so that the agreed-upon procedures engagements will be conducted in accordance with this ASRS on or after the operative date.

Definitions

Engaging Party and Other Intended Users (Ref: Para. 13(a), 13(b), 13(d), 13(g), 24(f)(i), 24(g), 30(e)(i), 30(e)(iii))

A10. In some circumstances, the procedures may be agreed with intended users in addition to the engaging party. Intended users other than the engaging party may also acknowledge the appropriateness of the procedures.

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- A11. The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user. References to the engaging party in this ASRS include multiple engaging parties when relevant.

Findings (Ref: Para. 13(f))

- A12. Findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results. Findings exclude the expression of an opinion or a conclusion as well as any recommendations that the practitioner may make.

Practitioners may use the term “factual findings” in place of “findings”, for example, in cases when the practitioner is concerned that the term “findings” may be misunderstood. This may be the case in jurisdictions or languages where the term “findings” may be understood as including results that are not factual.

Relevant Ethical Requirements (Ref: Para. 17)

Objectivity and Independence

- A13. A practitioner performing an agreed-upon procedures engagement is required to comply 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.
- A14. The APESB Code does not contain independence requirements for agreed-upon procedures engagements. However, national ethical codes, laws or regulations, other professional requirements, or conditions of a contract, program, or arrangement relating to the subject matter for the agreed-upon procedures engagement may specify requirements pertaining to independence.

*Non-Compliance with Laws and Regulations*³

- A15. Law, regulation or relevant ethical requirements may:
- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
 - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.⁴
- A16. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:
- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
 - (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or

³ Relevant ethical requirements may indicate that non-compliance with laws and regulations includes fraud. See, for example, 360.5 A2 of the APESB Code.

⁴ See, for example, paragraphs R360.36 to 360.36A3 of the APESB Code.

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- (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.

- A17. The practitioner is not expected to have a level of understanding of laws and regulations beyond that necessary to be able to perform the agreed-upon procedures engagement. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgement and expertise in responding to identified or suspected non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- A18. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.⁵
- A19. The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).⁶

Professional Judgement (Ref: Para. 18)

- A20. Professional judgement is exercised in applying the requirements of this ASRS and relevant ethical requirements, and in making informed decisions about courses of action throughout the agreed-upon procedures engagement, as appropriate.
- A21. In accepting, conducting and reporting on an agreed-upon procedures engagement, professional judgement is exercised, for example, in:

Accepting the engagement

- Discussing and agreeing with the engaging party (and if relevant, other parties) the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement).
- Determining whether engagement acceptance and continuance conditions have been met.
- Determining the resources necessary to carry out the procedures as agreed in the terms of the engagement, including the need to involve a practitioner's expert.
- Determining appropriate actions if the practitioner becomes aware of facts or circumstances suggesting that the procedures to which the practitioner is being asked to agree are inappropriate for the purpose of the agreed-upon procedures engagement.

Conducting the engagement

- Determining appropriate actions or responses if, when performing the agreed-upon procedures, the practitioner becomes aware of:

⁵ See, for example, paragraphs R114.1, 114.1 A1 and R360.37 of the APESB Code.

⁶ See, for example, paragraph 360.39 A1 of the APESB Code.

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- Matters that may indicate fraud or an instance of non-compliance or suspected non-compliance with laws or regulations.
- Other matters that cast doubt on the integrity of the information relevant to the agreed-upon procedures engagement or that indicate that the information may be misleading.
- Procedures that cannot be performed as agreed.

Reporting on the engagement

- Describing the findings in an objective manner and in sufficient detail, including when exceptions are found.

A22. In conducting the agreed-upon procedures engagement, the need for the practitioner to exercise professional judgement when performing the agreed-upon procedures is limited for reasons including:

- An agreed-upon procedures engagement involves the performance of procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement.
- The agreed-upon procedures and the findings that result from performing those procedures are capable of being described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.
- The findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results.

Engagement Level Quality Control (Ref: Para. 19–20)

A23. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasise the importance to achieving the quality of the engagement of:

- (a) Performing work that complies with professional standards and regulatory and legal requirements;
- (b) Complying with the firm's quality control policies and procedures as applicable; and
- (c) Issuing the practitioner's report for the engagement in accordance with this ASRS.

A24. ASQC1 requires the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance or continuance of client relationships and agreed-upon procedures engagements is appropriate may include information concerning the integrity of the principal owners, key management and those charged with governance. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it may not be appropriate to accept the engagement.

A25. ASQC1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This ASRS sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements.

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A26. If the practitioner is unable to meet the requirement in paragraph 20, it may be appropriate for the practitioner to agree with the engaging party to limit the scope of the agreed-upon procedures engagement to procedures for which the practitioner can appropriately take responsibility. The engaging party may separately engage an expert to perform the other procedures.

Engagement Acceptance and Continuance (Ref: Para. 21–23)

A27. In obtaining an understanding of the purpose of the agreed-upon procedures engagement, the practitioner may become aware of indications that the procedures the practitioner is asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. For example, the practitioner may be aware of facts or circumstances that indicate:

- The procedures are selected in a manner intended to bias the intended users' decision-making.
- The subject matter on which the agreed-upon procedures are performed is unreliable.
- An assurance engagement or advisory service may better serve the needs of the engaging party or other intended users.

A28. Other actions that may satisfy the practitioner that the conditions in paragraphs 21 and 22 are met include:

- Comparing the procedures to be performed with written requirements set out, for example, in law or regulation, or in a contractual agreement (sometimes referred to as the "Terms of Reference"), where appropriate.
- Requesting the engaging party to:
 - Distribute a copy of the anticipated procedures and the form and content of the agreed-upon procedures report as set out in the terms of engagement to the intended user(s).
 - Obtain acknowledgement from the intended user(s) of the procedures to be performed.
 - Discuss the procedures to be performed with appropriate representatives of the intended user(s).
- Reading correspondence between the engaging party and other intended user(s) if the engaging party is not the only intended user.

A29. If the conditions in paragraphs 21 and 22 are not met, it is unlikely that an agreed-upon procedures engagement is able to meet the needs of the engaging party or other intended users. In such circumstances, the practitioner may suggest other services, such as an assurance engagement, that may be more appropriate.

A30. All the conditions in paragraphs 21 and 22 also apply to procedures that have been added or modified during the course of the engagement.

Descriptions of Agreed-Upon Procedures and Findings (Ref: Para. 22 (c))

A31. The procedures to be performed during the agreed-upon procedures engagement may be prescribed by law or regulation. In some circumstances, law or regulation may also prescribe the way the procedures or findings are to be described in the agreed-upon procedures report. As set out in paragraph 22(c), a condition of accepting an agreed-upon procedures engagement is that the practitioner has determined that the agreed-upon procedures and findings can be

described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.

A32. Agreed-upon procedures are described objectively, in terms that are clear, not misleading, and not subject to varying interpretations. This means that they are described at a level of specificity sufficient for an intended user to understand the nature and extent and if applicable, the timing, of the procedures performed. It is important to recognise that any term could potentially be used in an unclear or misleading manner, depending on context or the absence thereof. Assuming that the terms are appropriate in the context in which they are used, examples of descriptions of actions that may be acceptable include:

- Confirm.
- Compare.
- Agree.
- Trace.
- Inspect.
- Enquire.
- Recalculate.
- Observe.

A33. Terms that may be unclear, misleading, or subject to varying interpretations depending on the context in which they are used, may include, for example:

- Terms that are associated with assurance under the AUASB's Standards such as "present fairly" or "true and fair," "audit," "review," "assurance," "opinion," or "conclusion."
- Terms that imply expression of an assurance opinion or conclusion such as "we certify," "we verify," "we have ascertained" or "we have ensured" with regard to the findings.
- Unclear or vague phrases such as "we obtained all the explanations and performed such procedures as we considered necessary."
- Terms that are subject to varying interpretations such as "material" or "significant."
- Imprecise descriptions of procedures such as "discuss," "evaluate," "test," "analyse" or "examine" without specifying the nature and extent, and if applicable, the timing, of the procedures to be performed. For example, using the word "discuss" may be imprecise without specifying with whom the discussion is held or the specific questions asked.
- Terms that suggest that the findings do not reflect factual results such as "in our view," "from our perspective" or "we take the position that."

A34. For example, a procedure such as "review cost allocations to determine if they are reasonable" is unlikely to meet the condition for terms to be clear, not misleading, or not subject to varying interpretations because:

- The term "review" may be misinterpreted by some users to mean that the cost allocation was the subject of a limited assurance engagement even though no such assurance is intended by the procedure.

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- The term “reasonable” is subject to varying interpretations as to what constitutes “reasonable.”

A35. In circumstances when 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 22(c) by, for example, requesting the engaging party to:

- Modify the procedure or the description of the procedure so that it is no longer unclear, misleading, or subject to varying interpretations.
- If a term that is unclear, misleading or subject to varying interpretations cannot be amended, for example because of law or regulation, include a definition of the term in the agreed-upon procedures report.

Compliance with Independence Requirements (Ref: Para. 22(e), 24(e))

A36. Paragraph 22(e) applies when the practitioner is required to comply with independence requirements for reasons such as those set out in paragraph A15. Paragraph 22(e) also applies when the practitioner agrees with the engaging party, in the terms of engagement, to comply with independence requirements. For example, the practitioner may have initially determined that the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. However, when considering engagement acceptance and continuance or agreeing the terms of engagement, the practitioner’s knowledge of the following matters may indicate that a discussion with the engaging party as to whether compliance with certain identified independence requirements is appropriate for the purpose of the agreed-upon procedures engagement:

- The purpose of the agreed-upon procedures engagement;
- The identity of the engaging party, other intended users and responsible party (if different from the engaging party);
- The nature, timing and extent of the procedures to be performed; or
- Other engagements that the practitioner is performing or has performed for the engaging party, other intended users or the responsible party (if different from the engaging party).

A37. The practitioner may be the auditor of the financial report of the engaging party (or responsible party if different from the engaging party). In such a circumstance, if the practitioner is also engaged to conduct an agreed-upon procedures engagement, intended users of the agreed-upon procedures report may assume that the practitioner is independent for the purpose of the agreed-upon procedures engagement. Therefore, the practitioner may agree with the engaging party that the practitioner’s compliance with the independence requirements applicable to audits of financial report is appropriate for the purpose of the agreed-upon procedures engagement. In such a case, a statement that the practitioner is required to comply with such independence requirements is included in the terms of the engagement, in accordance with paragraph 24(e).

Agreeing the Terms of the Engagement (Ref: Para. 24–25)

A38. When relevant, additional matters may be included in the engagement letter, for example:

- Arrangements concerning the involvement of a practitioner’s expert in some aspects of the agreed-upon procedures engagement.

A39. An illustrative engagement letter for an agreed-upon procedures engagement is set out in Appendix 1.

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- A40. The practitioner may agree with the engaging party that the procedures to be performed will include quantitative thresholds for determining exceptions. If so, these quantitative thresholds are included in the descriptions of the procedures in the terms of the engagement.
- A41. In some circumstances, law or regulation may prescribe only the nature of the procedures to be performed. In such circumstances, in accordance with paragraph 24(i), the practitioner agrees the timing and extent of procedures to be performed with the engaging party so that the engaging party has a basis to acknowledge that the procedures to be performed are appropriate for the purpose of the engagement.
- A42. In some circumstances, agreeing the terms of engagement and performing the agreed-upon procedures takes place in a linear and discrete manner. In other circumstances, agreeing the terms of engagement and performing the agreed-upon procedures is an iterative process, with changes to the agreed-upon procedures being agreed as the engagement progresses in response to new information coming to light. If procedures that have been previously agreed upon need to be modified, paragraph 25 requires the practitioner to agree the amended terms of engagement with the engaging party. The amended terms of engagement may, for example, take the form of an updated engagement letter, an addendum to an existing engagement letter, or other form of written acknowledgement.

Recurring Engagements (Ref: Para. 26)

- A43. The practitioner may decide not to send a new engagement letter or other written agreement for a recurring engagement. However, the following factors may indicate that it is appropriate to revise the terms of the engagement, or to remind the engaging party of the existing terms of the engagement:
- Any indication that the engaging party misunderstands the purpose of the agreed-upon procedures engagement or the nature, timing or extent of the agreed-upon procedures.
 - Any revised or special terms of the engagement, including any changes in the previously agreed-upon procedures.
 - A change in legal, regulatory or contractual requirements affecting the engagement.
 - A change in management or those charged with governance of the engaging party.

Performing the Agreed-Upon Procedures (Ref: Para. 28)

- A44. The practitioner may decide to request written representations in some circumstances, for example:
- If the agreed-upon procedures involve enquiries, the practitioner may request written representations on the responses that have been provided verbally.
 - If the engaging party is not the responsible party, the practitioner may agree with the engaging party to include, as an agreed-upon procedure, requests for written representations from the responsible party.

Using the Work of a Practitioner's Expert (Ref: Para. 29)

- A45. Using the work of a practitioner's expert may involve the use of an expert to assist the practitioner in:
- Discussing with the engaging party the agreed-upon procedures to be performed. For example, a lawyer may provide suggestions to the practitioner on the design of a procedure to address legal aspects of a contract; or

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- Performing one or more of the agreed-upon procedure(s). For example, a chemist may perform one of the agreed-upon procedures such as determining the toxin levels in a sample of grains.

A46. A practitioner's expert may be an external expert engaged by the practitioner or an internal expert who is part of the firm and therefore subject to the firm's system of quality control. The practitioner is entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The extent of that reliance will vary with the circumstances and may affect the nature, timing and extent of the practitioner's procedures with respect to matters such as:

- Competence and capabilities, through recruitment and training programs.
- The practitioner's evaluation of the objectivity of the practitioner's expert.
- Agreement with the practitioner's expert.

Such reliance does not reduce the practitioner's responsibility to meet the requirements of this ASRS.

A47. If the practitioner's expert is performing one or more of the agreed-upon procedure(s), the agreement of the nature, scope and objectives of that expert's work as required by paragraph 29(b) includes the nature, timing and extent of the procedure(s) to be performed by the practitioner's expert. In addition to the matters required by paragraph 29(b), it may be appropriate for the practitioner's agreement with the practitioner's expert to include matters such as the following:

- (a) The respective roles and responsibilities of the practitioner and that expert;
- (b) The nature, timing and extent of communication between the practitioner and that expert, including the form of any report to be provided by that expert; and
- (c) The need for the practitioner's expert to observe confidentiality requirements.

A48. The matters noted in paragraph A47 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. The agreement between the practitioner and the practitioner's external expert is often in the form of an engagement letter.

A49. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 29 at the engagement acceptance or continuance stage.

The Agreed-Upon Procedures Report (Ref: Para. 30–33)

A50. Appendix 2 contains illustrations of agreed-upon procedures reports.

Subject Matter on which the Agreed-Upon Procedures Are Performed (Ref: Para. 30(c))

A51. If applicable, to avoid misunderstanding, the practitioner may wish to clarify that the agreed-upon procedures report does not extend to information beyond subject matters on which the agreed-upon procedures are performed. For example, if the practitioner was engaged to perform agreed-upon procedures on an entity's accounts receivable and inventory, the practitioner may wish to include a statement that the agreed-upon procedures report relates only to these accounts and does not extend to the entity's financial report taken as a whole.

Purpose of the Agreed-Upon Procedures Report (Ref: Para. 30(d))

A52. [Deleted by the AUASB. Refer Aus 30(s)]

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A53. [Deleted by the AUASB. Refer Aus 30(s)]

Agreed-Upon Procedures and Findings (Ref: Para. 30(n) –30(o))

- A54. If the practitioner is unable to describe the agreed-upon procedures or findings without including confidential or sensitive information, the practitioner may consider:
- Consulting internally (for example, within the firm or network firm);
 - Consulting externally (for example, with the relevant professional body or another practitioner); or
 - Obtaining legal advice,
 - to understand the professional or legal implications of taking any particular course of action.
- A55. There may be circumstances when the fact that previously agreed-upon procedures have not been performed or have been modified is important to the intended users' consideration of the agreed-upon procedures and findings. For example, this may be the case when the procedures are set out in law or regulation. In such circumstances, the practitioner may identify, in the agreed-upon procedures report, the procedures agreed in the original terms of the engagement which could not be performed or were modified, and why that has arisen.
- A56. The practitioner may refer to the date when the agreed-upon procedures were agreed in the terms of the engagement.

Reference to Practitioner's Expert (Ref: Para. 31)

- A57. In some circumstances, law or regulation may require a reference, in the agreed-upon procedures report, to a practitioner's expert who performed any of the agreed-upon procedures. For example, such a reference may be required for the purposes of transparency in the public sector. The practitioner may also consider it appropriate in other circumstances, for example, when referring to the practitioner's expert when describing the agreed-upon procedures. Nonetheless, the practitioner has sole responsibility for the findings included in the agreed-upon procedures report, and that responsibility is not reduced by the use of the practitioner's expert. It is important therefore that if the agreed-upon procedures report refers to the practitioner's expert, the report does not imply that the practitioner's responsibility is reduced because of the reference to the practitioner's expert.

Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement (Ref: Para. 34)

- A58. A practitioner may be requested to perform other engagements together with the agreed-upon procedures engagement, such as providing recommendations arising from the agreed-upon procedures engagement. Such requests may take the form of one request for the practitioner to perform agreed-upon procedures and make recommendations, and the terms of the various engagements may be set out in a single engagement letter. To avoid misunderstanding, paragraph 34 requires that the agreed-upon procedures report be clearly distinguished from the reports of other engagements. For example, the recommendations may be:
- Provided in a separate document from the agreed-upon procedures report; or
 - Included in a document that contains both the agreed-upon procedures report and recommendations but the recommendations are clearly differentiated from the agreed-upon procedures report, for example, by including the agreed-upon procedures report and the recommendations in separate sections of the document.

Documentation (Ref: Para. 35)

A59. Documentation of the nature, timing and extent of the agreed-upon procedures performed may include a record of, for example:

- The identifying characteristics of the subject matter(s) on which the agreed-upon procedures are performed. Identifying characteristics will vary depending on the nature of the agreed-upon procedure and the subject matter(s) on which the agreed-upon procedure is performed. For example:
 - For a procedure on purchase orders, the practitioner may identify the documents selected by their dates and unique purchase order numbers.
 - For a procedure requiring selection of all items over a specific amount from a given population, the practitioner may record the scope of the procedure and identify the population (for example, all journal entries over a specified amount from the journal register for a specific period, all timesheets for hours recorded over a certain number for specified months or every tenth item on a specific list).
 - For a procedure requiring enquiries of specific personnel, the practitioner may record the dates of the enquiries, the names and job designations of the personnel and the specific enquiries made.
 - For an observation procedure, the practitioner may record the process or matter being observed, the relevant individuals, their respective responsibilities, and where and when the observation was carried out.
- Who performed the agreed-upon procedures and the date such procedures were performed.
- Who reviewed the agreed-upon procedures performed, and the date and extent of such review.

Appendix 1

(Ref: Para A40)

Grey Shaded Text: Australian Amendment

Illustrative Engagement Letter for an Agreed-Upon Procedures Engagement

The following is an example of an engagement letter for an agreed-upon procedures engagement that illustrates the relevant requirements and guidance contained in this ASRS. This letter is not authoritative and is intended only to be a guide that may be used in conjunction with the considerations outlined in this ASRS. It will need to be adapted according to the requirements and circumstances of individual agreed-upon procedures engagements. It is drafted to refer to an agreed-upon procedures engagement for a single reporting period and would require adaptation if intended or expected to apply to a recurring engagement as described in this ASRS. It may be appropriate to seek legal advice that any proposed letter is suitable.

To [Engaging Party]

You have requested that we perform an agreed-upon procedures engagement on the procurement of [xyz] products. This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent. In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], including [describe the relevant independence requirements].^{7,8}

Commented [RH2]: Refer compelling reason test – proposed modification 1 to ISRS 4400

An agreed-upon procedures engagement performed under ASRS 4400 involves our performing the procedures agreed with you, and communicating the findings in the agreed-upon procedures report. Findings are the factual results of the agreed-upon procedures performed. You [and if relevant, other parties] acknowledge that the procedures are appropriate for the purpose of the engagement. We make no representation regarding the appropriateness of the procedures. This agreed-upon procedures engagement will be conducted on the basis that [Responsible Party] is responsible for the subject matter on which the agreed-upon procedures are performed. Further, this agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

The procedures that we will perform are solely for the purpose of assisting you in determining whether your procurement of [xyz] products is compliant with your procurement policies.⁹ Accordingly, our report will be addressed to you and our report may not be suitable for another purpose.

We have agreed to perform the following procedures and report to you the findings resulting from our work:

⁷ For example, if the APESB Code is the relevant ethical requirements and Part 4A of the APESB Code is the relevant independence requirements, this sentence may be worded along the following: "In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code), including independence requirements in Part 4A of the APESB Code."

⁸ For example, if the IESBA Code is the relevant ethical requirements and Part 4A of the IESBA Code is the relevant independence requirements, this sentence may be worded along the following: "In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and the independence requirements in Part 4A of the IESBA Code."

⁹ In this case, the engaging party is also the intended user.

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- Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.
- For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether each contract was subject to bidding by at least 3 contractors from [Engaging Party]’s “Pre-qualified Contractors List.”
- For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the contractor and determine whether the amount ultimately paid is the same as the agreed amount in the contract.

The procedures are to be performed between [Date] and [Date].

Our Agreed-Up Procedures Report

As part of our engagement, we will issue our report, which will describe the agreed-upon procedures and the findings of the procedures performed [insert appropriate reference to the expected form and content of the agreed-upon procedures report]. 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 engagement, including the specific procedures which we have agreed will be performed and that they are appropriate for the purpose of the engagement.

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Firm’s name]

Acknowledged and agreed on behalf of [Engaging party’s name] by:

[Signature]

[Name and Title]

[Date]

Commented [RH3]: Refer compelling reasons test – proposed modification 3.

Appendix 2

(Ref: Para A51)

Illustrations of Agreed-Upon Procedures Reports

Illustration 1

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the addressee and the only intended user. The engaging party is not the responsible party. For example, the regulator is the engaging party and intended user, and the entity overseen by the regulator is the responsible party.
- No exceptions were found.
- The practitioner did not engage a practitioner's expert to perform any of the agreed-upon procedures.
- There is a restriction on the use of the report.
- There are no independence requirements with which the practitioner is required to comply.
- A quantitative threshold of \$100 for reporting exceptions in Procedure 3 has been agreed with the engaging party.
- Australian inserted text highlighted in grey shade.

AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS

To [Addressee]

Purpose of this Agreed-Upon Procedures Report and Restriction on Use

Our report is solely for the purpose of assisting [Engaging Party] in determining whether its procurement of [xyz] products is compliant with its procurement policies and may not be suitable for another purpose. 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.

Commented [RH4]: Refer compelling reason – proposed modification 3.

Responsibilities of the Engaging Party and the Responsible Party

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Responsible Party], as identified by [Engaging Party], is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging

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Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements in [describe the relevant ethical requirements], including the fundamental principle of objectivity. For the purpose of this engagement, there are no independence requirements with which we are required to comply.

Our firm applies Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with [Engaging Party], on the procurement of [xyz] products.

	Procedures	Findings
1	Obtain from management of [Responsible Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1]. Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.
2	For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Responsible Party]’s “Pre-qualified Contractors List.”	We inspected the records of bidding related to the 37 contracts valued at over \$25,000. We found that all of the 37 contracts were subject to bidding by at least 3 contractors from the [Responsible Party]’s “Pre-qualified Contractors List.”
3	For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Responsible Party] to the contractor and determine whether the amount ultimately paid is within \$100 of the agreed amount in the contract.	We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Responsible Party] to the contractor. We found that the amounts ultimately paid were within \$100 of the agreed amounts in all of the 37 contracts with no exceptions noted.

[Practitioner’s signature]

Commented [RH5]: Refer compelling reason test – proposed modification 2.

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[Date of practitioner's report]

[Practitioner's address]

Illustration 2

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the responsible party. The intended user, who is different from the engaging party, is an addressee in addition to the engaging party. For example, the regulator is the intended user and the entity overseen by the regulator is the engaging party and responsible party.
- Exceptions were found.
- The practitioner engaged a practitioner's expert to perform an agreed-upon procedure and a reference to that expert is included in the agreed-upon procedures report.
- There is a restriction on the use of the report.
- The practitioner is the auditor of the financial report of the engaging party (who is the responsible party). The practitioner has agreed with the engaging party that the practitioner's compliance with the independence requirements applicable to audits of financial reports is appropriate for the purpose of the agreed-upon procedures engagement. The practitioner has agreed to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial reports for the purpose of the agreed-upon procedures engagement.
- The practitioner included a reference to the date when the agreed-upon procedures were agreed in the terms of the engagement.
- Australian inserted text highlighted in grey shade.

AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS

To [Addressees]

Purpose of this Agreed-Upon Procedures Report and Restriction on Use

Our report is solely for the purpose of assisting [Intended User] in determining whether the [Engaging Party]'s procurement of [xyz] products is compliant with [Intended User]'s procurement policies and may not be suitable for another purpose. 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.

Responsibilities of the Engaging Party

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Engaging Party (also the Responsible Party)] is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. An agreed-upon

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procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements in [describe the relevant ethical requirements], and the independence requirements in accordance with [describe the relevant independence requirements].¹⁰

Our firm applies Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with [Engaging Party] in the terms of engagement dated [DATE], on the procurement of [xyz] products.

	Procedures	Findings
1	Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products ("listing") and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1]. Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.

¹⁰ For example, if the APESB Code is the relevant ethical requirements and Part 4A of the APESB Code is the relevant independence requirements, this sentence may be worded along the following: "We have complied with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code) and the independence requirements in Part 4A of the APESB Code."

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	Procedures	Findings
2	For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Engaging Party]'s "Pre-qualified Contractors List." For records of bidding that were submitted in [foreign language], translate the records of bidding with the assistance of a translator engaged by the practitioner before performing the comparison.	<p>We inspected the records of bidding related to the 37 contracts valued at over \$25,000. Of the records of bidding related to the 37 contracts, 5 were submitted in [foreign language]. We engaged a translator to assist us in the translation of these 5 records of bidding.</p> <p>We found that 36 of the 37 contracts were subject to bidding by at least 3 contractors from [Engaging Party]'s "Pre-qualified Contractors List."</p> <p>We found 1 contract valued at \$65,000 that was not subject to bidding. Management has represented to us that the reason that this contract was not subject to bidding was due to an emergency to meet a contractual deadline.</p> <p>The engagement of the translator to assist us in the translation of the records of bidding does not reduce our responsibility for performing the procedures and reporting the findings.</p>
3	For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the supplier and determine whether the amount ultimately paid is the same as the agreed amount in the contract.	<p>We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Engaging Party] to the supplier.</p> <p>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, management has represented to us that the difference in the amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that became effective in September 20X1.</p>

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

[Aus] Appendix 3

Differentiating Factors between Agreed-Upon Procedures Engagements and Assurance Engagements

Differentiating Factor	Agreed-Upon Procedures Engagement	Assurance Engagement
Nature, timing and extent of procedures responsibility of:	Responsibility of the engaging party to acknowledge that the agreed-upon procedures are appropriate for the purpose of the engagement. Engaging party	Responsibility of the assurance practitioner to design and perform procedures for the purpose of obtaining sufficient appropriate evidence. Assurance practitioner
<u>Independence requirement:</u>	<u>ASRS 4400 does not require the practitioner to be independent, however independence may be required under the terms of engagement when the practitioner agrees with the engaging party or where laws or regulations require independence.</u> <u>ASRS 4400 requires the practitioner to comply with relevant ethical requirements which under APES Code 110 Code of Ethics for Professional Accountants (including Independence Standards) includes the fundamental principle of objectivity.</u>	<u>ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements requires assurance practitioners to comply with relevant ethical requirements, including those pertaining to independence.</u>
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 performing 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. <u>The need for the practitioner to exercise professional judgement when performing the agreed-upon procedures is limited.</u>	Professional judgement exercised in performing procedures
Sufficiency and appropriateness of evidence assessed by:	Engaging party and intended users	Assurance practitioner
Form and content of report:	Factual findings, no conclusion or assurance provided	Opinion or 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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Differentiating Factor	Agreed-Upon Procedures Engagement	Assurance Engagement
<u>Restriction of use of the report:</u>	<u>Use of the agreed-upon procedures report is restricted to engaging party or other intended users.</u>	<u>Use of the assurance report is not restricted.</u>

Basis for Conclusions ASRS 4400 Agreed-Upon Procedures Engagements

Prepared by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Basis for Conclusions

This Basis for Conclusions is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Basis for Conclusions ASRS 4400 *Agreed-Upon Procedures Engagements* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASRS 4400 *Agreed-Upon Procedures Engagements*.

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.

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BASIS FOR CONCLUSIONS

ASRS 4400 *Agreed-Upon Procedures Engagements*

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, ASRS 4400 *Agreed-Upon Procedures Engagements*, and is not a substitute for reading the Standard.

Background

1. The International Auditing and Assurance Standards Board (IAASB) issued ISRS 4400 *Agreed-Upon Procedures Engagements* in February 2020. This project was initiated in response to changes that have occurred in the business environment that has driven the demand for AUP engagements on both financial and non-financial subject matters.
2. Further details regarding the development of the International Standard on Auditing (ISA), including the Basis for Conclusions prepared by the Staff of the IAASB, can be found on the IAASB's website: [ISRS 4400 Basis of Conclusions](#).
3. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's (FRC) *Strategic Direction*, the AUASB's policy is to use, as appropriate, the IAASB's standards as a base from which to develop Australian Auditing Standards, unless there are compelling reasons not to do so; and to amend the International standards only when there are compelling reasons to do so.
4. In line with this direction, the AUASB issued Exposure Drafts ED 01/20 ASRS 4400 *Agreed-Upon Procedures Engagements* with comments due 20 April 2020. No Australian specific amendments were proposed in the Exposure Draft, but there were several Australian specific questions.
5. The AUASB issued a revised Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements* in xx2020.

Major Issues raised by respondents on Exposure and AUASB consideration of issue

6. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the NZAuASB. The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so. The major issues raised by respondents on exposure related to independence, professional judgement and restriction on use of the AUP report.

Independence

Background

7. Extant ASRS 4400 has an independence requirement for the practitioner equivalent to the independence requirement applicable to "other assurance engagements". In the absence of independence requirements for AUP engagements and there being no criteria against which the practitioner can determine whether the practitioner is, or is not, independent for the purpose of the AUP engagement, ED 01/20 did not include a precondition for the practitioner to be independent when performing an AUP engagement or a requirement for the practitioner to determine independence.

8. To enhance transparency, ED 01/20 required certain disclosures in the AUP report depending on whether the practitioner is required to be independent and whether the practitioner is, indeed, independent. There is application material in paragraphs A37 and A38 to assist practitioners in complying with the engagement acceptance and continuance requirements in paragraph 22 and agreeing the terms of engagement requirements in paragraph 22. The application material explains that the practitioner's knowledge of certain matters may indicate that a discussion with the engaging party as to whether compliance with certain identified independence requirements is appropriate, for the purpose of the AUP engagement, even when the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. If so, the practitioner may agree with the engaging party, in the terms of engagement, to comply with the relevant independence requirements for the purpose of the AUP engagement. The corresponding reporting requirements in paragraph 30(1) depend on whether the practitioner is:
- Required to comply with independence requirements (regardless of whether the requirements are "external" or agreed to in the terms of engagement); or
 - Not required to comply with independence requirements.

Summary of Comments

9. 7 of the 8 respondents to ED 01/20 supported the independence and reporting requirements of ED 01/20.
10. One respondent to ED 01/20 did not support the independence requirements and reporting of ED 01/20 but instead supported the extant ASRS 4400 requirement for the practitioner to be independent equivalent to the independence requirement applicable to 'other assurance engagements', unless the engaging party has explicitly agreed to modified independence requirements.

AUASB Decision

11. Based on the balance of views expressed by respondents to ED 01/20 and the Board's discussions, the AUASB ultimately supports the independence requirements and reporting in ED 01/20 on the basis that:
- the findings are capable of being objectively verified, and no opinion is expressed by the practitioner;
 - the APESB Code does not require a practitioner performing non-assurance engagements (such as AUP engagements) to be independent and the Auditing Standards should not create such a requirement; and
 - ASRS 4400 recognises that the engaging party and practitioner may still agree to independence, or laws/regulations may require it.
12. While the AUASB supports not including a precondition for the practitioner to be independent, the AUASB does however consider that should be an explicit reference to the fundamental principles of the Code of Ethics when reporting on AUP engagements, in particular as a minimum the practitioners' requirement to be objective. While such a reference to objectivity is included in paragraph A13 of ASRS 4400, the AUASB agreed to include a reference to objectivity in the example illustrative Agreed-Upon Procedures Reports where the practitioner is not required to be independent.
13. The AUASB also supports the example engagement letter in ED 01/20 including example wording where the practitioner is independent. Such example wording provides for consistency in practice.

Professional Judgement

Background

14. Extant 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. ED 01/20 requires the practitioner to exercise professional judgment in accepting, conducting and reporting on an agreed-upon procedures engagement, taking into account the circumstances of the engagement.

Summary of Comments

15. 7 of the 8 respondents to ED 01/20 supported the ED in relation to professional judgment.
16. One respondent considered that the execution of procedures in an AUP engagement should not involve professional judgement and that the requirement to apply professional judgement in “conducting an agreed upon procedures engagement”, has the unintended consequence of conveying the exact opposite (i.e. that professional judgement is required in performing the procedures). That respondent did however agree that professional judgement is applied in various aspects of an AUP engagement and supported the application material of ASRS 4400.

AUASB Decision

17. The AUASB considers that ASRS 4400 needs to be read holistically, that is the definitions, requirements and application material in relation to professional judgement needs to be read together. A complete read of paragraphs 13(b), 13(j), 18, 22(c), 24(i), A21-A23 of ED 01/20 will lead to a very limited exercise of professional judgment in the performance of procedures, which is closely aligned to extant ASRS 4400.
18. To clarify where, and how, professional judgement is exercised in an AUP engagement without implying that professional judgement is ever “suspended” or “prohibited”, ED 01/20 contains the following in relation to professional judgement:
 - Examples and subheadings in application material to demonstrate how professional judgement may be exercised when accepting, conducting and reporting on the AUP engagement.
 - Clarifying, in application material examples, that professional judgement is exercised in determining an appropriate action or response resulting from performing the procedures.
 - Application material explaining why professional judgement is not expected to be exercised in the performance of the procedures.
19. While ED 01/20 is more subtle regarding professional judgement than extant ASRS 4400, the AUASB considers that a holistic read of ED 01/20 results in the same outcome. On this basis, the AUASB supports ED 01/20 in relation to the exercise of professional judgement and no Australian amendments to ISRS 4400 have been made in relation to professional judgement.

Restriction on Use

Background

20. Extant ASRS 4400 requires the practitioner’s report to include a statement that the use of the agreed upon procedures 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. ED 01/20 does not restrict the AUP report to parties that have agreed to the procedures to be performed, but rather the report contains a statement identifying the purpose of the report and that the report may not be suitable for another purpose.

Summary of Comments

21. 6 of the 8 respondents to ED 01/20 support the ED in relation to restriction on use/distribution.
22. 2 respondents to ED 01/20 support the extant ASRS 4400 restriction on use of an AUP report to those parties that have either agreed to the procedures to be performed or have been specifically included as users in the terms of engagement.

AUASB Decision

23. At the time of the AUASB response to the IAASB on the IAASBs ED-ISRS 4400, the AUASB considered that the use of an AUP report should be restricted to parties that have agreed to the procedures performed or have been identified as intended users in the report. The rationale for the IAASB not having this restriction in the standard is because in some jurisdictions, it may be possible to restrict the use of the AUP report but not its distribution and in other jurisdictions, it may be possible to restrict the distribution of the AUP report but not its use. Considering the IAASB's rationale, the AUASB's original position and that the AUASB has no evidence that Australian current practices are not working, the AUASB considers that there are compelling reason to amend the proposed standard in line with extant ASRS 4400, to restrict the use of the agreed upon procedures report to either the engaging party or other intended users.
24. The AUASB notes that while the application material to ED 01/20 uses the terms restriction on use/distribution together, there is a difference between restriction of use and restriction of distribution. The AUASB, when they last 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, with reliance on that report effectively restricted to the intended users identified, even if the report is distributed to other parties. The purpose of this distinction was not to prevent distribution of a report per se, but to deter the use of that report by those other than the intended users who are identified in the terms of engagement. Restriction of the distribution of a report is ultimately a risk management decision for the practitioner and the AUASB did not support a reference to restriction on distribution as this is often not practically possible. The AUASB continues to support this position and Australian amendments will be in relation to restriction on use only.
25. A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years. The reasons the AUASB has decided to continue with the established practice in Australia include:
 - (a) Since the AUP engagement is only required to be agreed with the engaging party, a restriction of use requirement is seen to be a public interest safeguard. While the international standard addresses public interest needs by allowing flexibility in this regard (owing to jurisdictional differences), the AUASB considers that from a public interest perspective, leaving the determination of whether or not to include such a restriction to practitioner's judgement, may result in inconsistencies in practice. Variation in practice diminishes the effectiveness of reporting.
 - (b) Such a restriction limits the likelihood that the AUP report will be used for the wrong purpose. There are multiple requirements and application material paragraphs in ED 01/20 that demonstrates that an AUP engagement is for a very specific purpose with an intended audience and accordingly it is reasonable that such a report shouldn't be expected to be used by others.
 - (c) There may be a perceived expectation gap between an assurance engagement and an AUP engagement where an AUP engagement is incorrectly seen to be 'assurance light'. The AUASB considers that a restriction on the use of an AUP report may further aid users understanding of the differences between an assurance and an AUP engagement given that an assurance engagement report is not restricted in its use.

26. The AUASB made amendments to ISRS 4400 in relation to restriction on use by introducing the following Australian amendments: paragraphs Aus 22.1, Aus 22.1, Aus 30.1, A38, A52, A53, Appendix 1 and Appendix 2.

Practitioner

Background

27. The extant ASRS 4400 definition of assurance practitioner covers those in industry, commerce and the public sector who wish to undertake these engagements. ED 01/20 uses the term practitioner which is defined as *'The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ASRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is use'*.

Summary of Comments

28. 2 of the 8 respondents to ED 01/20 considered that the definition of practitioner in ED 01/20 could be interpreted as being narrower than the extant ASRS 4400 definition of assurance practitioner, particularly with reference to the current definition of practitioner in the AUASB Glossary of Terms. Those respondents supported the use of the term practitioner rather than the extant ASRS 4400 term assurance practitioner as the latter is seen to be confusing for an engagement that conveys no assurance. The respondents were seeking clarity that the term practitioner defined in ED 01/20 covers those in industry, commerce and the public sector who wish to undertake these engagements.

AUASB Decision

29. Based on the views expressed by respondents to ED 01/20 and the Board's discussions, the AUASB considers that the definitions of practitioner and engagement partner in ED 01/20 are broad enough to cover those in industry, commerce and the public sector. The AUASB recognises that the previous definition of practitioner* as defined in the IAASB and AUASB glossary is limiting. The revised ASRS 4400 will be the only AUASB standard where the term practitioner is used, accordingly, the AUASB agreed to update the definition of practitioner as defined in the glossary to reflect the definition as used in ED 01/20.

Conclusion

30. In reaching its conclusions, the AUASB considered all stakeholders' feedback, including the significant issues outlined above.
31. The AUASB voted to approve and issue ASRS 4400 *Agreed-Upon Procedures Engagements* with the Australian amendments as considered in paragraphs Aus 22.1, Aus 22.1, Aus 30.1, A38, A52, A53, Appendix 1 and Appendix 2.

* * *

* professional accountant in public practice



AUASB Agenda Paper

Project:	AUASB Guidance Statements Revision	Meeting:	9 th September 2020
		Agenda Item:	5
Strategic Objective:	2. Develop and maintain Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required.	Decision-Making:	For Discussion
ATG Staff:	See Wen Ewe	Project Status:	In Progress
AUASB Sponsor:	None		

Action Required and Decisions to be Made

- 1 To provide an update to, and receive feedback from, the AUASB on the Guidance Statements Revision Project.
- 2 To determine whether the AUASB supports the recommendations of the AUASB Technical Group (ATG) as to which AUASB Guidance Statements should be updated or withdrawn.

ATG Recommendations, Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Do the AUASB support the recommendations of the ATG about which AUASB Guidance Statements require update and withdrawal described below?	Refer to paragraphs 12 and 13 below.
Question 2	Does the AUASB have any other comments on the analysis provided in the table analysing each Guidance Statement in Appendix 2?	Refer to Appendix 2

Background

- 3 At the September 2019 AUASB Meeting, the AUASB was presented with the first version of a Guidance Statements Revision Discussion Paper which:
 - (a) Outlined an initial review of existing AUASB Guidance Statements (GS's) undertaken by AUASB Technical Group (ATG); and
 - (b) Contained questions designed to obtain detailed responses from stakeholders regarding which GS's need to be prioritised for update by the AUASB. For more details on the Discussion Paper, please refer to [Agenda Item 5.4.1](#) of the September 2019 board papers.
- 4 Accordingly, a formal survey based on these questions was developed to complement the Discussion Paper, and both were distributed to stakeholders for feedback in October 2019. The Discussion Paper was emailed directly to targeted stakeholders and assurance professionals, as well as regulators who determine the legislative or regulatory requirements which determine the scope and content of certain GS's. The survey was attached as a link in the Discussion Paper and distributed via the AUASB's September 2019 newsletter. The ATG also actively promoted this project via several LinkedIn posts and follow up emails to the stakeholders.
- 5 The outcomes from the feedback on the Discussion Paper was originally scheduled to be discussed by the AUASB at its March 2020 meeting, however this was deferred due to time constraints. Furthermore, the plan to discuss this item at the April 2020 meeting was deferred based on feedback from AUASB members that the criteria to determine which GS's are developed/updated needed revision. This has now been addressed in conjunction with the review of the AUASB's Due Process Framework Documentation (refer to **Agenda Item 3** for further information).

Previous Discussions on Topic

- 6 June 2019 Board Meeting – The ATG provided the AUASB with an analysis of the suite of current AUASB Guidance Statements, identifying whether relevant legislation / regulation or relevant standards had changed and therefore which GSs required update or withdrawal. The AUASB determined that additional feedback from stakeholders is required to determine the currency and priority associated with each GS.
- 7 September 2019 Board Meeting – The AUASB reviewed and provided feedback on the Guidance Statement Revision Discussion Paper developed by the ATG. The Discussion Paper and a related survey was made available in October 2019.
- 8 March and April 2020 Board Meeting – The findings from the survey and submissions received on the Guidance Statement Revision Discussion Paper was included in the board pack. However, due to time constraints these agenda items were deferred.

Matters for Discussion and ATG Recommendations

- 9 A total of six written responses to the Discussion Paper and eighteen survey responses were received. The written responses received were from APESB, APRA, CA ANZ, CPA Australia, ACNC and PwC. As for the survey responses, eleven were assurance practitioners (61%) and two were professional bodies (11%). Other stakeholders who responded include regulators, public sector, academics, technical consultant and advisors. A weighted average method (weighted by priority ranking for amending) was used to analyse the priority ranking of the GSs to be updated based on this feedback. Please refer to Appendix 3 for a detailed analysis of the responses to the Discussion Paper and Survey.
- 10 A preliminary list of guidelines to better define the criteria that determine when an AUASB Guidance Statement is created or updated in future was shared with the AUASB as part of the review of the AUASB's Due Process Framework Documentation in June 2020. This has been further refined following feedback from AUASB members after the June 2020 meeting and included in the final Due Process Framework being presented to the AUASB this meeting. (refer to **Agenda Item 3** for further information). A copy of the GS criteria has also been provided in Appendix 1 to this paper.
- 11 The ATG has incorporated these principles that determine when an AUASB Guidance Statement is developed or updated and applied it for each GS, and then added it to the initial analysis performed by ATG in September 2019 and the responses received from the Discussion Paper/Survey in October 2019. The outcome of this process for each GS is presented in Appendix 2.
- 12 Based on the updated analysis of AUASB Guidance Statements in Appendix 2, the ATG recommends the following GSs to be updated or withdrawn as a matter of priority. [NB: Refer to the Appendix for additional details describing why these GS's are recommended for update or withdrawal].

GSs to be updated:

- (a) GS 003 *Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001* – NB: The AUASB has also received correspondence directly from the ASX requesting this GS to be updated.
- (b) GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001*
- (c) GS 022 *Grant Acquittals and Multi-Scope Engagements*
- (d) GS 019 *Auditing Fundraising Revenue of Not-for-Profit Entities*
- (e) GS 016 *Bank Confirmation Requests*
- (f) GS 010 *Responding to Questions at an Annual General Meeting*

GSs to be withdrawn:

- (a) GS 014 *Auditing Mortgage Schemes*
- (b) GS 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes*

- 13 Three out of six written responses to the Discussion Paper suggested the AUASB develop a new GS covering Technology or Data Analytics related guidance. AUASB members should note this is already being addressed by the ATG through work of the Technology Project Advisory Group (PAG) (refer to Appendix 3 for more details).
- 14 Another eight AUASB Guidance Statements have been identified as those which could be revised to reflect updated legislative or regulatory requirements and changes to relevant AUASB standards, however based on a combination of the ATG's assessment against the revised Guidance Statements updated principles in Appendix 1 and feedback from stakeholders to the Guidance Statements Discussion Paper and Survey, these are not considered priorities for the AUASB at this time.

Next steps/Way Forward

- 15 The ATG will continue its work updating the various AUASB Guidance Statements which has already commenced (i.e. GS 008 & GS 012).
- 16 Other AUASB Guidance Statements identified as priorities for update or withdrawal at the September 2020 AUASB meeting will be included in the AUASB 2020-21 Technical Work Program.

Materials Presented

Agenda Item 5.0	AUASB Agenda Paper - Guidance Statement Revision Plan
Appendix 1	Revised AUASB Guidance Statement Principles for AUASB Due Process Document
Appendix 2	Table Analysis of AUASB Guidance Statements
Appendix 3	Results/Findings from the Discussion Paper and Survey



Appendix 1

Revised AUASB Guidance Statement Principles (extracted from revised AUASB Due Process Framework Document)

The AUASB evaluates the following considerations when determining whether or not to create a new or update an existing AUASB Guidance Statement (GS).

- (a) How the development or update of the GS aligns to the AUASB's Overall Strategy and Strategic Objectives.
- (b) Whether the development of auditing or assurance guidance for the intended subject matter is the responsibility of the AUASB or another organisation. In particular, is it appropriate for the AUASB's resources (including board member time) to be applied to the development or update of the GS.
- (c) Is the subject matter the GS is designed to address up to date or recently updated? (NB: The AUASB should not update its GS's in advance of any changes to other regulatory requirements or guidance issued by other originations.)
- (d) Is the intended subject matter in the GS related to auditing and/or assurance issues which are likely to be temporary or permanent? If not ongoing or permanent, then the development of a GS may not be appropriate and another type of AUASB publication may be more applicable.
- (e) Does the development or update of the GS benefit AUASB stakeholders. In particular, a GS may not be appropriate if there is a very narrow stakeholder group it benefits. Generally, a GS is developed primarily to support auditors and/or assurance practitioners. If the main audience of the GS is not auditors and/or assurance practitioners, then another type of AUASB publication may be more applicable.
- (f) Is the development or update of the GS in the Public Interest (i.e. consistent with the 'Public Interest Framework for the Development of AUASB Standards' -refer Agenda Item 3.1, in addition to serving the needs of the primary users of the GS would the development or update of the GS while also benefit other relevant stakeholders).
- (g) Is there capacity and the appropriate subject matter expertise within the technical staff to develop or update the GS? If not, could this be addressed through other resourcing methods (e.g. contractors, working groups).
- (h) For existing GS's, does the original purpose of the GS still apply? If not, then consider if the GS requires updating or potentially should be withdrawn.



Appendix 2

Table Analysis of AUASB Guidance Statements

Guidance Statements	Evaluation against eight GS Due Process principles (refer Appendix 1)	Initial Analysis by ATG from Sept 2019 AUASB Meeting	Submissions and Survey Responses (Details in Appendix 3)	Recommendation by ATG	Other Comments
GS 001 <i>Concise Financial Reports Under the Corporations Act 2001</i>	Does not satisfy principles (c), (d) and (e), as the GS was recently updated in 2017.	GS recently issued and relevant legislation and associated standards have not changed since issue.	No respondents fed back that GS 001 requires updating.	No action required.	No further comments.
GS 002 <i>Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities</i>	Does not satisfy principles (b) and (g). The intended subject matter is not the responsibility of the AUASB and there is limited subject matter expertise within the ATG.	Relevant legislation and standards have changed since the GS was last issued.	No written respondents fed back that GS 002 requires updating, but seven out of eighteen survey respondents noted their support for the GS to be updated.	Update is required but not a priority.	A PAG or external subcontractor would be required to update this GS reflecting the lack of subject matter expertise in the ATG.

AUASB Agenda Paper

Guidance Statements	Evaluation against eight GS Due Process principles (refer Appendix 1)	Initial Analysis by ATG from Sept 2019 AUASB Meeting	Submissions and Survey Responses (Details in Appendix 3)	Recommendation by ATG	Other Comments
GS 003 <i>Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001</i>	Does not satisfy principles (b) and (g). The intended subject matter is not the responsibility of the AUASB and there is no specific subject matter expertise within the ATG.	Relevant legislation has changed but relevant AUASB standards have not changed since issue.	No written respondents fed back that GS 003 requires updating, but nine out of eighteen survey respondents noted their support for the GS to be updated. Survey respondents have ranked this GS as top five GSs to be updated.	Update Required	AUASB has also received correspondence directly from the ASX as part of the PJC inquiry requesting this GS to be updated. A PAG is likely to be necessary to update this GS, reflecting the lack of specific subject matter expertise in the ATG.
GS 004 <i>Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups</i>	Does not satisfy principle (g) as there is no specific subject matter expertise within the ATG.	Relevant legislation and standards have changed since issue.	No written respondents fed back that GS 004 requires updating, but four out of eighteen survey respondents noted their support for the GS to be updated.	Update is required but not a priority.	A PAG or external subcontractor would be required to update this GS reflecting the lack of subject matter expertise in the ATG.
GS 005 <i>Evaluating the Appropriateness of a Management's Expert's Work</i>	Recently updated in March 2020, therefore out of scope of this project.				

AUASB Agenda Paper

Guidance Statements	Evaluation against eight GS Due Process principles (refer Appendix 1)	Initial Analysis by ATG from Sept 2019 AUASB Meeting	Submissions and Survey Responses (Details in Appendix 3)	Recommendation by ATG	Other Comments
GS 006 <i>Electronic Publication of the Auditor's Report</i>	Does not satisfy principles (e) and (h), as the original purpose of this GS is potentially no longer relevant and updating the GS may have limited benefits to AUASB stakeholders.	This GS was discussed as potentially no longer being relevant, as it was originally released when website technology was less developed. However, an AUASB member requested it was included in our list of GS for potential update.	One out of six written respondents fed back that GS 006 requires updating. Twelve out of eighteen survey respondents noted their support for the GS to be updated.	Update is required but not a priority.	No further comments.
GS 007 <i>Audit Implications of the Use of Service Organisations for Investment Management Services</i>	Meets all GS updated principles.	Relevant standards have changed since issue.	No written respondents fed back that GS 007 requires updating but eight out of eighteen survey respondents noted their support for the GS to be updated.	Update is required but not a priority.	No further comments.

AUASB Agenda Paper

Guidance Statements	Evaluation against eight GS Due Process principles (refer Appendix 1)	Initial Analysis by ATG from Sept 2019 AUASB Meeting	Submissions and Survey Responses (Details in Appendix 3)	Recommendation by ATG	Other Comments
GS 008 <i>The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001</i>	Meets all GS updated principles.	Relevant legislation has changed since issue.	Not included in the GS discussion paper or survey results as the GS was already included in the AUASB Technical Work Program for updating in 2020.	Update Required	The ATG commenced a project to update this GS in late 2019. Additional outreach and research to obtain feedback from the stakeholders on the wording of materiality and the wording of Auditor's Report on the Remuneration Report to be performed, as well as legal advice to clarify auditor's responsibility relating to the Remuneration Report.
GS 009 <i>Auditing Self-Managed Superannuation Funds</i>	Recently updated in June 2020, therefore out of scope for this project.				

AUASB Agenda Paper

Guidance Statements	Evaluation against eight GS Due Process principles (refer Appendix 1)	Initial Analysis by ATG from Sept 2019 AUASB Meeting	Submissions and Survey Responses (Details in Appendix 3)	Recommendation by ATG	Other Comments
GS 010 <i>Responding to Questions at an Annual General Meeting</i>	Meets all GS updated principles.	Suite of Auditor reporting standards changed, effective from December 2016.	No written respondents fed back that GS 010 requires updating, but thirteen out of eighteen survey respondents noted their support for the GS to be updated. Survey respondents have ranked this GS as top five GSs to be updated.	Update Required	The AUASB explored the need to update GS 010 in 2017 when the revised Auditor Reporting standards become effective. The Board noted that the GS should be revised, but at the time the project was deferred to allow greater time for auditor questions at AGM's to be observed.
GS 011 <i>Third Party Access to Audit Working Papers</i>	Meets all GS updated principles.	Administrative changes to the GS required.	One out of six written respondents fed back that GS 011 requires updating. Fourteen out of eighteen survey respondents noted their support for the GS to be updated.	Update is required but not a priority.	No further comments.
GS 012 <i>Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions</i>	Updating in progress, with GS due for approval by the AUASB at the September 2020 AUASB Meeting. Therefore, out of scope of this project.				

AUASB Agenda Paper

Guidance Statements	Evaluation against eight GS Due Process principles (refer Appendix 1)	Initial Analysis by ATG from Sept 2019 AUASB Meeting	Submissions and Survey Responses (Details in Appendix 3)	Recommendation by ATG	Other Comments
GS 013 <i>Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes</i>	Meets all GS updated principles.	Relevant legislation and standards have changed since issue.	No written respondents fed back that GS 013 requires updating but eight out of eighteen survey respondents noted their support for the GS to be updated.	Update is required but not a priority.	No further comments.
GS 014 <i>Auditing Mortgage Schemes</i>	Does not satisfy principles (e) and (h) as GS 014 shares similar stakeholder group as GS 013 and the original purpose of GS 014 is similar to GS 013 hence potentially should be withdrawn.	ATG view that GS should be withdrawn and content merged with GS 013.	Eleven out of thirteen respondents agreed with the ATG's suggestion that GS 014 should be withdrawn.	GS to be withdrawn.	No further comments.
GS 015 <i>Audit Implications of Accounting for Investments in Associates</i>	Meets all GS updated principles.	ATG view that this GS requires administrative changes only. Underlying accounting and auditing requirements have not changed.	No written respondents fed back that GS 015 requires updating but ten out of eighteen survey respondents noted their support for the GS to be updated.	Update is required but not a priority and should be aligned to the update of ASA 600.	Update of this Guidance Statement should be deferred until ASA 600 updated by the AUASB (currently scheduled for late 2021), as there may be elements of this revised ASA that are applicable to this GS.

AUASB Agenda Paper

Guidance Statements	Evaluation against eight GS Due Process principles (refer Appendix 1)	Initial Analysis by ATG from Sept 2019 AUASB Meeting	Submissions and Survey Responses (Details in Appendix 3)	Recommendation by ATG	Other Comments
GS 016 <i>Bank Confirmation Requests</i>	Meets all GS updated principles.	Relevant practice has changed. Stakeholders have requested this GS to be updated.	One out of six written respondents fed back that GS 016 requires updating. Thirteen out of eighteen survey respondents noted their support for the GS to be updated. Survey respondents have ranked this GS as top five GSs to be updated.	Update Required	No further comments.
GS 017 <i>Audit Implications for Prudential Reporting Requirements of a Life Company</i>	Does not satisfy principles (b) and (g). The intended subject matter is not the responsibility of the AUASB and there is no appropriate subject matter expertise within the ATG.	Relevant legislation has not changed but relevant accounting standards have changed.	One out of six written respondents fed back that GS 017 requires updating. Two out of eighteen survey respondents noted their support for the GS to be updated.	Update is required but not a priority.	A PAG or external subcontractor would be required to update this GS reflecting the lack of subject matter expertise in the ATG.
GS 018 <i>Franchising Code of Conduct – Auditor's Reports</i>	Does not satisfy principle (c) as the relevant legislation is still under review.	Update will be required in future to consider changes to relevant legislation based on the 'Fairness in Franchising' review. Deferred until legislation amendments.	No written respondents fed back that GS 018 requires updating but five out of eighteen survey respondents noted their support for the GS to be updated.	No action required.	Update deferred until relevant legislation has been updated.

AUASB Agenda Paper

Guidance Statements	Evaluation against eight GS Due Process principles (refer Appendix 1)	Initial Analysis by ATG from Sept 2019 AUASB Meeting	Submissions and Survey Responses (Details in Appendix 3)	Recommendation by ATG	Other Comments
GS 019 <i>Auditing Fundraising Revenue of Not-for-Profit Entities</i>	Meets all GS updated principles.	Relevant legislation and standards have changed. Stakeholders have requested this GS to be updated.	One out of six written respondents fed back that GS 019 requires updating. Thirteen out of eighteen survey respondents noted their support for the GS to be updated. Survey respondents have rated this GS as top five GSs to be updated.	Update Required	A PAG would be required to update this GS.
GS 020 <i>Special Considerations in Auditing Financial Instruments</i>	Does not satisfy principle (c) as IAASB has not updated the international pronouncement this GS is based on, IAPN 1000.	Relevant accounting and auditing standards have changed. IAASB will update IAPN 1000 <i>Special Considerations in Auditing Financial Instruments</i> to reflect the revised ASA 540.	No written respondents fed back that GS 020 requires updating but thirteen out of eighteen survey respondents noted their support for the GS to be updated.	No action required.	Update deferred until IAASB commenced the revision of IAPN 1000.

AUASB Agenda Paper

Guidance Statements	Evaluation against eight GS Due Process principles (refer Appendix 1)	Initial Analysis by ATG from Sept 2019 AUASB Meeting	Submissions and Survey Responses (Details in Appendix 3)	Recommendation by ATG	Other Comments
GS 021 <i>Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes</i>	Does not satisfy principles (b), (g) and (h). The intended subject matter is not the responsibility of the AUASB and there is no appropriate subject matter expertise within the ATG. As the Clean Energy Regulator issues its own guidance which references relevant AUASB standards, the original purpose of this GS no longer applies.	Relevant legislation and standards have changed. The Clean Energy Regulator issues its own guidance which references relevant AUASB Standards.	Eight out of eleven respondents agreed that GS 021 should be withdrawn.	GS to be withdrawn.	No further comments.
GS 022 <i>Grant Acquittals and Multi-Scope Engagements</i>	Meets all GS updated principles.	Relevant legislation and standards have not changed. Stakeholders have requested this to be updated. ATG view that the grant acquittals content should be incorporated as a separate GS.	Two out of six written respondents fed back that GS 022 requires updating. Fourteen out of eighteen survey respondents noted their support for the GS to be updated. Survey respondents have rated this GS as top five GSs to be updated.	Update Required	A PAG would be required to update this GS. Possibility of splitting this GS into two separate GSs: 1) Grant Acquittals GS 2) Multi-Scope Engagements GS



Appendix 3

Results/Findings from the Discussion Paper and Survey

Written Responses from Stakeholders

Guidance Statements to be updated – Written responses	No. of respondents supporting updated of this GS
GS 009 <i>Auditing Self-Managed Superannuation Funds</i>	3
GS 022 <i>Grant Acquittals and Multi-Scope Engagements</i>	2
GS 012 <i>Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions</i>	1
GS 004 <i>Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups</i>	1
GS 017 <i>Audit Implications for Prudential Reporting Requirements of a Life Company</i>	1
GS 016 <i>Bank Confirmation Requests</i>	1
GS 019 <i>Auditing Fundraising Revenue of Not-for-Profit Entities</i>	1
GS 011 <i>Third Party Access to Audit Working Papers</i>	1
GS 006 <i>Electronic Publication of the Auditor's Report</i>	1

New Guidance Statements to be developed:	No. of respondents supporting development of this GS
Technology / Data Analytics	3
Private Health Insurance	1
Audit Quality for Not-for-Profit sector	1
Management Commentary and Service Performance Reporting in the Not-for-Profit sector	1
Cryptocurrency related activities	1

AUASB Agenda Paper

Survey Responses

1. Top five GSs survey respondents wants the AUASB to update are as follows:
 - (a) GS 019 *Auditing Fundraising Revenue of Not-for-Profit Entities*
 - (b) GS 022 *Grant Acquittals and Multi-Scope Engagements*
 - (c) GS 016 *Bank Confirmation Requests*
 - (d) GS 003 *Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001*
 - (e) GS 010 *Responding to Questions at an Annual General Meeting*

New Guidance Statements to be developed:	No. of respondents supporting this GS
Real Estate Trust Accounts	2
Technology	1
Law and Regulations	1
Goodwill and Impairment	1
Credit Risk and Impairment	1
Less Complex Entities	1
Self-Managed Super Funds	1
Queensland Building and Construction Commission – audit and review of relevant entities in Queensland	1
Coal mining Long Service Leave scheme	1
Franchising – audit of marketing or advertising funds	1
Application of AASB 1058 & AASB 16 for peppercorn leases.	1

2. In terms of GSs to be withdrawn, the ATG suggested GS 014 *Auditing Mortgage Schemes* and GS 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes* to be withdrawn.
3. Eleven out of thirteen respondents agreed with the ATG's suggestion that GS 014 should be withdrawn, and eight out of eleven respondents agreed that GS 021 should be withdrawn. The remaining respondents did not provide a response to this question.

AUASB Agenda Paper

4. Respondents who disagreed on the withdrawal of GS 014 did not provide specific reasons.
5. Two out of three respondents who disagreed on the withdrawal of GS 021 noted that the GS is still relevant and should be updated. One of them suggested that the GS should refer to other guidance from Clean Energy Regulator and be updated to reflect assurance engagements relevant to the sector and where areas are highly technical. The other respondent suggested that the GS should set expectations of auditors and influence regulator's guidance.
6. Refer to the table below for the detailed analysis of the survey responses using weighted average method:

	The 1st priority	The 2nd priority	The 3rd priority	The 4th priority	The 5th priority	Weighted Average
GS 019 Auditing Fundraising Revenue of Not-for-Profit Entities	33.33%	6.25%	7.14%	9.09%	0.00%	2.3125
GS 022 Grant Acquittals and Multi-Scope Engagements	5.56%	37.50%	14.29%	0.00%	9.09%	2.2976
GS 016 Bank Confirmation Requests	27.78%	12.50%	0.00%	9.09%	9.09%	2.1617
GS 003 Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001	5.56%	6.25%	14.29%	9.09%	18.18%	1.3203
GS 010 Responding to Questions at an Annual General Meeting	0.00%	0.00%	35.71%	9.09%	0.00%	1.2531
GS 013 Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes	11.11%	6.25%	7.14%	0.00%	0.00%	1.0197
GS 020 Special Considerations in Auditing Financial Instruments	0.00%	12.50%	7.14%	9.09%	0.00%	0.896
GS 002 Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities	0.00%	12.50%	0.00%	9.09%	9.09%	0.7727
GS 011 Third Party Access to Audit Working Papers	5.56%	0.00%	0.00%	18.18%	9.09%	0.7325
GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services	5.56%	6.25%	0.00%	0.00%	0.00%	0.528
GS 018 Franchising Code of Conduct – Auditor's Reports	0.00%	0.00%	0.00%	18.18%	9.09%	0.4545
GS 021 Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes	0.00%	0.00%	7.14%	0.00%	9.09%	0.3051
GS 014 Auditing Mortgage Schemes	5.56%	0.00%	0.00%	0.00%	0.00%	0.278
GS 015 Audit Implications of Accounting for Investments in Associates	0.00%	0.00%	7.14%	0.00%	0.00%	0.2142
GS 004 Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups	0.00%	0.00%	0.00%	0.00%	0.00%	0
GS 017 Audit Implications for Prudential Reporting Requirements of a Life Company	0.00%	0.00%	0.00%	0.00%	0.00%	0



AUASB Agenda Paper

Project:	Revision of GS 012 <i>Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs)</i>	Meeting:	9 September 2020
Topic:	APRA Prudential Reporting Requirements (Appointed Auditors of ADIs and ADI groups)	Agenda Item:	6.0
Strategic Objective:	Develop, issue and maintain high quality Australian auditing and assurance standards and guidance that meet the needs of stakeholders (SO 1)	Decision-Making	For Voting
ATG Staff:	Johanna Foyster	Project Status:	Completion
AUASB Sponsor:	Klynton Hankin		

Action Required and Decisions to be Made

1. To provide an update to the AUASB on the steps taken to finalise the revision of GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions* (issued June 2009), since the 3 March 2020 AUASB meeting.
2. For the AUASB to consider and approve the proposed revised GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups*, to be issued.

Note: As changes to the extant GS 012 have been extensive, it was decided that the provision of a marked-up version of the revised GS 012 would be of limited value to AUASB members. Board members are therefore asked to undertake a 'clean' read of the whole GS 012 (revised) rather than only focussing on modifications to the extant document.¹

Extant GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions* (June 2009) can be accessed on the AUASB's website via the following link: [Extant GS 012 \(June 2009\)](#)

AUASB Technical Group (ATG) Recommendation

3. That the AUASB approve the revised GS 012 to be formally issued.

¹ Refer to Appendix 1 of Guidance Statement GS 012 (Agenda Item 6.0.1), which provides an outline of the Appointed Auditor's prudential reporting requirements, levels of assurance, subject matter, evaluation criteria and applicable AUASB Standards.

Background

4. Extant GS 012 was released in June 2009 to provide guidance to the appointed auditor of an ADI reporting pursuant to the prudential reporting requirements specified by APRA in its Prudential Standard APS 310 *Audit and Related Matters* (APS 310)², that was updated in January 2009.
5. Subsequent to the issuance of the revised APS 310 in January 2009, APRA has made further revisions to APS 310 in 2011 and 2014. These revisions included changes which impact the responsibilities of ADIs and corresponding reporting requirements, for example in relation to the removal of 'Risk Management Systems' from the scope of APS 310 (moved to a separate APRA Prudential Standard CPS 220 *Risk Management*), as well as amendments to definitions and references to other new and revised APRA standards.
6. During 2017, APRA implemented its framework for the supervision of conglomerate groups (Level 3 Framework) and issued a new Prudential Standard 3PS 310 *Audit and Related Matters* (3PS 310). Audit and assurance requirements specified in 3PS 310 for Level 3 groups mirror the requirements set out in APS 310. Previously, APS 310 and GS 012 only applied to ADIs on a Level 1 (the ADI) and Level 2 (the group) basis.
7. During 2017 and 2018, the Reserve Bank of Australia (RBA) and Australian Bureau of Statistics (ABS) (together, 'the Agencies') commenced work to modernise Australia's Economic and Financial Statistics (EFS) data collection. The EFS collection is now administered by APRA on behalf of the Agencies. It consists of data submitted by ADI's and some unregulated entities known as Registered Financial Corporations (RFCs), which are used by the Agencies for analysis, publication, and policy-making purposes. This information may also be used by APRA for prudential supervision and other purposes.
8. During 2018, APRA issued Reporting Practice Guide RPG 702.0 *ABS/RBA Data Quality for the EFS Collection*. RPG 702.0 provides guidance to ADIs and RFCs as to the Agencies' data quality requirements in relation to EFS Reporting Standards, including specifying quantitative data quality benchmarks, calibrated according to the priority of the individual data item, size of the reporting entity and type of data item.
9. APS 310 was again updated in 2019 to reflect consequential amendments from the implementation of the modernised EFS data collection and introduction of the new AASB 9 *Financial Instruments*.
10. Over the period 2009 to 2019, various new ADI Reporting Forms have been added to Attachment A of APS 310. This attachment identifies the data collections subject to reasonable and/or limited assurance.
11. Since GS 012's release in 2009, the AUASB has updated numerous AUASB Standards referenced in the guidance statement and issued new AUASB Standards that impact GS 012. For example, ASAE 3150 *Assurance Engagements on Controls*, which is relevant to Part C of the APS 310 engagement and the APS 910 engagement, did not exist when the extant GS 012 was issued in 2009.

GS 012 Working Group

12. A Working Group consisting of 10 practitioners from the Big 6 accounting firms, with relevant technical knowledge and experience undertaking ADI and RFC prudential and regulatory reporting engagements, was established to provide input to the revision of GS 012, with the AUASB nominated sponsor (Klynton Hankin) for the project acting as Chair.
13. The Working Group met in October 2019 (in person), November 2019 (teleconference) and February 2020 (video conference) to assist with scoping of the project, to identify issues and to act in an advisory capacity to the ATG. The Working Group was asked to provide input and formal feedback, on an ongoing basis, to various working drafts that was circulated to the group and/or in response to various requests for information by the ATG.

² The Attachment to this Agenda Paper provides an outline of the separate sections for each category of subject matter that is covered by the APS 310 assurance report (see Parts A to D).

14. While APRA was invited to join the Working Group in October 2019, it was subsequently agreed that the best way forward was for APRA (and the Agencies) to review and provide input offline into the revised guidance statement once the Working Group reached consensus on a final draft.

Previous Discussions on Topic

15. The AUASB was updated on progress with the GS 012 revision project at its:
- (a) **December 2019 meeting** – see [Agenda Item 14](#) for project update and revised project plan; and
 - (b) **March 2020 meeting** – see [Agenda Item 8](#) for project update and key matters raised for Board consideration and feedback.
16. At the 3 March 2020 AUASB meeting, the Board considered a first draft of the revised GS 012 and provided feedback on specific matters highlighted by the ATG for Board consideration, including:
- (a) **Registered Financial Corporations (RFCs)**

The AUASB supported the ATG's and GS 012 Working Group's recommendation to exclude RFCs from the scope of the revised GS 012, on the basis that significant differences between RFCs and ADIs made the drafting of a single guidance statement complex and lengthy. The Board agreed that separate tailored guidance may be more useful to RFC auditors, for example, in the form of an AUASB Bulletin or FAQs, to be developed once APRA has settled on its reporting requirements for RFCs. See new content included as paragraphs 3-4 and 10-14 of GS 012.
 - (b) **APRA Prudential Standard APS 910 *Financial Claims Scheme* (APS 910 did not exist when extant GS 012 was issued in 2009)**

The AUASB supported the ATG's and GS 012 Working Group's recommendation that APS 910 be included in the scope of the GS 012 revision. Generally, the APS 910 assurance engagement will be undertaken as part of the annual APS 310 assurance engagement on controls (under Part C). Further, the APS 910 auditor's report is required to be submitted to APRA at the same time as the annual APS 310 auditor's report. See new content added throughout the guidance statement, in particular, paragraphs 15, 41-43, 53-56, 218-228, 288-291 and the new Appendix 5 example APS 910 auditor's report.
 - (c) **Revised/new materiality guidance**

The AUASB considered updated guidance on materiality to address new subject matter included in the scope of GS 012 and, in particular, to clarify how APRA's new Reporting Practice Guide RPG 702.0 *RBA/ABS Data Quality for the EFS Collection* is to be applied to the different components of the engagement. See paragraphs 110-138, as well as related paragraphs 90-109 (for context).
 - (d) **Revised format of the auditor's APS 310 annual prudential assurance report** – see Appendix 4 of revised GS 012.
 - (e) **Length and structure of GS 012**

The AUASB asked the Working Group to consider the length and structure of GS 012, particularly whether content within the guidance statement could be streamlined where it is otherwise available from APRA directly.

Steps undertaken by the AUASB Technical Group to finalise the revision to GS 012

17. On 30 March 2020, an updated draft of the proposed revised GS 012 was shared with the GS 012 Working Group for review and to agree on the final draft to be circulated to APRA and the Agencies for review, feedback and further consultation, if necessary.

18. On 13 April 2020, the Working Group agreed draft of the proposed revised GS 012 was sent to APRA and the Agencies for review. APRA was asked to review the document in full. In addition, specific feedback was sought from APRA and/or the Agencies in relation to the following matters:
- (a) New content included throughout the document to incorporate the modernised EFS collection.
 - (b) New and updated materiality guidance (and materiality related information) - paragraphs 90-138.
 - (c) Amended guidance in relation to application of the AUASB definition of 'Accounting Records' - paragraphs 152-160.
 - (d) New APS 910 related content throughout the guidance statement.
 - (e) Content and format of the auditor's annual prudential assurance reports, issued pursuant to:
 - (i) APS 310/3PS 310 – see Appendix 4 (revised)
In addition, APRA was asked to confirm if satisfied with the form and content of Part C of the assurance report (annual routine reporting on controls).
 - (ii) APS 910 – see Appendix 5 (new example report)
 - (f) Updates to Appendices 1-3.
19. APRA could not provide feedback by the date requested by the ATG indicating that, due to disruption caused by COVID-19, a number of its activities relating to policy and supervision had to be deferred and that resources had to be reallocated to focus on more immediate and higher priority issues. These circumstances continued throughout April, May and June 2020.
20. On 7 July 2020, APRA and the Agencies provided their feedback. APRA indicated that it has reviewed the guidance statement and its attachments in full. The Agencies' review was limited to content related to the EFS collection, in particular, application of RPG 702.0 and related materiality guidance.
- (a) Overall, feedback was positive, suggesting mainly minor editorial changes and a couple of enhancements to further clarify and enhance GS 012 guidance and example templates.
 - (b) APRA and the Agencies indicated that they were satisfied with new and updated materiality guidance and application of RPG 702.0 to the different parts of the engagement.
 - (c) APRA indicated it was satisfied with the form and content of the revised and new illustrative examples of letters and reports included as Appendices 2-5. The Appendix 5 example report was updated in line with APRA's suggestions for improvement (for example, by including a reference/link to APRA's APS 910 Testing Schedule).
 - (d) As regards new APS 910 guidance included in GS 012, APRA suggested minor redrafting to further clarify:
 - (i) APRA's preference for a separate APS 910 report to be prepared (separate from APS 310 matters).
 - (ii) what is meant by 'when tested' in APS 910, para 27 (b) - '... these controls operated effectively *when tested* ...'. Paragraph 228 of the GS 012 has been amended and footnote references included to APRA's Financial Claims Scheme FAQs (Questions 2.4 and 13.2) to clarify that this requirement relates to both the ADI's testing and the auditor's testing.
 - (e) APRA indicated that it was currently reviewing its governance and risk management prudential standards to ensure they remain fit for purpose which may impact on GS 012 references to these documents in future.

21. The ATG, in consultation with the Chair of the Working Group, worked with APRA to resolve a number of final matters that required further refinement and/or clarification from APRA and the Agencies:
 - (a) amending the wording of the 'Other Matter – Restriction on Distribution and Use' paragraph in the auditor report (see Appendices 4 and 5) to cover situations where APRA may need to share the auditor's report with parties other than government agencies and where it is legally permitted to do so;
 - (b) including an example to recognise the potential for using a more relevant base to determine a materiality threshold for the liquidity reporting forms (see footnote 73 linked to paragraph 125); and
 - (c) ensuring the Agencies understood how RPG 702.0 is to be applied by the auditor for Parts A, B and C of the engagement (see paragraphs 126-131), and that the auditor retains ultimate discretion in setting materiality levels for the engagement and in determining the scope of assurance procedures to be conducted, by exercising professional judgement and taking into consideration many factors (quantitative and qualitative) as highlighted in paragraphs 110 – 131 of GS 012.
22. The final guidance statement was circulated to APRA and the Working Group for a final fatal flaw review of all amendments made to the April 2020 draft. All outstanding matters have been agreed/not opposed by APRA and the Working Group. One further matter was raised for clarification, being compliance of the APS 310 assurance report with the requirements of ASAE 3150. This matter was also briefly discussed at the 3 March 2020 AUASB meeting. This matter has been addressed by adding a footnote to Paragraph 284 on the format of the assurance report.
23. ATG Internal Quality Assessment – the document has been subjected to independent review by a senior project manager of the ATG. Feedback has been considered and disposed of in the attached revised GS 012.
24. The ATG has completed a Regulatory Impact Analysis (RIA) for the revised Guidance Statement. On 22 July 2020, the OBPR advised that a full Regulation Impact Statement (RIS) will not be required (OBPR ref ID 42757).

Next steps/Way Forward

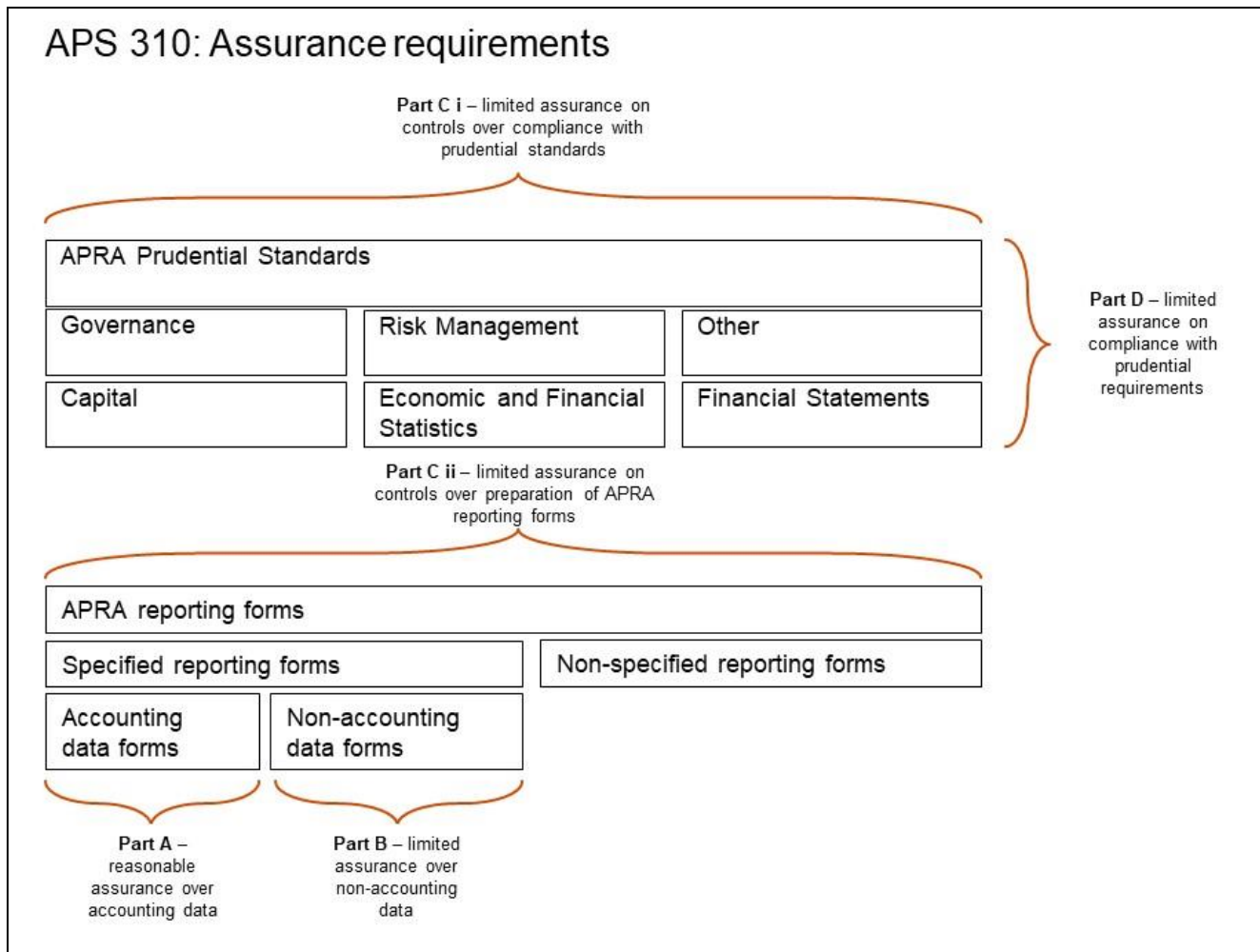
25. AUASB to consider and approve the revised GS 012 to be issued.
26. ATG to finalise the revised GS 012 to incorporate AUASB feedback and/or final editorials from the September Board meeting.
27. Chair to sign final GS 012 for issue, dated 9 September 2020. ATG to issue revised GS 012 with a news alert and social media communications and publish on the AUASB website.
28. ATG to ensure key stakeholders (practitioners, APRA and Agencies) have received communications that GS 012 has been issued and thank them for their contributions as part of the Working Group.
29. ATG to determine whether there is a need for separate tailored guidance to be developed for RFC auditors and, if so, the form of publication that would best suit practitioners' needs (for example, AUASB Bulletin or FAQs).

Materials Presented

Agenda Item 6.0	AUASB Agenda Paper
Agenda Item 6.0.1	Proposed revised GS 012 <i>Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups</i> (September 2020) CLEAN COPY

Attachment to Agenda Paper

Outline of separate sections for each category of subject matter covered by the APS 310 assurance report (see Parts A to D). Also refer to Appendix 1 of Guidance Statement GS 012 (Agenda Item 6.0.1), which provides a summary of the Appointed Auditor's prudential reporting requirements, levels of assurance, subject matter, evaluation criteria and applicable AUASB Standards.



GS 012
(September 2020)

Guidance Statement GS 012

Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on certain procedural, entity or industry specific matters related to the application of an AUASB Standard(s).

Guidance Statements are designed to provide assistance to auditors and assurance practitioners to assist them in fulfilling the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of specific AUASB Standard(s); and where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement. Further, Guidance Statements do not establish or extend the requirements under an existing AUASB Standard(s).

Guidance Statement *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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- Appendix 1: Outline of Auditor’s Reporting Requirements, Levels of Assurance, Subject Matter, Evaluation Criteria and Applicable AUASB Standards
- Appendix 2: Example Engagement Letter – Level 1 ADI and/or Level 2 ADI Group
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- Appendix 4: Example Annual Prudential Assurance Report - Engagements undertaken pursuant to APRA Prudential Standards APS 310 and 3PS 310 *Audit and Related Matters* (Routine Reporting)
- Appendix 5: Example Annual Prudential Assurance Report - Engagements undertaken pursuant to APRA Prudential Standard APS 910 *Financial Claims Scheme* (Routine Reporting)

PREFACE

How this Guidance Statement is to be used

This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB), in consultation with the Australian Prudential Regulation Authority (APRA), to provide guidance to the appointed auditor of an Authorised Deposit-taking Institution (ADI) and/or appointed auditor of a Level 2 and/or Level 3 ADI group, reporting pursuant to the prudential reporting requirements specified by the Australian Prudential Regulation Authority (APRA) in Prudential Standards APS 310 (APS 310) and 3PS 310 (3PS 310) *Audit and Related Matters*, and APS 910 *Financial Claims Scheme* (APS 910).

The assurance requirements relating to these prudential reporting engagements may give rise to a number of special assurance considerations. Accordingly, this Guidance Statement has been developed to identify, clarify and summarise the responsibilities which the auditor has with respect to conducting such assurance engagements, and to provide guidance to the auditor on additional factors which the auditor may consider when planning, conducting and reporting in relation to prudential assurance engagements.

This Guidance Statement is to be read in conjunction with, and is not a substitute for referring to, the requirements and application and other explanatory material contained in:

- (a) APS 310, 3PS 310, APS 910, and other applicable APRA Prudential Requirements, including the *Banking Act 1959* (Banking Act), the *Financial Sector (Collection of Data) Act 2001* (FSCODA), and APRA Prudential and Reporting Standards;
- (b) applicable AUASB Standards; and
- (c) relevant ethical and professional standards.

This Guidance Statement does not extend the responsibilities of an appointed auditor of an ADI and ADI group beyond those which are imposed by the Banking Act, the FSCODA, APRA Prudential and Reporting Standards, AUASB Standards and other applicable legislation.

It is not the intention of this Guidance Statement to provide step-by-step guidance in relation to the conduct of a prudential reporting assurance engagement and it is not to be used as a checklist of all issues to be considered by the appointed auditor.

It is not intended that this Guidance Statement limits or replaces the appointed auditor's professional judgement or limits the application of relevant AUASB Standards on such engagements. AUASB Standards contain the requirements to be applied to assurance engagements. Assurance engagement programs are to be designed by the auditor to meet the requirements of the particular circumstances, giving careful consideration to the size, business mix and complexity of the ADI and/or ADI group and the adequacy of the ADI's or ADI group's internal control structure.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

R Simnett AO
Chair - AUASB

GUIDANCE STATEMENT GS 012

Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups

Application

ADIs and ADI Groups

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB), in consultation with the Australian Prudential Regulation Authority (APRA), to provide guidance to the appointed auditor of an Authorised Deposit-taking Institution (ADI) and/or appointed auditor of a Level 2 and/or Level 3 ADI group, reporting pursuant to the prudential reporting requirements specified by APRA in Prudential Standards APS 310 *Audit and Related Matters* (July 2019) (APS 310), 3PS 310 *Audit and Related Matters* (July 2017) (3PS 310) and APS 910 *Financial Claims Scheme* (July 2013) (APS 910).¹
2. This Guidance Statement includes references to prudential reporting requirements for ADIs and ADI groups, and their appointed auditors, as specified by APRA. “Level 1”, “Level 2” and “Level 3”, as applied in this Guidance Statement, have the meaning given in APRA Prudential Standards APS 001 *Definitions* (APS 001) and 3PS 001 *Definitions* (3PS 001).
 - (a) In applying this Guidance Statement on a group basis, references to an ADI should be read as also referring to the head of a Level 2 or Level 3 group, as relevant. Where a Level 2 group operates within a Level 3 group, the head of the group is to be read as the head of the Level 3 group.
 - (b) The term “ADI group” in this Guidance Statement will mean a Level 2 or a Level 3 group, as relevant, and will be used where requirements and guidance are common for Level 2 and Level 3 groups.

Registered Financial Corporations²

3. This Guidance Statement provides guidance that may be considered and adapted as necessary in the circumstances, to assurance engagements undertaken pursuant to APRA Reporting Standard RRS 710.0 *ABS/RBA Audit Requirements for Registered Financial Corporations – EFS collection* (RRS 710.0), which applies to those Registered Financial Corporations (RFCs) required to report to APRA under the Economic and Financial Statistics (EFS) collection³, from 1 July 2019.
4. APRA collects statistical data from RFCs under the *Financial Sector (Collection of Data) Act 2001* (FSCODA).⁴ RFCs are not prudentially regulated or supervised by APRA under the *Banking Act 1959* (Banking Act) and APRA’s Prudential Standards do not apply to RFCs. Investors in RFCs do not have the right to priority of repayment that is conferred on depositors by section 13A of the Banking Act. Further, RFC products are not covered by the Financial Claims Scheme, which applies only to deposits held in protected accounts of ADIs.

¹ “ADI”, “appointed auditor”, “Level 1”, “Level 2” and “Level 3” are defined by APRA in Prudential Standards APS 001 and 3PS 001 *Definitions*. Refer to Attachment A to APS 001 for further explanation of the definition of Level 3 “conglomerate group” as it applies to ADIs.

² Corporations required to be registered under Part 2 of the *Financial Sector (Collection of Data) Act 2001* (FSCODA).

³ Not all RFCs are required to submit EFS data to APRA. EFS reporting requirements will depend on the size of the RFC and is specified by APRA in relevant EFS Reporting Standards.

⁴ See paragraphs 10 to 14 of this Guidance Statement.

Issuance Date

5. This Guidance Statement is issued in <<September 2020>> by the AUASB and replaces GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions*, issued in June 2009.

Introduction

Prudential Supervision of ADIs

6. Under the Banking Act, APRA is responsible for the prudential supervision and monitoring of prudential matters relating to ADIs, authorised non-operating holding companies (authorised NOHCs)⁵, and groups of bodies corporate which are their subsidiaries, in order to protect the interests of depositors of the ADIs and to promote financial system stability in Australia.
7. APRA formulates, promulgates and enforces prudential policy and practice through APRA Prudential Standards (APSSs), which have the force of law. APRA may also issue non-enforceable Prudential Practice Guides (APGs) and other guidelines, to assist ADIs in complying with the requirements in its Prudential Standards and, more generally, to outline prudent practices in relation to certain elements of an ADI's operations.⁶
8. Prudentially regulated institutions, which includes ADIs, are required, under the FSCODA and Reporting Standards made under the FSCODA, to submit data to APRA as defined in APRA Reporting Forms and accompanying instructions. Some Reporting Forms are subject to assurance requirements.⁷
9. The appointed auditor of an ADI and/or an ADI group has an important role to play in the prudential supervision process. Requirements for appointed auditors of ADIs and/or ADI groups to provide assurance reports on prudential matters to APRA are intended to assist APRA in assessing the reliability of information supplied to it by an ADI and/or an ADI group.

Economic and Financial Statistics (EFS) Collection

10. APRA also collects EFS data on behalf of the Australian Bureau of Statistics (ABS) and the Reserve Bank of Australia (RBA) (together, referred to as "the Agencies"), from ADIs and certain non-regulated corporations required to be registered under the FSCODA⁸.
11. EFS data is used by the Agencies for various purposes, including analysis, policy-making, compilation of key macroeconomic indicators for Australia, and as input to the national accounts to meet Australia's international reporting obligations. This data may also be used by APRA for prudential purposes to promote financial system stability in Australia.
12. The FSCODA defines which categories of entities are registrable and also facilitates the collection of EFS data. Under the FSCODA, certain non-ADI lenders whose business activities in Australia includes the "provision of finance"⁹, or have been identified either individually or as a class of corporation specified by APRA, are required to be registered with APRA and to comply with requirements to submit EFS data to APRA.

⁵ "Authorised non-operating holding company" is defined in APS 001 to have the same meaning as under section 5 of the Banking Act.
⁶ Access to APRA Prudential Standards, Prudential Practice Guides and legislation relevant to ADIs is available on APRA's website (www.apra.gov.au).

⁷ Refer to APS 310 *Attachment A – Data Collections subject to reasonable and/or limited assurance*.

⁸ Refer to Section 7 of the FSCODA for categories of corporations subject to registration under the Act. Examples of registered financial corporations include certain automotive financiers, mortgage securitisers, asset financing companies and pawnbrokers.

⁹ Refer to Section 32 of the FSCODA for explanation of the expression "provision of finance".

13. EFS reporting requirements will depend on the size of an ADI or RFC. Based on thresholds included in APRA's individual EFS Reporting Standards, larger ADIs and RFCs are required to report more detailed information, while smaller entities report less detailed information or do not report at all.
14. RRS 710.0 implements an assurance framework similar to that of APS 310/3PS 310 to RFCs.¹⁰

Financial Claims Scheme (FCS)

15. The FCS for ADIs was put in place to protect the account-holders of locally incorporated ADIs from loss on their deposits, and to provide them with timely access to those deposits, in the event of an ADI becoming insolvent, up to a maximum amount guaranteed by the Australian Government. APRA is responsible for the administration of the FCS and for making payments to account-holders.¹¹

Scope of APRA Prudential Reporting Engagements

16. The audit [and review] of financial reports under the *Corporations Act 2001* (Corporations Act) (where required) is directed towards obtaining sufficient appropriate evidence to form an opinion or conclusion, as applicable, on whether the financial report is presented fairly in accordance with the required financial reporting framework. The financial report audit [and review] is not designed to enable the appointed auditor to conclude in relation to the matters specified in APS 310, 3PS 310 and APS 910.
17. Prudential reporting requirements, imposed on the appointed auditor via the terms of engagement with an ADI, are in addition to the audit [and review] of financial reports required under the Corporations Act.
18. APS 310, 3PS 310 and APS 910 provide for two types of prudential reporting engagements to be conducted by the appointed auditor of an ADI and/or ADI group, namely:
 - (a) annual prudential reporting engagements (routine reporting) - see paragraphs 47-56 of this Guidance Statement; and
 - (b) special purpose engagements - see paragraphs 292-301 of this Guidance Statement.
19. APRA Prudential Standards may include further requirements for 'independent'¹² assurance engagements to be undertaken in relation to specific prudential matters.¹³ The appointed auditor of an ADI and/or ADI group may be engaged to undertake engagements of this type.

These requirements for independent assurance engagements are additional, and separate, to the APS 310, 3PS 310 and APS 910 annual prudential reporting requirements, and fall outside the scope of this Guidance Statement.

Responsibilities of the Appointed Auditor

20. The responsibilities of the appointed auditor of an ADI and/or ADI group are contained in:
 - (a) APS 310, 3PS 310 and APS 910;

¹⁰ Refer to RRS 710.0 for the role, responsibilities and reporting requirements applicable to appointed auditors of RFCs.

¹¹ See paragraphs 41-43 of this Guidance Statement.

¹² To be undertaken by a party or parties who are independent within the meaning of the relevant APRA Prudential Standards. Refer to CPS 510 *Governance* (CPS 510).

¹³ For example, the periodic comprehensive review of an APRA regulated institution's risk management framework under CPS 220 *Risk Management*. Also refer to paragraph 213 of this Guidance Statement.

- (b) other applicable APRA Prudential Requirements¹⁴, including the Banking Act, the FSCODA, and APRA Prudential and Reporting Standards;
- (c) applicable AUASB Standards; and
- (d) relevant ethical and professional standards.¹⁵

(For an outline of the relevant reporting requirements applicable to the appointed auditor of an ADI and/or ADI group reporting pursuant to APS 310, 3PS 310 and APS 910, refer to the table in Appendix 1 to this Guidance Statement, entitled *Outline of Auditor's Reporting Requirements, Levels of Assurance, Subject Matter, Evaluation Criteria and Applicable AUASB Standards*.)

21. In addition to the legislative and regulatory requirements imposed on appointed auditors, relevant AUASB Standards are applicable to assurance engagements under prudential standards:

- (a) Applicable Auditing Standards (ASAs), adapted as necessary in the circumstances of the engagement – when conducting a reasonable assurance engagement on historical financial information.

In applying Australian Auditing Standards to the engagement, the auditor has regard to any special considerations identified in ASA 805 *Special considerations – Audits of single financial Statements and Specific Elements, Accounts or Items of a financial Statement*, that may be relevant to the engagement.

- (b) Standard on Review Engagements (ASRE) ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* (ASRE 2405) – when conducting a limited assurance engagement on historical financial information.
- (c) Standard on Assurance Engagements (ASAE) ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ASAE 3000) – when conducting assurance engagements on subject matters other than historical financial information.
- (d) ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* (ASAE 3450) – when conducting assurance engagements in relation to prospective financial information such as forecasts or projections.
- (e) ASAE 3150 *Assurance Engagements on Controls* (ASAE 3150) – when conducting assurance engagements in relation to internal controls.

(For an outline of the relevant AUASB Standards applicable to each part of the prudential assurance engagement, refer to Appendix 1 of this Guidance Statement.)

22. This Guidance Statement is to be read in conjunction with, and is not a substitute for referring to, the requirements and application and other explanatory material contained in AUASB Standards applicable to the prudential assurance engagement.
23. APRA places reliance on accounting and auditing standards to the extent that they do not conflict with Prudential Requirements applicable to the ADI. APS 310 and 3PS 310 requires appointed auditors, in meeting their role and responsibilities, to comply with the Auditing Standards and Guidance Statements issued by the AUASB, except where:

¹⁴ See paragraphs 28(q) of this Guidance Statement.

¹⁵ See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

- (a) requirements are inconsistent, in which case the requirements of APS 310 and 3PS 310 will prevail; or
 - (b) APRA otherwise specifies, in writing, to the ADI that alternative standards and guidance are to be used by the appointed auditor.
24. It is important that the appointed auditor of an ADI and/or ADI group recognises the additional responsibilities under sections 16B, 16BA and 16C of the Banking Act, imposed on *any* auditor of an ADI, an authorised NOHC, or their subsidiaries, to provide information to APRA upon request, or where the auditor possesses reportable information specified in that Act, or where the auditor considers that the provision of information would assist APRA in performing its functions under the Banking Act or the FSCODA.¹⁶
25. Under section 70B of the Banking Act, Banking Act provisions will take precedence over any conflicting Corporations Act provisions. Therefore, any provisions made under the Banking Act governing auditor reporting to APRA will override any conflicting Corporations Act provisions which may apply to such reporting.
26. The use by ADIs and APRA of assurance reports prepared by appointed auditors need to be evaluated in the context of the inherent limitations of an assurance engagement and the subject matter of the engagement.¹⁷
27. Both APS 310 and 3PS 310 warn that all persons involved in the provision of information (which includes the appointed auditor) are to note that it is an offence under subsections 137.1 and 137.2 of the *Criminal Code Act 1995* to provide, whether directly or indirectly, false and misleading information to a Commonwealth entity, such as APRA.

Definitions

28. For the purpose of this Guidance Statement, the following terms have the meanings attributed below:

- (a) ‘Authorised Deposit-taking Institution’ (ADI) is defined in APS 001, to mean a body corporate authorised under section 9 of the Banking Act, to carry on banking business in Australia.¹⁸

Reference in this Guidance Statement to an “ADI” will be taken, unless otherwise indicated, to include:

- (i) a “locally incorporated ADI”;
 - (ii) a “foreign ADI”; and
 - (iii) an “extended licenced entity”.¹⁹
- (b) ‘Appointed auditor’ means an independent auditor appointed by:
 - (i) an ADI as an auditor for the purposes of APS 310 and APS 910; and
 - (ii) a Level 3 head as group auditor for the purposes of 3PS 310.

APS 310 and APS 910 allows for the appointed auditor to be the same auditor who audits an ADI for the purposes of the Corporations Act. Similarly, 3PS 310 allows for

¹⁶ Refer to sections 16B, 16BA and 16C of the Banking Act. Also see paragraphs 302-307 of this Guidance Statement

¹⁷ See paragraph 263-267 of this Guidance Statement.

¹⁸ ADI’s may include, but are not limited to: Australian owned banks, locally incorporated ADI subsidiaries of foreign banks, branches of foreign banks, building societies, credit unions and providers of purchased payment facilities.

¹⁹ “locally incorporated ADI”, “foreign ADI” and “extended licenced entity” are defined in APS 001.

the Level 3 group auditor to be the same auditor who audits a Level 3 head for the purposes of the Corporations Act.

Under APS 310 and 3PS 310 separate auditors may be appointed to meet the APS 310 and 3PS 310 reporting requirements on a Level 1, Level 2 and Level 3 basis, and to undertake the different types of engagements provided for in these standards. APRA may also require that an ADI appoint another auditor, in addition to any auditor already appointed by the ADI, for the purposes of APS 310 and 3PS 310.

Therefore, it is possible for an ADI and ADI group to have more than one appointed auditor at any time, and for an APS 310/3PS 310 appointed auditor to be different from the auditor responsible for undertaking the financial report audit [and review] under the Corporations Act.

Where the Banking Act refers to “the auditor” of an ADI, this can be an auditor appointed for the purposes of APS 310 and/or 3PS 310, or another auditor, such as the auditor responsible for the audit [and review] of financial reports required under the Corporations Act.

Refer to APS 310 and 3PS 310 for further information on the use of group auditors, where the ADI is a member of a group.

- (c) ‘Accounting records’ is defined in the AUASB Glossary as including “the records of initial accounting entries and supporting records, such as cheques and records of electronic fund transfers, invoices, contracts, the general and subsidiary ledgers, journal entries and other adjustments to the financial report that are not reflected in journal entries, and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.”

For guidance on the application of the definition of “accounting records” to the assurance engagement, refer to paragraphs 152-160 of this Guidance Statement.

- (d) ‘Advanced ADI’, means an ADI that has APRA’s approval to use an internal ratings-based approach to credit risk and/or an advanced measurement approach to operational risk, available under APRA Prudential Standards, for capital adequacy purposes.²⁰

ADIs choosing to adopt the advanced measurement approaches for the purpose of determining the ADI’s regulatory capital, require prior approval from APRA (APRA accreditation). Under the advanced approaches for measuring capital adequacy, an ADI is permitted to use its own quantitative risk estimates in calculating regulatory capital. This involves a greater use of internal modelling and other forms of statistical analysis, as well as qualitative assessment.

- (e) ‘Authorised non-operating holding company’ (authorised NOHC), is defined in APS 001 to have the same meaning as under section 5 of the Banking Act.
- (f) ‘ADI Reporting Form’ (or Data Collection Form), means a form used for the collection and reporting of information in relation to an ADI, as required to be provided to APRA by an ADI in accordance with APRA Reporting Standards made under the FSCODA.
- (g) ‘Controls’ or ‘internal controls’, as used in this Guidance Statement, is defined in ASAE 3150 and generally encompasses the following components:

²⁰ For example, refer to APRA Prudential Standards APS 110 *Capital Adequacy*, APS 113 *Capital Adequacy: Internal Ratings-based Approach to Credit Risk* and APS 115 *Capital Adequacy: Advanced Measurement Approaches to Operational Risk*.

- (a) the control environment;
 - (b) the ADI's risk assessment process;
 - (c) the information system, including the related business processes, relevant to financial and prudential reporting, and communication;
 - (d) control activities; and
 - (e) monitoring of controls.
- (h) 'Economic and Financial Statistics (EFS) Collection', is defined in APRA Reporting Standard ARS 701.0 *ABS/RBA Definitions for the EFS Collection*, and comprises the EFS Reporting Standards and data collected under the EFS Reporting Standards.
- (i) 'Foreign ADI', is defined in APS 001 to have the same meaning as under section 5 of the Banking Act. The terms "branch of a foreign bank" and "branch of a foreign ADI" are also used in APRA Reporting Standards and Reporting Forms when referring to a "foreign ADI" and refers to the foreign ADI's Australian operations as if it was a stand-alone ADI.

Reference to a foreign ADI does not capture locally incorporated ADI subsidiaries of foreign banks, that is, a "foreign-owned ADI".²¹

- (j) 'Group', is defined in APS 001 as reference to a corporate group that comprises of more than one company that are related bodies corporate within the meaning of section 50 of the Corporations Act.
- (k) 'Head of the group', means the head or parent entity of a Level 2 or Level 3 group, as relevant. Where a Level 2 group operates within a Level 3 group, a requirement expressed as applying to the head of the group, is to be read as applying to the "Level 3 head".
- (l) 'Level 1' ADI, means the ADI itself, as defined in APS 001 (see definition above).
- (m) 'Level 2' ADI group, means the entities that comprise "Level 2", as defined in APS 001.
- (n) 'Level 3' group, as defined in APS 001 and 3PS 001, means the conglomerate group at the widest level and include all institutions determined by APRA to be members of a Level 3 group.

APRA may determine a Level 3 group where it considers that material activities are performed within the group across more than one prudentially regulated industry and/or in one or more non-prudentially regulated industries, to ensure that the ability of the group's prudentially regulated institutions to meet their obligations to depositors, policy holders or registrable superannuation entity beneficiaries is not adversely impacted by risks emanating from the group, including its non-prudentially regulated institutions.

Generally, a conglomerate group will be headed by an ADI or an authorised NOHC and may include financial (APRA regulated²² and unregulated) as well as non-financial (commercial) entities.

²¹ APS 001 defines a "foreign-owned ADI" to mean an ADI in relation to which an approval has been given, under section 14 of the *Financial Sector (Shareholdings) Act 1998*, for a bank that is not locally incorporated to hold a stake of more than 15 per cent in the ADI.

²² Entity directly regulated by APRA or by an equivalent regulator overseas.

Attachment A to APS 001 provides further information to inform the auditor's understanding of what constitutes a conglomerate group for the purposes of reporting pursuant to APS 310 and 3PS 310.

- (o) 'Level 3 head', is defined in 3PS 001 to mean:
 - (i) an ADI or authorised NOHC under the Banking Act;
 - (ii) a general insurer or authorised NOHC under the Insurance Act; or
 - (iii) a life company or registered NOHC under the Life Insurance Act, determined by APRA to be the head of a Level 3 group.
- (p) 'Limited assurance', is defined in APS 001, in accordance with the AUASB's *Framework for Assurance Engagements*.
- (q) 'Prudential Requirements'²³, is defined in APS 001 and includes requirements imposed by:
 - (i) the Banking Act;
 - (ii) Regulations (made under the Banking Act);
 - (iii) APRA Prudential Standards (made under the Banking Act);
 - (iv) the FSCODA;
 - (v) APRA Reporting Standards (made under the FSCODA);
 - (vi) APRA conditions on the ADI's authorisation; and
 - (vii) any other requirements imposed by APRA, in writing, in relation to an ADI.
- (r) 'Reasonable assurance', is defined in APS 001, in accordance with the AUASB's *Framework for Assurance Engagements*.
- (s) 'Routine reporting', refers to the appointed auditor's responsibility under APS 310, 3PS 310 and APS 910 to report to APRA and the ADI and/or Level 3 head, on an annual basis, in relation to the matters identified in paragraphs 47 to 56 of this Guidance Statement.
- (t) 'Specified ADI Reporting Forms', means APRA ADI Reporting Forms listed in APS 310 Attachment A – *Data Collections subject to reasonable and/or limited assurance*.²⁴
- (u) 'Standardised ADI', means an ADI that uses the standardised measurement approaches, available under APRA Prudential Standards, for capital adequacy purposes in respect of the whole of its operations. See also paragraph 28(d) above.

Tripartite Relationship

29. APRA liaison with an appointed auditor is conducted normally under tripartite arrangements involving APRA, the ADI and/or head of the group, and its appointed auditor(s). Any one of these parties may initiate meetings or discussions at any time, when considered necessary.²⁵

²³ These requirements may differ between locally incorporated and foreign ADIs.

²⁴ The requirements are different for Standardised, Advanced and Foreign ADIs.

²⁵ See APS 310 and 3PS 310.

30. In the normal course, regular tripartite meetings are held to discuss the appointed auditor's annual prudential assurance report(s), prepared pursuant to APS 310 and/or 3PS 310.
31. Notwithstanding the tripartite relationship, APRA and the appointed auditor may meet, at any time, on a bilateral basis at the request of either party. APRA may communicate with an auditor of an ADI and/or ADI group on a bilateral basis to obtain or discuss information for whatever reason(s) it considers appropriate
32. Under APRA's Prudential Standard CPS 510 *Governance* (CPS 510), an APRA-regulated entity is required to ensure that its internal policy and contractual arrangements do not explicitly or implicitly restrict or discourage auditors or other parties from communicating with APRA.

Responsibilities of the ADI

Governance

33. CPS 510 sets out the minimum requirements that any APRA-regulated institution and the head²⁶ of a group must meet in order to promote strong and effective governance.
34. Under CPS 510, ultimate responsibility for oversight of the sound and prudent management of an APRA-regulated institution lies with its board of directors (Board), or equivalent.²⁷ For an ADI group, this responsibility will rest with the Board (or equivalent) of the head of the group.

Risk Management

35. Under APRA's Prudential Standard CPS 220 *Risk Management*, it is the responsibility of the Board and management of an ADI and the head of an ADI group to ensure that, respectively, the ADI and ADI group has prudent risk management practices.
36. CPS 220 requires an ADI and/or the head of an ADI group to maintain a Risk Management Framework (RMF) appropriate to the size, business mix and complexity of the ADI and/or ADI group, as applicable, to ensure the ADI and the ADI group manage risks arising from its business and continue to meet its obligations to depositors. The Board of an ADI is ultimately responsible for the ADI's RMF and for oversight of its operation by management, in accordance with the requirements of CPS 220.

Refer to CPS 220 for further information on the key elements to be included in an ADI's and/or ADI group's RMF, including requirements regarding the use of group risk management where an ADI is part of an ADI group.
37. An ADI or head of an ADI group is required to submit to APRA an annual Risk Management Declaration in accordance with requirements set out in CPS 220 and Attachment A to CPS 220.
38. CPS 220 requires an ADI and/or head of an ADI group to notify APRA when it becomes aware of a significant breach of, or material deviation from its RMF, or that the RMF does not adequately address a material risk, as well as any material or prospective material changes to the size, business mix and complexity of its operations.

Responsibility to Appoint Independent Auditor

39. Under APS 310 and 3PS 310, an ADI and/or head of an ADI group is required to appoint, as appropriate, an auditor(s) and/or group auditor(s) to meet the prudential reporting requirements under APS 310, 3PS 310 and APS 910, as applicable. APS 310 sets out the

²⁶ CPS 510 clarifies that, where a Level 2 group operates within a Level 3 group, a requirement expressed as applying to a head of a group is to be read as applying to the Level 3 head.

²⁷ For example, for a foreign ADI, it will refer to a senior officer outside Australia to whom authority has been delegated in accordance with CPS 510, for overseeing the Australian operations.

eligibility criteria for the appointment of a Level 1 (the ADI) and Level 2 (the ADI group) auditor as well as the permitted use of group auditors where an ADI is a member of a Level 2 ADI group. 3PS 310 sets out the requirements in relation to the appointment of auditors for a Level 3 group.

40. APS 310 and 3PS 310 require an ADI and/or head of an ADI group to:
- (a) ensure its auditor satisfies the requirements of APS 310 and/or 3PS 310;²⁸
 - (b) set out the terms of the engagement, including matters identified in APS 310 and/or 3PS 310, in a legally binding contract with its appointed auditor and to ensure the auditor complies with these terms; and
 - (c) ensure its auditor undertakes the roles and responsibilities as specified in APS 310 and 3PS 310, as relevant.

Financial Claims Scheme

41. APRA issued APS 910 to assist ADIs to comply with the requirements of the FCS. It applies to all ADIs except for foreign ADIs and providers of purchased payment facilities.
42. Under APS 910, ADIs subject to APS 910 are required to implement systems and processes that allow it, to the extent practicable, to identify protected accounts for each account-holder, generate an aggregated view (“single customer view”) of each account-holder identified, and meet reporting, communications, testing and assurance requirements, which will enable APRA to pay out account-holders of the ADI in a timely and effective manner in the event of an ADI being declared subject to the FCS.²⁹
43. Under APS 910, the Board and senior management of an ADI are responsible for ensuring that appropriate policies and procedures are in place to ensure the integrity of the operations, internal controls and information required under APS 910. This includes, but is not limited to:
- (a) ensuring that the systems and data required by APS 910 are subjected to an independent limited assurance engagement, in accordance with the requirements stipulated in APS 910, and that this assurance be provided at the same time as the assurance required by APS 310, unless otherwise agreed by APRA; and
 - (b) providing an attestation from the Chief Executive Officer in accordance with the requirements stipulated in APS 910.

Responsibility to keep Auditor Informed

44. Under APS 310 and 3PS 310, the ADI and/or head of the ADI group is required to ensure that its appointed auditor(s) is kept fully informed, including ensuring that the auditor:
- (a) has access to all data, information, reports and staff of the ADI and/or ADI group, which the appointed auditor reasonably believes is necessary to fulfil its role and responsibilities under APS 310 and/or 3PS 310. This includes, access to the Board and Board Committees of the ADI and head of the ADI group, internal auditors of the ADI and/or the ADI group, and auditors of entities in the group, as required;
 - (b) is kept fully informed of all Prudential Requirements applicable to the ADI and/or head of the ADI group; and

²⁸ See paragraph 46 of this Guidance Statement.

²⁹ Refer to Prudential Standard APS 910 *Financial Claims Scheme* for all APRA’s requirements in this regard. Further information on the Financial Claims Scheme, and its implementation in Australia, is available on APRA’s website at www.apra.gov.au.

- (c) is provided with any other information that APRA has provided to the ADI and/or head of the ADI group that may assist the appointed auditor in fulfilling its role and responsibilities under APS 310 and/or 3PS 310.
45. In relation to the ADI's and/or ADI group's responsibility to keep the auditor informed, the auditor includes these responsibilities clearly in the engagement letter and also requests management of the ADI and/or ADI group to sign an appropriate representation letter(s).³⁰

Role and Responsibilities of the Appointed Auditor

Those Who May Conduct the Assurance Engagement

46. APS 310 and 3PS 310 require an ADI and/or the head of the ADI group, as applicable, to ensure its auditor:
- (a) satisfies the fitness and propriety requirements set out in Prudential Standard CPS 520 *Fit and Proper*;
 - (b) satisfies the auditor independence requirements in CPS 510 ; and
 - (c) is not subject to a direction issued under the Banking Act.

As such, the auditor will need to provide information to the entity to enable the ADI and/or head of the ADI group to comply with requirements.

Annual Prudential Reporting Requirements (Routine Reporting)

Prudential Standards APS 310 and 3PS 310³¹

47. Under APS 310 and 3PS 310³², the appointed auditor of an ADI and/or group auditor of an ADI group is required to report simultaneously to APRA and the Board (or Board Audit Committee) of the ADI and/or head of the ADI group, as appropriate,³³ within three months³⁴ of the end of the financial year, in relation to the following matters³⁵:
- (a) *Assurance on Specified³⁶ ADI Reporting Forms at the financial year-end:*
 - (i) Reporting Forms with Data Sourced from Accounting Records

The appointed auditor is required to provide *reasonable assurance* that the information included in the Specified ADI Reporting Forms at the financial year-end, sourced from accounting records, is reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
 - (ii) Reporting Forms with Data Sourced from Non-Accounting Records

Unless otherwise indicated, in writing, by APRA, the appointed auditor is required to provide *limited assurance* that the information, included in the Specified ADI Reporting Forms at the financial year-end, sourced from non-

³⁰ See paragraph 268-270 of this Guidance Statement.

³¹ Refer to APS 310 and 3PS 310 for detail requirements.

³² See APS 310, paragraphs 35-36 and 3PS 310, paragraphs 26-27.

³³ Or, for a foreign ADI, a senior officer outside Australia to whom authority has been delegated in accordance with CPS 510, for overseeing the Australian operations.

³⁴ For a non-disclosing ADI, the relevant period is four months.

³⁵ Subject to paragraph 50 of this Guidance Statement.

³⁶ For a listing of APRA Reporting Forms to be subjected to the assurance engagement, refer to APRA Prudential Standard APS 310 *Attachment A – Data Collections subject to reasonable and/or limited assurance*. The requirements are different for Standardised, Advanced and Foreign ADIs.

accounting records, is reliable and in accordance with the relevant APRA Prudential and Reporting Standards;

- (iii) Reporting Forms with Data Sourced from a Combination of Accounting and Non-Accounting Records

Unless otherwise indicated, in writing, by APRA, the appointed auditor is required to provide *reasonable assurance* on information sourced from accounting records, and *limited assurance* that information sourced from non-accounting records, at the financial year-end, is reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

- (b) *Limited Assurance on Internal Controls addressing Compliance with Prudential Requirements and the Reliability of Data included in ADI Reporting Forms*

The appointed auditor is required to provide limited assurance that:

- (i) the ADI and/or head of ADI group has implemented internal controls that are designed to ensure the ADI and/or head of the ADI group, as relevant, has:
 - a. complied with *all* applicable Prudential Requirements; and
 - b. provided reliable data to APRA in the Reporting Forms prepared under the FSCODA; and
- (ii) the controls in paragraph (b)(i) have operated effectively throughout the financial year.

- (c) *Limited Assurance on Compliance with Prudential Requirements*

The appointed auditor is required to provide limited assurance, based on the appointed auditor's work under (a) and (b) above³⁷, that the ADI and/or the head of the ADI group, as relevant, has complied with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards, during the financial year.³⁸

- 48. 3PS 310 requires that reports, assessments and other material required under this standard make it clear where the auditor is referring to matters relating to the Level 3 head or the Level 3 group.
- 49. Under APS 310 and 3PS 310, it is the responsibility of the appointed auditor, as provided for in the required terms of engagement, to submit directly to APRA:
 - (a) all reports required to be produced under APS 310 and 3PS 310; and
 - (b) all assessments and other material associated with these reports, if requested by APRA.
- 50. Ordinarily, matters reported to APRA under paragraph 49 are also reported to the ADI and/or head of the ADI group to which the matter relates. However, APS 310 and 3PS 310 specifically prohibit the appointed auditor from notifying the ADI and/or head of the ADI group of, or from providing the ADI and/or head of the ADI group with, the documents referred to in paragraph 49, where:

³⁷ APS 310 and 3PS 310 do not include a requirement for the appointed auditor to carry out additional work to satisfy the auditor with respect to this requirement to report on compliance with relevant Prudential Requirements.

³⁸ Refer also to section 16BA of the Banking Act which requires the auditor to immediately notify APRA of certain matters, and to notify APRA as soon as is practicable about certain other matters.

- (a) the appointed auditor considers that by doing so the interests of depositors of the ADI or ADIs within the group would be jeopardised; or
 - (b) there is a situation of mistrust between the appointed auditor and the Board of the ADI and/or head of the ADI group, or senior management of the ADI or ADI group.
51. In accordance with APS 310 and 3PS 310, an appointed auditor, whether as part of routine or special purpose engagements, must not place sole reliance on the work performed by APRA.
52. The appointed auditor of an ADI is required to attend all meetings with APRA related to APS 310 and 3PS 310, whether on a bilateral, tripartite or other basis, unless APRA indicates otherwise in writing.

Prudential Standard APS 910 Financial Claims Scheme

53. APS 910³⁹ requires the appointed auditor, in accordance with APS 310, to provide limited assurance that:
- (a) the ADI⁴⁰ has controls that are designed to ensure that Single Customer View (SCV) data as set out in APS 910 Attachment A, to the extent practicable, and FCS payment instruction and reporting information can be relied upon as being complete and accurate and in accordance with APS 910; and
 - (b) these controls have operated effectively when tested.
54. APS 910 requirements are in addition to the APS 310 requirement for appointed auditors to perform a limited assurance engagement on controls implemented by the ADI to ensure compliance with *all* prudential requirements (which includes compliance with APS 910).
55. Generally, the APS 910 assurance engagement will be undertaken as part of the annual APS 310 assurance engagement on controls. APRA has indicated⁴¹ that, in circumstances where the APS 310/3PS 310 appointed auditor may not be in a position to undertake the APS 910 engagement, a different auditor from the same or a different audit firm will be able to carry out the APS 910 engagement, in accordance with the requirements of applicable AUASB Standards.⁴²
56. APRA requires the timing of the APS 910 assurance engagement to be aligned with the annual APS 310 assurance engagement. A separate assurance report for the APS 910 engagement is preferred, but the requirement is that this report be submitted to APRA at the same time as the APS 310 prudential assurance report.

Agreeing the Terms of the Annual Prudential Reporting Engagement(s)

57. The requirement to report pursuant to APRA's annual prudential reporting requirements, is in addition to the audit [and review] of financial reports required under the Corporations Act, and is to be treated by the appointed auditor as a separate engagement.
58. The appointed auditor accepts the prudential reporting engagement only when satisfied that relevant ethical requirements relating to the assurance engagement have been met. The concept of independence is important to the appointed auditor's compliance with the fundamental ethical principles of integrity and objectivity and the auditor is required to meet

³⁹ See APS 910, paragraph 27.

⁴⁰ APS 910 does not apply to foreign ADIs and providers of purchased payment facilities.

⁴¹ Refer to APRA's website: <https://www.apra.gov.au/financial-claims-scheme-frequently-asked-technical-questions-for-authorised-deposit-taking>, under section 2 *Audit and attestation* (Questions 2.1 and 2.3, June 2014).

⁴² See paragraph 146 of this Guidance Statement.

the independence requirements stipulated under both CPS 510 and Auditing Standard ASA 102⁴³. Furthermore, the auditor needs to satisfy the fitness and propriety requirements specified in CPS 520.

59. The appointed auditor and the ADI and/or head of the ADI group, as applicable, agree on the terms of the engagement for each discrete part of the assurance engagement, in accordance with the requirements contained in AUASB standards ASA 210⁴⁴, ASAE 3000, ASAE 3150, ASAE 3450 and ASRE 2405. These arrangements have to be legally binding and include the required terms of engagement specified in APS 310/3PS 310.
60. An engagement letter⁴⁵ confirms both the client's and the appointed auditor's understanding of the terms of the engagement, helping to avoid misunderstanding, and the appointed auditor's acceptance of the appointment. Both parties sign the engagement letter to acknowledge that it is a legally binding contract.
61. The auditor may also use the engagement letter to clarify the respective roles of the ADI and/or the head of the ADI group, as appropriate, and the auditor. In particular, it is important to highlight in the engagement letter the entity's responsibility to establish and maintain effective internal control to ensure compliance with Prudential Requirements and to ensure the reliability of data included in ADI Reporting Forms. As part of the acceptance of the prudential assurance engagement, the auditor may consider obtaining acknowledgement of this obligation from those charged with governance of the ADI and/or ADI group when obtaining agreement on the terms of the engagement.
62. For recurring engagements, the appointed auditor considers whether circumstances require the terms of the engagement to be revised and whether there is a need to re-confirm in writing the existing terms of the engagement. While the appointed auditor may decide not to re-confirm the terms of engagement each year, factors that may make it appropriate to do so include a recent change of senior management or those charged with governance, or any indication that the entity misunderstands the objectives and scope of the prudential reporting engagements.
63. APS 910 identifies additional requirements for ADIs and their appointed auditors, including a requirement for auditors to perform a limited assurance engagement on the ADI's controls in relation to the SCV data and FCS payment instruction and reporting information. These requirements are in addition to the APS 310/3PS 310 requirement for auditors to perform a limited assurance engagement on controls implemented by the ADI to ensure compliance with *all* prudential requirements (which includes compliance with APS 910). The auditor may use the engagement letter to clarify the respective roles of the ADI and the appointed auditor. In particular, it is important to highlight the entity's responsibility for ensuring the integrity of the operations, internal controls and information required under APS 910.
64. The engagement letter explains that any special purpose engagement of any aspect of the ADI's business operations, prudential reporting, risk management systems or financial position, will constitute a separate engagement(s) and that the details of such engagement(s) will be the subject of a separate engagement letter(s).⁴⁶
65. The engagement letter furthermore clarifies that, in accordance with CPS 510, the appointed auditor is not to be a party to any contractual arrangements, or any understandings with an ADI, that seeks in any way to limit the auditor's ability or willingness to communicate to APRA. APRA may liaise bilaterally with an appointed auditor and may, although not usually, request information directly from the appointed auditor. The appointed auditor notifies APRA of any attempts by an ADI to achieve such arrangements or understandings.

⁴³ ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

⁴⁴ ASA 210 *Agreeing the Terms of Audit Engagements*.

⁴⁵ Or other suitable form of written agreement.

⁴⁶ See paragraphs 292-301 of this Guidance Statement.

66. Refer to Appendix 2 of this Guidance Statement for an example engagement letter that reflects APRA reporting requirements as per APS 310 and APS 910. This letter includes examples of matters typically included in the engagement letter.

Matters to Consider in Planning the Annual Prudential Reporting Engagement(s)

67. The auditor plans the engagement in accordance with the requirements of, and has regard to, guidance provided in AUASB standards ASA 805, ASA 300⁴⁷ (as adapted), ASAE 3000, ASAE 3150, ASAE 3450 and ASRE 2405, as applicable. The auditor performs preliminary engagement activities to establish and document the overall assurance engagement strategy that sets the scope, timing and direction of the engagement, and guides the development of the engagement.
68. The appointed auditor obtains an understanding of the entity and its environment, including its internal control and compliance framework, and other assurance engagement circumstances, sufficient to:
- (a) identify and assess the risks of:
 - (i) material misstatements in subject matter information;
 - (ii) material deficiencies or deviations in internal controls (in relation to the area of activity to be examined); and
 - (iii) non-compliance with applicable Prudential Requirements; and
 - (b) design and perform further evidence-gathering procedures.

Understanding the Entity and its Environment

69. In gaining an understanding of the entity and its environment, the appointed auditor can draw on knowledge gained as part of the annual financial statement audit conducted under the Corporations Act. However, this understanding needs to be updated and broadened to address the subject matters included in the scope of the prudential reporting assurance engagement, such as the controls in place to ensure compliance with all applicable prudential standards which are not otherwise considered as part of the annual financial statements audit.
70. AUASB standards ASA 315⁴⁸ (as adapted), ASAE 3000, ASAE 3150 and ASAE 3450 provide examples of matters that may be considered, and procedures that may be performed, by the auditor in gaining this understanding. The auditor exercises professional judgement to determine the nature and extent of the understanding that is required.
71. When performing procedures to obtain an understanding of the entity and its environment, consideration of the following matters may be helpful:
- The size, business mix and complexity of the ADI or the ADI group it heads.
 - Changes in the market environment.
 - Whether the ADI is an Advanced or Standardised ADI.
 - Whether the ADI is a foreign ADI.

⁴⁷ ASA 300 *Planning an Audit of a Financial Report*.

⁴⁸ See paragraphs 19-27 of ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, issued in February 2020. This standard is operative for financial reporting periods commencing on or after 15 December 2021, with early adoption permitted.

- Governance and management functions within the ADI, including the respective roles and responsibilities attributed to the finance, risk management (including data risk management), compliance and internal audit functions.
- The risk culture.
- The reliability of reporting systems.
- The significance and complexity of the information technology environment and systems.
- The adequacy of systems and controls to identify, assess, manage, mitigate and monitor material risks.
- The compliance framework, processes and controls.
- History of non-compliance.
- Any (formal) communications between APRA and the ADI and/or the head of the ADI group, and the results of any supervisory visits conducted by APRA in relation to the engagement.
- Previous auditor's reports, including the auditor's report on the financial report, and related management letters.
- Recent reports prepared by other auditors appointed to report on any aspect of the ADI and/or the ADI group, including any reports issued in relation to the review of the RMF in accordance with CPS 220 requirements.
- The estimation and uncertainty inherent in applied measurement methodologies.
- Any bias inherent in adopted measurement methodologies.
- Work performed by the internal audit and compliance functions, and any reliance that may be placed on this work.
- Discussions with entity staff responsible for monitoring regulatory compliance, such as the ADI's Chief Risk Officer and Compliance Officer.
- The auditor's additional reporting responsibilities under the Banking Act.⁴⁹
- Changes since the last reporting period to:
 - (i) the requirements of relevant AUASB Standards; and
 - (ii) applicable Prudential Requirements.

72. In identifying and assessing the risks of material misstatement, the auditor may need to consider the use of accounting estimates in the calculation of, for example, the ADI's Prudential Capital Requirement (PCR)⁵⁰, in accordance with the requirements and having regard to guidance provided in Auditing Standard ASA 540 *Auditing Accounting Estimates and Related Disclosures*. The nature, timing and extent of the risk assessment and further assurance procedures required by ASA 540 will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement. ASA 540 may prove helpful in evaluating misstatements of accounting estimates and in identifying possible management bias. Whilst ASA 540 is primarily directed at the audit of accounting estimates, the auditor uses professional judgement in considering the applicability of ASA 540 to non-accounting

⁴⁹ See paragraphs 302-307 of this Guidance Statement.

⁵⁰ As prescribed in APRA Prudential Standard APS 110 *Capital Adequacy*.

estimates, such as non-financial data included in ADI Reporting Forms which may be subject to limited assurance.

Internal Controls and Compliance Framework

73. The auditor obtains an understanding of the entity's internal controls, the system within which the controls operate and the control components within the system, that are relevant to the assurance engagement, having regard to the requirements and guidance provided in ASAE 3150.⁵¹
74. The auditor obtains an understanding of the entity's compliance framework, key elements of the framework, and compliance requirements that are relevant to the assurance engagement. AUASB Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* includes information that the auditor may find useful in this regard.
75. Prudential Requirements generally require ADIs to have in place internal controls corresponding to their size and complexity, aimed at ensuring that:
- (a) risks are managed within prudent limits set by senior management and those charged with governance;
 - (b) information provided to management and those charged with governance is adequate and timely; and
 - (c) the ADI complies with applicable prudential and statutory requirements.
76. In addition to the general planning considerations, the auditor takes into consideration the following factors when planning the limited assurance engagement of the internal controls relevant to the assurance engagement:
- The size, business mix and complexity of the ADI and/or the ADI group, and specifically whether or not an ADI is an Advanced ADI⁵², as this will influence the degree of complexity impacting the control environment, compliance framework and control policies and processes.
 - The overall compliance framework adopted to ensure compliance with all applicable Prudential Requirements, including controls, policies and processes, and consideration of whether or not these are appropriate given the size, business mix and complexity of the ADI and/or ADI group.
 - The sufficiency and appropriateness of the ADI's and/or ADI group's Risk Management Systems descriptions and similar policy documents issued in accordance with specific Prudential Standards, and consideration of whether these are up to date and in sufficient detail to facilitate compliance with the relevant Prudential Standards.
 - Matters relating to the ADI's and/or the ADI group's organisational structure and operating characteristics, and recent significant changes thereof, which could impact on relevant internal controls.
 - Knowledge of internal controls obtained during other assurance engagements conducted in relation to the ADI and/or ADI group.
 - The method adopted, and the process used, by the ADI and/or ADI group to develop risk information to be disclosed in ADI Reporting Forms.

⁵¹ In particular, paragraphs 37 and 38 of ASAE 3150.

⁵² The way in which internal control is designed and implemented varies with an ADI's size and complexity. Specifically, smaller Standardised ADIs may use less formal means and simpler processes and procedures to achieve control objectives.

- Previously communicated instances of material non-compliance with Prudential Requirements and/or material deficiencies and/or deviations in internal controls designed to ensure compliance with all applicable Prudential Requirements and the provision of reliable data to APRA in Reporting Forms, that have not been resolved.

The above is not meant to represent an exhaustive list and there may be other factors relevant to the specific circumstances of an ADI and/or ADI group.

Overall Responses to Assessed Risks of Material Misstatements, Control Deficiencies and Deviations, and Non-Compliance

77. In accordance with the requirements of the relevant AUASB Standards, the auditor designs and performs further assurance procedures which are responsive to the assessed risks of material misstatement, material deficiencies or deviations in controls or instances of material non-compliance.
78. ASAE 3000 clearly differentiates between the objectives of a limited versus a reasonable assurance engagement, and provides detail around the sufficiency of evidence on which to base conclusions. The nature, timing and extent of evidence gathering procedures which are conducted in any given circumstance is a matter of professional judgement and is determined in response to the auditor's determination of materiality, risk assessment and the results of the procedures conducted in response to assessed risks.
79. In obtaining reasonable assurance, the auditor chooses a combination of assurance procedures, which may include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and enquiry.
80. In a reasonable assurance engagement, procedures may include tests of controls as well as substantive testing. When conducting a reasonable assurance engagement, if the auditor is able to obtain evidence that the controls they wish to rely on are operating effectively, then the nature, timing and extent of substantive testing may be reduced or modified. If reliance is to be placed on the operating effectiveness of controls throughout the period, then testing will need to cover that period. Alternatively, if the identified controls are not operating effectively, then the nature, timing or extent of substantive testing will need to be increased or modified.
81. As the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the auditor will perform will vary in nature from and will be less in extent than that for a reasonable assurance engagement. In a limited assurance engagement, procedures primarily involve enquiries and substantive analytical procedures and may not include test of controls (except where the subject matter is controls).
82. Although procedures in a limited assurance engagement will be more limited in nature, timing and extent than for a reasonable assurance engagement, ASAE 3000 and ASAE 3150 require additional procedures to be conducted if the auditor becomes aware of a matter which causes them to believe that the subject matter may be materially misstated or that there may be a significant deficiency/deviation in controls and/or material non-compliance. The auditor may conduct procedures more akin to a reasonable assurance engagement on this particular matter in order to satisfy themselves that either the subject matter is not materially misstated, controls are designed, implemented and operating effectively in all material respects, and it is compliant in all material respects.⁵³

⁵³ See ASAE 3000, paragraph 49L and ASAE 3150, paragraph 46.

Characteristics of Subject Matter and Identified Evaluation Criteria

83. The table in Appendix 1 of this Guidance Statement provides an outline of the subject matter and criteria relevant to each part of the assurance engagement, as well as applicable AUASB Standards.
84. The level of assurance required to be provided by the auditor for Parts A and B of the engagement, is determined by the source of the data included in each Specified ADI Reporting Form. A reasonable level of assurance is required for data sourced from “accounting records”. A limited level of assurance is required for all other data. The definition of “accounting records”⁵⁴ therefore needs to be applied with care. Paragraphs 152-160 below, provide guidance on the application of this definition.
85. The appointed auditor identifies the most recent year-end ADI Reporting Forms submitted to APRA. Further guidance is provided in paragraphs 161-165 below.
86. The appointed auditor is to note that, in relation to ADI Reporting Forms prepared under the FSCODA, there are additional Reporting Forms, beyond the Specific Reporting Forms listed in Attachment A to APS 310 (which is the subject matter for Parts A and B). These additional Reporting Forms are to be included in the scope of Part C of the assurance engagement, together with the Reporting Forms identified in Attachment A to APS 310.
87. The appointed auditor identifies, and obtains an understanding of, all the Prudential Requirements⁵⁵ applicable to the specific ADI (including any additional guidance provided by APRA to the ADI), with particular attention to changes in these requirements during the reporting period. The auditor makes enquiries with respect to any requirements that are imposed in writing by APRA on a bilateral APRA-ADI basis, or in relation to conditions on the ADI’s authorisation, as these requirements may vary from one ADI to another.
88. Compliance with Prudential Requirements is broader than compliance with only the quantitative limits in APRA Prudential Standards (for example, capital requirements). The appointed auditor is required to provide assurance in relation to compliance with all relevant/applicable Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards.
- The scope of the prudential assurance engagement therefore includes compliance with APRA Prudential Standards dealing with, for example, governance (CPS 510), risk management (CPS 220), public disclosure (APS 330), the Financial Claims Scheme (APS 910), and the APS 310/3PS 310 requirements relating to the appointment of the auditor and the use of group auditors.
89. In relation to an ADI’s responsibility to keep the appointed auditor informed of all APRA Prudential Requirements applicable to the ADI, the appointed auditor obtains written representations from those responsible.⁵⁶

Identified Users and Intended Use of Appointed Auditor’s Assurance Report

90. Data collected in ADI Reporting Forms are primarily used by APRA for the purpose of prudential regulation and supervision of individual ADIs. The data may also be used by the RBA for the overall supervision of the stability of the financial system and for setting monetary policy, and by APRA, the ABS and the RBA to construct a range of important statistics. The auditor refers to ADI Reporting Forms and Instructions, and associated Prudential and Reporting Standards, for information regarding the nature and purpose of each individual ADI Reporting Form.

⁵⁴ See paragraph 28(c) of this Guidance Statement.

⁵⁵ See paragraphs 28(q) of this Guidance Statement.

⁵⁶ See paragraphs 268-270 of this Guidance Statement.

91. Data collected under the EFS Reporting Standards are primarily used by the ABS and RBA for analysis, publication and policy-making purposes. EFS data is used by the ABS to compile and publish key macroeconomic indicators, including Australia's National Accounts and leading indicators of lending activity, which are used to monitor Australia's growth. The RBA uses EFS data to construct and publish Australia's monetary and credit aggregates, and for analytical and policy purposes. Data published by the ABS and RBA are also used by other policy makers and the wider public for research, analysis and policy making.⁵⁷ Information collected under the EFS Reporting Standards may be used by APRA for prudential and publication purposes.
92. Requirements for auditors of ADIs to provide assurance reports on prudential matters to APRA are intended to assist APRA, and the Agencies, in assessing the reliability of information supplied to it by an ADI.
93. Auditors need to be aware that APRA has the power under subsection 56(5) of the *Australian Prudential Regulation Authority Act 1998* to make "protected information" (which may include auditors' reports or information extracted from such reports) available to another financial sector supervisory agency (for example, the RBA and Treasury), or any other specified agency (including foreign agencies), when APRA is satisfied such information will assist those agencies in performing its functions or exercising its powers.

Reliability of Information and Data Quality

94. The concept of reliability is to be viewed in the context of the reliability of the data for the intended use by the identified users.
95. Under the Australian Accounting Standards Board's (AASB's) *Glossary of Defined Terms*, information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully, and without material error and bias, the transactions or events that either it purports to represent or could reasonably be expected to represent.
96. In applying this concept of reliability to the prudential reporting engagement, information in ADI Reporting Forms is not to lead users to conclusions that serve the particular needs of an ADI. Furthermore, such information needs to be capable of reliable measurement.
97. APRA Prudential and Reporting Standards provide the frame of reference (benchmarks) for reasonably consistent evaluation or measurement, within the context of the auditor's professional judgement, of the reliability of the information included in ADI Reporting Forms.
98. The appointed auditor identifies and obtains an understanding of the applicable Prudential Requirements that govern the preparation of data within ADI Reporting Forms, with particular attention to changes in these requirements during the reporting period under review. In addition to the Prudential and Reporting Standards issued by APRA, other Prudential Requirements, including the specific Reporting Form Instruction Guides, will also have an impact on the provision of reliable data to APRA under the FSCODA and, therefore, the appointed auditor has regard to all relevant Prudential Requirements when planning and conducting the engagement.
99. It is important that the appointed auditor obtains an understanding of how APRA Prudential and Reporting Standards differ from the financial reporting framework⁵⁸ which are used to record data in the ADI's accounting records.
100. APRA's Prudential Practice Guide CPG 235 *Managing Data Risk* (CPG 235) may aid in the auditor's understanding of the concept of reliability in the context of the assurance engagement. CPG 235 provides guidance to APRA regulated entities on managing data risk,

⁵⁷ See APRA Reporting Practice Guide RPG 702.0 *ABS/RBA Data Quality for the EFS Collection*.

⁵⁸ Under Australian Accounting Standards.

including assessing data quality by reference to its fitness for use, that is, the degree to which data is relevant, appropriate for its intended purpose and meets business specifications.

101. Other determinants of data quality identified in CPG 235 include:
- (a) accuracy – the degree to which data is error free and aligns with what it represents;
 - (b) completeness – the extent to which data is not missing and is of sufficient breadth and depth for the intended purpose;
 - (c) consistency – the degree to which related data is in alignment with respect to dimensions such as definition, value, range, type and format, as applicable;
 - (d) timelines – the degree to which data is up-to-date; and
 - (e) availability - accessibility and usability of data when required.

EFS Collection

102. APRA's Reporting Practice Guide RPG 702.0 *ABS/RBA Data Quality for the EFS Collection* (RPG 702.0) provides guidance to assist ADIs and RFCs required to submit EFS data to APRA, to meet the Agencies' data quality requirements in relation to EFS Reporting Standards.
103. RPG 702.0 is to be read in conjunction with:
- (a) the EFS collection, including Reporting Standard ARS 701.0 *ABS/RBA Definitions for the EFS Collection* and Reporting Practice Guide RPG 701.0 *ABS/RBA Reporting Concepts for the EFS Collection*, which contains definitions of, and guidance on, the data to be reported to APRA and the Agencies; and
 - (b) Prudential Practice Guide CPG 235.
104. RPG 702.0 outlines how the Agencies, as primary users, intend to use data collected under the EFS Reporting Standards. It informs EFS reporting entities of the significance of specific EFS data items for use by the Agencies and is designed to assist entities in meeting EFS quality control requirements by adapting data risk management practices outlined in CPG 235 for the EFS collection.
105. Although the Agencies expect all data collected by APRA on their behalf to be accurate, reporting entities are expected to use the data priority ranking⁵⁹ included in RPG 702.0 as an indicator of the relative importance of the accuracy of these data items and, therefore, where to focus data quality management practices.
106. The tables in Attachment A to RPG 702.0 includes qualitative benchmarks to indicate the size of misreported data items that may impact the use of the data by the Agencies and thus would be considered a "reporting error" that needs to be notified to APRA. These benchmarks vary according to entity size⁶⁰, type of data item⁶¹ and prioritisation of data⁶².
107. Benchmarks for entities defined as "large institutions" in RPG 702.0 recognise that reporting errors by a single large entity are more likely to impact industry aggregates due to their size, while benchmarks for the entities that are not large are aimed at identify reporting errors that could affect the industry aggregate results if occurring across several entities simultaneously.

⁵⁹ RPG 702.0 identifies three data priority categories: "standard", "high" and "very high".

⁶⁰ Whether the entity is a "large institution" or not as defined in RPG 702.0.

⁶¹ Whether a data item is a "stock" or "flow" item as defined in RPG 702.0.

⁶² RPG 702.0 prioritises data into the following categories: "standard", "high" and "very high".

108. RPG 702.0 includes specific guidance in relation to the:
- (a) application of judgement in identifying reportable errors for “standard” priority data items (that is, data items that is not of a “high” or “very high” priority);
 - (b) application of benchmarks where data items is at, or very close to, zero;
 - (c) application of benchmarks to volatile “flow” data items; and
 - (d) the use of proxy methodologies for selected data items⁶³.
109. The Agencies and APRA recognise that not all practices outlined in the guide will be relevant for every EFS reporting entity and that some aspects may vary depending upon the size, complexity and systems configuration of the EFS reporting entity.

Materiality

110. The auditor considers materiality, in accordance with the requirements of AUASB Standards applicable to each section of the assurance engagement, when planning and performing the engagement. During the engagement the auditor re-assesses materiality if matters come to their attention that indicate that the basis on which materiality was assessed has changed.
111. For assurance purposes, materiality is determined in order to establish:
- (a) a tolerable level of misstatement in relation to financial and non-financial information included in ADI Reporting Forms, deficiencies or deviations in controls, or non-compliance with applicable Prudential Requirements;
 - (b) the scope of assurance work to be performed; and
 - (c) a reasonable basis for evaluating identified misstatements, deficiencies, deviations, or non-compliance.
112. In determining materiality levels, the auditor exercises professional judgement to understand and assess the factors that might influence the decisions of APRA and other intended users.⁶⁴ Judgements about materiality are affected by quantitative and qualitative factors as well as consideration of the potential of misstatements, control deficiencies or deviations, or non-compliance that are individually immaterial but in the aggregate may adversely affect decisions made by those users. Where particular categories of data or compliance matters may have a greater impact on the decisions of users, materiality may need to be set at a lower level for those amounts or matters.
113. ASAE 3000 explains that, although there is a greater risk that misstatements, control deficiencies or deviations, or non-compliance may not be detected in a limited assurance engagement than a reasonable assurance engagement, the judgement as to what is material is made by reference to surrounding circumstances, the subject matter on which the auditor is reporting, and the needs of those relying on that information, as opposed to the level of assurance obtained. That is, for the same intended users and purpose, materiality for a reasonable and limited assurance engagement will be the same. In setting materiality levels, regardless of the subject matter or level of assurance, it is the auditor’s objective to reduce risk to an acceptable level in the circumstances of the assurance engagement.
114. Since the concept of materiality applies differently in the context of an engagement to provide assurance on information included in Reporting Forms, an engagement to provide assurance

⁶³ See APRA Reporting Practice Guide RPG 701.0 *ABS/RBA Reporting Concepts for the EFS Collection*.

⁶⁴ See paragraph 90-93 of this Guidance Statement.

on internal controls, and for the purpose of reporting on compliance, it is considered separately below for each section of the engagement.

Reasonable and/or Limited Assurance on Specified⁶⁵ ADI Reporting Forms (Parts A and B)

115. A misstatement in a Specified ADI Reporting Form, either individually or in aggregate with other misstatements, is considered material if the appointed auditor believes the intended users may be influenced by the misstatement of the information.
116. For the purpose of providing assurance on Specified ADI Reporting Forms, the auditor considers materiality, as appropriate, in accordance with the principles and guidance provided in AUASB standards:
- (a) ASA 320⁶⁶, ASA 805 and ASRE 2405, as applicable, where the subject matter is historical financial information;
 - (b) ASAE 3000, where the subject matter is information other than historical financial information; and
 - (c) ASAE 3450, where the subject matter is prospective financial information.⁶⁷

In the absence of specific requirements issued by APRA, the Australian Accounting Standards Board's Practice Statement 2 *Making Materiality Judgements* may provide a useful frame of reference to the auditor in determining materiality for the engagement.

117. ASA 320 and AASB Practice Statement 2 deal with materiality in the context of the financial statements taken as a whole and may be useful in setting materiality levels for relevant "Statement of Financial Performance" and "Statement of Financial Position" ADI Reporting Forms. As Australian Auditing Standards are written in the context of an audit of a financial report, they are to be adapted as necessary in the circumstances when applied to single financial statements or specific elements of a financial statement. Materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the financial report, which will impact the nature, timing and extent of assurance procedures and the evaluation of uncorrected misstatements.⁶⁸
118. For the purpose of reporting on the reliability of information included in Specified ADI Reporting Forms, the appointed auditor considers and applies materiality at the level of individual Reporting Forms⁶⁹ or, if the auditor deems it to be more appropriate, the auditor may choose to set a specific materiality at the level of individual data items or categories of data included in Reporting Forms.
119. In applying the relevant AUASB Standards to individual ADI Reporting Forms, or data line items in Reporting Forms, the auditor has regard to the nature, purpose and use of the information included in each Reporting Form. The auditor refers to Reporting Forms and Instructions, and associated Prudential and Reporting Standards, for information regarding the nature and purpose of each individual ADI Reporting Form.

⁶⁵ For a listing of ADI Reporting Forms to be subjected to the reasonable and/or limited assurance engagement, refer to APS 310 *Attachment A – Data Collections subject to reasonable and/or limited assurance*. The requirements are different for Standardised, Advanced and Foreign ADIs.

⁶⁶ ASA 320 *Materiality in Planning and Performing an Audit*.

⁶⁷ For example, in relation to liquidity disclosures included in ADI Reporting Forms ARF 210.1A and 210.1B *Liquidity Coverage Ratio*.

⁶⁸ See ASA 805.

⁶⁹ Where a particular data item appears in multiple ADI Reporting Forms subject to different levels of materiality, the auditor ensures the work performed is appropriate and sufficient to meet the lowest level of materiality. For example, materiality may be set for a balance sheet-based reporting form. However, the appointed auditor may need to consider the potential impact of misstatements in the balance sheet on profit and loss based reporting forms, which by their nature may have lower materiality thresholds.

120. Materiality is to be addressed in the context of the entity's objectives relevant to the ADI Reporting Form and Reporting Standard being examined and whether internal controls will reduce to an acceptable level the risks that threaten achievement of those objectives.⁷⁰
121. Where a Reporting Form includes historical and prospective financial information, as well as non-financial information,⁷¹ the auditor considers adopting a combination of methods and setting multiple materiality levels based on the information included in the Reporting Form. For example:
- (a) For historical financial information extracted from audited⁷² financial information, the auditor may:
 - (i) determine that the materiality levels used in the audit are acceptable/suitable for the purposes of the Reporting Form; or
 - (ii) establish new materiality levels in accordance with the principles espoused in ASA 320 or ASRE 2405 and other relevant guidance, as applicable to the subject matter information and based on the amounts reported in the Reporting Form.
 - (b) For non-financial information, materiality may be set with reference to the principles and guidance provided in ASAE 3000.
 - (c) For prospective financial information, materiality may be set with reference to the principles and guidance provided in ASAE 3450.

In setting these differing materiality levels, the auditor takes into consideration qualitative and quantitative factors and the risk of issuing an inappropriate conclusion.

122. The appointed auditor's preliminary assessment of materiality is based largely on quantitative factors. A percentage is often applied to a chosen benchmark as a starting point in determining materiality. The base and percentage may vary depending on the ADI Reporting Form in question and the nature of information included in each Reporting Form.
123. Matters likely to adversely affect the interests of depositors in ADIs are generally related to solvency and going concern assumptions. In the context of APRA's prudential reporting requirements, the ADI's "Prudential Capital Requirement" (PCR), as prescribed in Prudential Standard APS 110 *Capital Adequacy*, is an important consideration with respect to materiality. A key concern with any misstatement within a Reporting Form is therefore its potential impact on the ADIs capital base and capital adequacy ratio, that are determined in accordance with APRA's Prudential Standards. This is taken into consideration by the appointed auditor when evaluating whether a misstatement in a Reporting Form, especially within the Capital Adequacy Reporting Forms, is material.
124. APRA has advised that a materiality threshold based on a 25 basis point impact on the capital adequacy ratio may be applied in aggregate by the appointed auditor as a reasonable basis for determining quantitative materiality for Capital Adequacy Reporting Forms. This threshold may be used as indicative guidance only, in conjunction with the considerations described within this Guidance Statement, which includes consideration of qualitative factors. The appointed auditor exercises professional judgement when applying the threshold in specific circumstances. For example, a lower level of materiality may be appropriate as the level of surplus capital reduces.

⁷⁰ For example, the objective of the Capital Adequacy series of ADI Reporting Forms will be on protection of the interests of depositors in ADIs.

⁷¹ For example, as part of the EFS collection.

⁷² For example, the audit of a financial report under the Corporations Act.

125. The auditor exercises professional judgement to consider whether an alternative base, such as profit, revenue or assets, may be more appropriate when considering whether a misstatement within other non-capital types of reporting forms such as, but not limited to, the *Statement of Financial Performance*, *Statement of Financial Position*, *Provisions and Impaired Assets* and the liquidity reporting forms⁷³, is material.
126. When considering materiality, the auditor considers the obligations under Prudential Requirements for ADIs and auditors of ADIs to report errors in ADI Reporting Forms to APRA, the criteria for resubmission of data previously submitted to APRA, and reporting breaches to APRA. For example, RPG 702.0 indicates that misreported EFS data items above the prescribed quantitative data quality benchmarks in Attachment A to RPG 702.0 should be notified to APRA. However, RPG 702.0 states these errors would not trigger automatic resubmission, as the Agencies will determine the need for resubmission. The auditor exercises professional judgement in using this guidance in scoping assurance work to be performed.
127. The auditor is mindful that RPG 702.0 is primarily directed at reporting entities and designed to assist these entities in meeting EFS quality control requirements and to tailor data risk management practices as outlined in CPG 235.⁷⁴
128. Whilst APRA and the Agencies expect auditors to consider the RPG 702.0 guidance in determining materiality thresholds for a prudential reporting assurance engagement, APRA has confirmed that the RPG 702.0 benchmarks do not establish new materiality requirements for assurance purposes relating to the EFS data collection.⁷⁵
129. The auditor is not required to provide assurance to the levels set out in RPG 702.0. The auditor sets materiality levels for the EFS collection based on the risk assessment for each EFS Reporting Form performed by the auditor. The priority ranking of data points included in RPG 702.0 may be helpful for the auditor in determining where to focus effort.
130. RPG 702.0 benchmarks and considerations may be more relevant to Part C of the engagement in setting materiality levels for reporting on the design and operating effectiveness of internal controls addressing the reliability of data routinely reported to APRA in ADI Reporting Forms. Refer to Part C below.
131. Auditors retain ultimate discretion in setting materiality levels for the assurance engagement and determining the scope of assurance procedures to be conducted, taking into consideration the risk of issuing an inappropriate assurance report.

Limited Assurance Engagement on Design, Implementation and Operating Effectiveness of Internal Controls (Part C)

132. Material deficiencies in the design and implementation of controls and material deviations in the operating effectiveness of controls are those which could reasonably be expected to influence relevant decisions of the intended users.
133. ASAE 3150 sets out the requirements and provides guidance to the auditor in applying materiality in the context of an assurance engagement on controls.
134. In accordance with ASAE 3150, the auditor shall identify a control or combination of controls as material if it is fundamental to the achievement of a control objective relevant to the scope

⁷³ For example, when determining a quantitative materiality threshold for the liquidity reporting forms (ARF 210.1A, ARF 210.1B and ARF 210.6), the auditor exercises professional judgement when determining an appropriate base for both the Liquidity Coverage Ratio and the Net Stable Funding Ratio, such as the surplus liquidity above the minimum regulatory thresholds.

⁷⁴ That is, a reporting entity's precision thresholds for reporting data to APRA. The auditor considers relevant guidance and commentary provided by APRA – refer to APRA's website: <https://www.apra.gov.au/economic-and-financial-statistics-frequently-asked-questions>.

⁷⁵ The benchmarks included for ADIs in RPG 702.0 may be more granular than the materiality levels required to be applied in undertaking the reasonable and limited assurance engagements required under APS 310 to report on data included in Specified ADI Reporting Forms at the financial year-end.

- of the engagement, and whether the internal controls will reduce to an acceptably low level, based on auditor judgement, the risks that threaten achievement of those objectives.
135. In assessing materiality, the appointed auditor has regard to the measures the ADI has adopted to ensure:
- (a) reliable data is provided to APRA in all ADI Reporting Forms prepared under the FSCODA; and
 - (b) compliance with all applicable Prudential Requirements.
136. For the purpose of reporting on controls addressing the reliability of EFS data included in ADI Reporting Forms, the auditor determines materiality levels taking into consideration the needs and expectations of the users of the EFS collection, as outlined in RPG 702.0. RPG 702.0 informs reporting entities of the Agencies' expectation that data reported in EFS collection should be of high quality, including to be accurate, complete and timely. RPG 702.0 provides guidance to reporting entities to meet data quality control requirements that require them to have in place systems, processes and controls to assure the reliability of reported information in relation to the EFS Reporting Standards. RPG 702.0 guidance is supported by CPG 235 which sets out guidance on how entities can manage data risk, including assessing data quality by reference to fitness for use.
137. Although auditors retain discretion in setting materiality levels, they are expected to take into consideration RPG 702.0's priority ranking of data items and data quality benchmarks as part of the assessment of whether a reporting entity's internal controls are designed appropriately and operating effectively to meet the RPG 702.0 thresholds required by the Agencies.
138. ASAE 3150 requires the auditor to reassess the materiality of the controls if matters come to their attention during the engagement which indicate that the basis on which the materiality of those controls was determined has changed.

Reporting on Compliance with Prudential Requirements (Part D)

139. Under APS 310 and 3PS 310 the appointed auditor is required to provide limited assurance that the ADI and/or group has complied, in all material respects, with all relevant Prudential Requirements. This conclusion is to be based on the auditor's reasonable and limited assurance engagements undertaken to provide assurance in relation to Specified ADI Reporting Forms (Parts A and B) and internal controls (Part C).
140. For the purpose of reporting on compliance with Prudential Requirements, the appointed auditor considers materiality when *evaluating* the significance of identified instances of non-compliance with relevant Prudential Requirements (refer to paragraphs 253- 262 of this Guidance Statement).

Personnel and Expertise Requirements, Including the Nature and Extent of Experts' Involvement

141. An appointed auditor gives further consideration as to whether the auditor has, or will be able to obtain, adequate knowledge and the required skills to undertake the engagement.
142. APS 310 and 3PS 310 prohibit an appointed auditor from placing sole reliance on the work performed by APRA, for example, as part of the initial accreditation process to be registered as an Advanced ADI. APRA expects appointed auditors to exercise their professional judgement and reach their own independent conclusions.
143. The nature and complexity of the ADI increases the likelihood that the appointed auditor may need to involve experts in the engagement. For example, obtaining an understanding of the process and assumptions used by an Advanced ADI to develop risk information, may require technical knowledge of risk measurement methodologies, which can be complex.

144. When planning to use the work of an auditor's expert as evidence, the appointed auditor has regard to the requirements and guidance provided in, as appropriate, AUASB standards ASA 620⁷⁶, ASAE 3000, ASAE 3150 and ASAE 3450.
145. Where an ADI has engaged or employed experts, for example where actuaries are used to determine amounts for inclusion in ADI Reporting Forms, which is derived using specialised techniques, the auditor applies, as appropriate, Auditing Standard ASA 500 *Audit Evidence*. ASA 500 sets out mandatory requirements and provides application and explanatory material on using the work of a management's expert as audit evidence. The auditor may also find it helpful to refer to AUASB Guidance Statement GS 005 *Evaluating the Appropriateness of a Management's Expert's Work*.

Work Performed by Another Auditor

146. Where the auditor appointed under APS 310/3PS 310 plans to use the work of another independent auditor, the appointed auditor:
- (a) for the reasonable assurance engagement in relation to historical financial information, complies with the requirements of Auditing Standard ASA 600 *Special Considerations – Audits of a Group Financial Report*, adapted as necessary; and
 - (b) for other assurance, complies with the requirements of ASAE 3000. The principles espoused in ASA 600 may also provide helpful guidance.

Internal Audit

147. CPS 510 requires all ADIs (including a foreign ADI in relation to its Australian business) and authorised NOHCs, to have in place an independent and adequately resourced internal audit function.⁷⁷ APS 310 and 3PS 310 require an ADI and/or the head of an ADI group to ensure that the scope of internal audit includes a review of the policies, processes and controls put in place by management to ensure compliance with Prudential Requirements. CPS 510 requires that the objectives of the internal audit function include an evaluation of the adequacy and effectiveness of the financial and risk management framework of the ADI. CPS 220 includes further information on APRA's requirements for the periodic review of the risk management framework by internal audit.
148. APRA expects the appointed auditor to consider the extent to which the work of the internal audit function is likely to be relevant in the context of the APS 310/3PS 310 assurance engagement.
149. Having regard to the requirements and guidance provided in AUASB standards ASA 610 *Using the Work of Internal Auditors*, ASAE 3000 and ASAE 3150, as relevant, the appointed auditor obtains an understanding of the activities and main findings of the internal audit function and perform a preliminary assessment, which may include, assessment of:
- (a) its impact on the system and the components of control within that system, including the control environment, risk assessment, information and communication, monitoring activities and control activities in relation to the system; and
 - (b) its effect on the nature, timing or extent of the auditor's assurance procedures.
150. The use of internal auditors to provide direct assistance is prohibited in assurance engagements undertaken in accordance with AUASB Standards. Direct assistance is the performance of assurance procedures under the direction, supervision and review of the independent external auditor. This prohibition does not preclude reliance on the work of the

⁷⁶ ASA 620 *Using the Work of an Auditor's Expert*.

⁷⁷ Under CPS 510, APRA may approve alternative arrangements where APRA is satisfied that it will achieve the same objectives.

internal audit function to modify the nature or timing, or reduce the extent, of assurance procedures to be performed directly by the auditor.

151. Where the appointed auditor plans to use the work of the internal audit function, the auditor evaluates the adequacy of this work for the auditor's purposes in accordance with the relevant AUASB standards. The appointed auditor remains responsible for obtaining sufficient appropriate evidence to support the auditor's assurance engagement conclusions.

Considerations - Assurance on Specified⁷⁸ ADI Reporting Forms

Application of AUASB Definition of "Accounting Records"

152. APS 310/3PS 310 requires the appointed auditor to provide two different levels of assurance over the reliability of a specific set of ADI Reporting Forms at the ADI's financial year-end. The level of assurance required to be provided by the appointed auditor is determined by the source of the data included in the Reporting Forms. Data sourced from "accounting records", requires a reasonable level of assurance. All other data requires a limited level of assurance.
153. "Accounting records", is defined in paragraph 28(c) of this Guidance Statement and, ordinarily, includes all the data used by an ADI to prepare its accounting books and records, and to report the results of its operations and its financial position in its financial report on an annual or half-yearly basis (that is, the underlying evidence in support of the financial report). The expectation is, generally, that such data would be subject to rigorous internal controls.
154. However, the initial books of entry may also comprise other data which is stored alongside accounting data. Such data may not be used for financial management and financial reporting, and may not be subject to rigorous controls, and therefore fall outside the scope of the reasonable assurance opinion.
155. Data in ADI Reporting Forms may be sourced from systems that are not used to produce financial report information and are not readily reconcilable to financial report information. The initial entries to these systems may be the same as for the accounting records, but both the level of control over the systems and the amount of manipulation/aggregation of the data within such systems may result in the output being significantly different from the accounting records and not readily reconcilable back to these records.
156. The appointed auditor makes an assessment of whether or not a data item has been sourced from accounting records, by exercising professional judgement and referring to the definition of accounting records. The auditor carefully considers the source and the use of the data, and whether it is appropriately controlled and, therefore, capable of being subjected to procedures for obtaining sufficient appropriate evidence to support a reasonable assurance conclusion.
157. For Advanced ADIs, where the ADI's risk management systems provide internal estimates for some or all of the risk components in determining capital, the capital reporting forms will include data items sourced from non-accounting records. Examples include measures for 'probability of default' and 'loss given default'.
158. Certain data items may have been sourced from a combination of both accounting and non-accounting records, for example, data sourced from accounting records that involve additional examination, computation, re-classification or segmentation using non-accounting data, and this may result in those data items being classified as sourced from non-accounting records and fall within the scope of the limited assurance engagement.

⁷⁸ For a listing of ADI Reporting Forms to be subjected to the reasonable and/or limited assurance engagement, refer to APS 310 Attachment A – Data Collections subject to reasonable and/or limited assurance. The requirements are different for Standardised, Advanced and Foreign ADIs.

159. Where ADI Reporting Forms combine elements that are derived from accounting records and non-accounting records, the appointed auditor provides:
- (a) reasonable assurance on information derived from the accounting records, for example, totals derived from the balance sheet such as values for assets, liabilities and derivatives, in the ADI Reporting Forms listed in (b) below; and
 - (b) limited assurance on the information derived from non-accounting records, for example:
 - ADI Reporting Form ARF 117.0 *Repricing Analysis*: the repricing period allocations to time periods set out in the interest rate sensitivity tables (which are subjective).
 - ADI Reporting Form ARF 112.1A *Standardised Credit Risk – On-balance Sheet Assets*: the risk rating for loans based on the loan-to-valuation ratio (LVR) where the security values are subject to variation over time.

Also refer to paragraph 164 below.

160. Segmentation of certain balances derived from the financial statements (accounting data) included in EFS Reporting Forms by counterparty economic sector, industrial classifications or facility purpose, are often reliant on counterparty provided information or may be subject to judgement in their application and, therefore, generally fall within the scope of the limited assurance engagement.

Identification of Financial Year-end ADI Reporting Forms

161. Identification of the year-end ADI Reporting Forms to be subjected to the reasonable and/or limited assurance engagement, requires careful consideration by the appointed auditor.
162. The initial submission of ADI Reporting Forms, to meet APRA's reporting timetable, may be too soon in the ADI's year-end process for the ADI to have processed all relevant year-end journals and adjustments. As a result, the ADI may have submitted revised Reporting Forms after the due reporting date. As the requirement is to report on the "reliability" of the year-end Reporting Forms, the auditor selects the most up to date (recent) Reporting Forms submitted to APRA, rather than the Reporting Forms initially submitted in accordance with APRA's reporting timetable. The auditor conducts further procedures to ensure that the selected Reporting Forms include all relevant year-end journals and adjustments.
163. The ADI Reporting Forms which are the subject of the assurance report, are clearly identified in the assurance report. This may be achieved, for example, by:
- (a) attaching the Reporting Forms to the assurance report; or
 - (b) noting the submission receipt number or time and date of submission of the Reporting Forms to APRA in the assurance report.
164. As noted in paragraph 159 of this Guidance Statement, certain ADI Reporting Forms may include data sourced from a combination of accounting and non-accounting records. The appointed auditor needs to clearly identify such data so that the intended user of the assurance report understands the level of assurance attached to each data item. This could be achieved in a number of ways, for example:
- Attaching the Reporting Forms to the assurance report and clearly identifying the level of assurance attached to each individual section (or data item) within each Reporting Form.

- Listing the Reporting Form and the individual sections (or data items) for which reasonable and limited assurance have been provided within the body of the assurance report under the section “Opinion and Conclusions”.
- Providing a detailed list in an attachment to the assurance report which clearly identifies the Reporting Form and the individual sections (or data items) for which reasonable and limited assurance have been provided.

Refer to Appendix 4 of this Guidance Statement for illustrative examples of possible approaches to identify subject matter subject to reasonable and limited assurance.

165. Where the ADI Reporting Form over which assurance is to be provided at the financial year-end, is not the Reporting Form submitted on the due date in accordance with APRA’s reporting timetable, the appointed auditor needs to consider this issue when providing assurance on the design and operational effectiveness of controls over the reliability of Reporting Forms⁷⁹.

Reasonable Assurance on Specified ADI Reporting Forms - Data Sourced from Accounting Records (APS 310/3PS 310 - Part A)

Objective

166. The appointed auditor is required to provide reasonable assurance that information included in ADI Reporting Forms, as specified in Attachment A of APS 310, at the financial year-end, sourced from the ADI’s accounting records, is, in all material respects:
- (a) reliable; and
 - (b) in accordance with the relevant APRA Prudential and Reporting Standards.

Refer to Part A of the Example Annual Prudential Assurance Report in Appendix 4 of this Guidance Statement.

AUASB Standards

167. In performing the reasonable assurance engagement on Specified ADI Reporting Forms, the auditor complies with all Australia Auditing Standards relevant to a reasonable assurance engagement of other historical financial information, adapted as necessary in the circumstances of the engagement. In applying these standards, the auditor has regard to any special considerations identified in ASA 805 that may be relevant to the engagement.

Obtaining Evidence

168. To identify the ADI Reporting Forms, or data items in a Reporting Form, that are to be subjected to the assurance engagement (the subject matter), the appointed auditor applies the definition of accounting records to each item of data within each Reporting Form as specified in Attachment A of APS 310.
169. Having identified the ADI Reporting Forms, or data items within a Reporting Form, that are to be subjected to the reasonable assurance engagement, the auditor obtains sufficient appropriate evidence as part of a dynamic and iterative process⁸⁰, that includes:
- Obtaining an understanding of the Specified ADI Reporting Forms and individual data items included in these Reporting Forms, the intended use of the information included

⁷⁹ See paragraph 189 to 217 of this Guidance Statement.

⁸⁰ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

in the Reporting Forms by the intended users, and the Prudential Requirements applicable to the preparation and submission of Reporting Forms.

- Obtaining and understanding of the ADI's overall framework for managing data risk and data quality.⁸¹
 - Obtaining an understanding of the ADI's system of internal control, in particular, controls around managing data risk, and the compliance function relevant to the engagement and control objectives.
 - Evaluating the controls over the preparation and compilation of Reporting Forms.
 - Identifying and assessing the risk that information in Reporting Forms may be materially misstated.
 - Responding to assessed risks and determining the nature, timing and extent of further evidence-gathering procedures.
 - Performing further evidence-gathering procedures clearly linked to the identified risks.
 - Evaluating the sufficiency and appropriateness of evidence.
170. The appointed auditor exercises professional judgement in determining the nature, timing and extent of reasonable assurance procedures to gather sufficient appropriate evidence on which to base the reasonable assurance opinion.
171. A controls based assurance approach is often the most appropriate approach to adopt in these circumstances. However, where the appointed auditor determines that a material weakness exists in the ADI's internal controls designed to ensure reliable data is provided to APRA in Reporting Forms, and/or where the appointed auditor makes a determination based on effectiveness and/or efficiency, a substantive approach may be more appropriate (for example, for smaller Standardised ADIs).
172. Reasonable assurance procedures for obtaining evidence include, but are not limited to, testing of specific controls aimed at ensuring data in Reporting Forms is reliable and prepared in accordance with APRA Prudential Standards and Reporting Standards. Procedures may include a combination of enquiry and observation, testing of controls over the compilation of Reporting Forms, testing of controls over the extraction of data from the underlying accounting records (including all relevant year-end adjustments), and obtaining management representations.
173. The appointed auditor may decide to place reliance on work undertaken by the auditor appointed for the purpose of the audit of the general purpose financial report, required under the Corporations Act (the statutory audit), as the basis for opining on the reliability of the Specified ADI Reporting Forms, or data items included in these forms. However, the appointed auditor is still required to obtain additional evidence to ensure that the Reporting Forms, or data items in a Reporting Form:
- (a) have been appropriately extracted from the underlying accounting records (which were the subject of the statutory audit); and
 - (b) are in accordance with APRA's Prudential Standards and Reporting Standards (which may be different from the Australian Accounting Standards Framework used to record items in the ADI's underlying accounting and statutory records).

⁸¹ For example, refer to APRA Prudential Standard CPS 220 *Risk Management*, APRA Prudential Practice Guide CPG 235 *Managing Data Risk* and APRA Reporting Practice Guide RPG 702.0 *ABS/RBA Data Quality for the EFS Collection*.

174. Where reliance is being placed on work performed for the statutory audit, the appointed auditor ensures that events occurring subsequent to the date of signing the statutory accounts, but before the date of issuing the auditor's annual prudential assurance report, are taken into consideration in forming the opinion issued in the report.
175. Materiality is to be applied as outlined in paragraphs 110-131 of this Guidance Statement.

Limited Assurance on Specified ADI Reporting Forms - Data Sourced from Non-Accounting Records (APS 310/3PS 310 - Part B)

Objective

176. The appointed auditor is required to express a conclusion, based on a limited assurance engagement, on whether anything has come to the auditor's attention that causes the auditor to believe that information included in ADI Reporting Forms, as specified in Attachment A to APS 310, at the financial year-end, sourced from non-accounting records of the ADI, is not, in all material respects reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

Refer to Part B of the Example Annual Prudential Assurance Report in Appendix 4 of this Guidance Statement.

AUASB Standards

177. The appointed auditor conducts the limited assurance engagement on Specified ADI Reporting Forms in accordance with:
- (a) ASRE 2405 - for historical financial information;
 - (b) ASAE 3000 – for information other than historical financial information; and
 - (c) ASAE 3450 - for prospective financial information.
178. Prospective financial information generally includes forecasts and projections based on assumptions made by the ADI, in accordance with a stated basis of preparation. ASAE 3450 sets out the responsibilities of an assurance practitioner undertaking an engagement to report on prospective financial information. It identifies specific considerations in the application of ASRE 2405 and/or ASAE 3000, which may apply in the engagement circumstances. ASAE 3450 does not override the requirements of ASRE 2405 or ASAE 3000 and it does not purport to deal with all engagement circumstances.

Obtaining Evidence

179. All ADI Reporting Forms, or data items within Reporting Forms, as specified in Attachment A of APS 310, that have been excluded under paragraphs 166-175 above as not having been sourced from accounting records, are included in this section as the subject matter for the limited assurance engagement.
180. Having identified the subject matter, the appointed auditor obtains evidence as part of a dynamic and iterative process directed by the risk assessment carried out during the planning phase of the engagement. The auditor exercises professional judgement in determining the specific nature, timing and extent of limited assurance procedures to gather evidence on which to base the conclusion.
181. The Part B limited assurance engagement is substantially less in scope than the reasonable assurance engagement undertaken in paragraphs 166-175 in order to provide reasonable assurance under Part A of the Auditor's Annual Prudential Assurance Report. The limited assurance engagement procedures do not provide all the evidence required in a reasonable assurance engagement and, consequently, the level of assurance provided is less than that given in the reasonable assurance engagement.

182. Ordinarily, limited assurance procedures may include a review of specific controls aimed at ensuring Reporting Forms, and data in Reporting Forms, are reliable and prepared in accordance with APRA Prudential Standards and Reporting Standards. Limited assurance procedures may include analytical procedures, enquiry, limited testing of controls over the compilation of Reporting Forms, limited testing of controls over the extraction of data from the underlying source systems and obtaining management representations.
183. If the auditor has reason to believe that the subject matter information subject to limited assurance may be materially misstated, AUASB Standards require that the auditor carry out additional or more extensive procedures as are considered necessary to be able to express a limited assurance conclusion or to confirm that a modified report is required.
184. Materiality is to be applied as outlined in paragraphs 110-131 of this Guidance Statement.

Advanced ADIs

185. Under the advanced approaches for measuring capital adequacy, an Advanced ADI is permitted to use its own quantitative risk estimates in calculating regulatory capital. This involves a greater use of internal risk measurement models that generate the credit risk, operational risk, market risk and interest rate risk in the banking book (instead of the standardised risk assessments used by Standardised ADIs). As a result, under the advanced approaches, a smaller proportion of information contained in APRA's capital adequacy Reporting Forms is derived from accounting records.
186. At the planning stage of the engagement, the appointed auditor decides on the appropriate assurance approach to adopt in order to gather evidence to reduce the assurance engagement risk to an acceptable low level to provide limited assurance in relation to the reliability of Reporting Forms, or data items in a Reporting Form, which are sourced from the internal risk measurement models.
187. A controls based assurance approach is often the most appropriate approach to adopt in these circumstances. The appointed auditor gathers evidence regarding the internal control structure, and that key controls around the risk measurement models, as identified during the planning phase of the audit, are operating effectively to support the assurance conclusion.
188. In concluding on any data produced from the internal risk measurement models, the appointed auditor cannot place sole reliance on work performed by APRA, as part of the initial accreditation process for becoming an Advanced ADI or in any subsequent reviews undertaken by APRA.

Considerations – Assurance on Controls

Limited Assurance on Controls to ensure Compliance with Prudential Requirements and Reliability of ADI Reporting Forms (APS 310/3PS 310 – Part C)

Objective

189. The appointed auditor is required to express a conclusion, based on a limited assurance engagement, whether anything has come to the attention of the auditor to cause the auditor to believe that, in all material respects:
- (a) the ADI has not implemented internal controls that are designed to ensure the ADI has:
 - (i) complied with all applicable Prudential Requirements; and
 - (ii) provided reliable data to APRA in the ADI Reporting Forms prepared under the FSCODA; and

- (b) these controls have not operated effectively throughout the financial year.

Refer to Part C of the Example Annual Prudential Assurance Report in Appendix 4 of this Guidance Statement. APRA has advised that the form and content of this example report is adequate for the purpose of reporting under APS 310/3PS 310.

AUASB Standards

190. The appointed auditor conducts the limited assurance engagement related to internal controls in accordance with ASAE 3150.

Obtaining Evidence

191. Based on the auditor's understanding of the ADI and/or ADI group and its environment, risk management practices in place, and the internal control and compliance framework, as obtained for the purpose of planning the engagement, the auditor performs assurance procedures to respond to assessed risks in order to obtain limited assurance to support the auditor's conclusion.
192. The auditor generally adopts a 'top down' approach in gathering evidence by, for example, making enquiries of key personnel, observing the entity's operations, performing 'walk-through' tests of controls, and inspecting relevant documentation, in order to achieve the following:
- obtaining an understanding of the ADI's overall control environment and compliance framework;
 - identifying the systems, structures, policies, procedures and controls designed to ensure compliance with all applicable Prudential Requirements, by reviewing documents such as the ADI's RMS and similar policy documents prepared by the ADI in accordance with applicable Prudential Standards;
 - identifying the processes used by the entity to support the Board's annual declaration to APRA on risk management ("Risk Management Declaration"⁸²);
 - identifying the internal compliance functions designed to oversee the provision of data to APRA in ADI Reporting Forms;
 - identifying key controls over data risk management as stipulated by CPG 235;
 - identifying significant processes for the preparation of ADI Reporting Forms; and
 - identifying the key controls over these significant processes that are designed to ensure that reliable data is provided to APRA in ADI Reporting Forms.

The above is not an exhaustive list, nor is it intended to direct the auditor as to the conclusion over the ADI's internal controls.

193. The way in which internal control is designed and implemented varies with an ADI's size and complexity. Smaller ADIs may use less formal means and simpler processes to achieve their objectives.
194. Materiality is to be applied as outlined in paragraphs 110-114 and 132-138 of this Guidance Statement.

⁸² See Attachment A to APRA Prudential Standard CPS 220 *Risk Management*.

Design of Controls

195. The auditor determines which of the controls at the entity are necessary to achieve the relevant control objectives and whether those controls were suitably designed. Under ASAE 3150, this determination includes:
- (a) identifying the risks that threaten achievement of the control objectives;
 - (b) evaluating whether the controls as designed would be sufficient to mitigate those risks when operating effectively, in all material respects; and
 - (c) evaluating whether any changes in controls as designed during the period would be sufficient to mitigate those risks, in all material respects.
196. In assessing the suitability of the design of controls, ASAE 3150 requires the auditor, at a minimum, to:
- (a) make enquiries of management or others within the entity regarding how the controls are designed to operate; and
 - (b) examine the design specifications or documentation.
197. If the auditor becomes aware of a matter(s) that causes the auditor to believe that a material deficiency in the design of controls may exist, ASAE 3150 requires the auditor to design and perform additional assurance procedures until the auditor has obtained sufficient appropriate evidence to conclude on whether the design is suitable. However, the performance of such additional procedures shall not convert the engagement to a reasonable assurance engagement.

Implementation of Controls

198. The auditor obtains sufficient appropriate evidence that the controls identified as necessary to achieving the identified control objectives, were implemented as designed as at the specified date. The auditor's evaluation of the design of controls may influence the nature, timing and extent of assurance procedures related to implementation.
199. ASAE 3150 requires that:
- (a) the auditor's assurance procedures include, at a minimum, making enquiries and observation.
 - (b) If the auditor determines that additional assurance procedures, such as the inspection of records and documentation, are required to dispel or confirm a suspicion that a material deficiency in the implementation of controls exists, the performance of such additional procedures shall not convert the engagement to a reasonable assurance engagement.
 - (c) When designing and performing tests of implementation, the auditor determines whether controls implemented depend upon other controls (indirect controls) and, if so, whether it is necessary to obtain evidence supporting the implementation of those indirect controls.

Operating Effectiveness of Controls

200. Following the evaluation of whether the ADI has internal controls designed to achieve the relevant control objectives, the appointed auditor performs assurance procedures to obtain evidence about whether these controls have operated as designed throughout the financial year. The auditor may consider how the controls were applied, the consistency with which they were applied, by whom they were applied and the period over which the controls were applied.

201. In accordance with ASAE 3150, when reporting on operating effectiveness over the period, the auditor tests those controls that the auditor has determined are necessary to achieve the relevant control objectives, and assess their operating effectiveness throughout the period. The auditor's evaluation of the design of controls may influence the nature, timing and extent of tests of operating effectiveness. Evidence obtained in prior engagements about the satisfactory operation of "material controls" (as defined in the standard) in the prior periods does not provide a basis for a reduction in testing of those controls, even if it is supplemented with evidence obtained during the current period.
202. Assurance procedures to obtain evidence on operating effectiveness may include discussion with entity personnel (and obtaining written representations), observation of the system in operation, walk-through for an appropriate number of instances of material controls in operation, and ascertaining whether the person(s) performing the control(s) possesses the necessary authority and competence to perform the control(s) effectively, to identify any deviations from the specified design. The auditor may also consider limited re-performance of controls.
203. Alternatively, under ASAE 3150, the results of exception reporting, monitoring or other management controls may be examined to provide evidence about the operation of the control rather than directly testing it.
204. ASAE 3150 requires the auditor to apply professional judgement in determining the specific nature, timing and extent of procedures to be conducted, which will depend on the assessed risks of material deviations in the operating effectiveness of controls. If the auditor determines that additional assurance procedures are required to dispel or confirm a suspicion that a material deviation in the operating effectiveness of controls exists, the performance of such additional procedures shall not convert the engagement to a reasonable assurance engagement.
205. ASAE 3150 requires that where control procedures have changed during the period subject to examination, the auditor tests the operating effectiveness of both the superseded control(s) and the new control(s) and consider whether the new controls have been in place for a sufficient period to assess their effectiveness.
206. Although the auditor may consider the results of any tests of the operating effectiveness of controls conducted by the internal audit function when evaluating operating effectiveness, the auditor remains responsible for obtaining sufficient appropriate evidence to support the auditor's conclusion and, if appropriate, corroborate the results of such tests.
207. The appointed auditor enquires whether there were any changes in internal control, or other matters, subsequent to the financial year-end date and up to the date of the appointed auditor's assurance report, that may have an impact on the auditor's conclusion about the effectiveness of internal controls, and obtains written representations from management relating to such matters.
208. Interpretation of the word "reliable" in the context of reporting on controls in place to ensure reliable data is provided to APRA in ADI Reporting Forms throughout the financial reporting period, has practical limitations in some circumstances. For many ADIs, it is only at the financial year-end (or for ADIs that are disclosing entities, also at the half year-end) that all the necessary accounting adjustments, such as accruals, prepayments, provisioning and valuations, are prepared and subjected to audit or review. APRA is aware of this position and has indicated it accepts ADI Reporting Forms prepared throughout the year based on the ADI's normal accounting process.
209. For further requirements and guidance in relation to obtaining evidence on operating effectiveness of controls, including on the use of sampling for selecting controls for testing operating effectiveness over a period, refer to ASAE 3150.

Advanced ADIs

210. For an Advanced ADI, the appointed auditor furthermore considers the ADI's internal controls over the risk measurement models used to meet the requirements of specific Prudential Standards and to generate certain risk data provided to APRA in ADI Reporting Forms.
211. The appointed auditor undertakes an appropriate risk assessment of the controls over these models within the context of the stated assurance engagement objective, and plans the assurance engagement accordingly.
212. The appointed auditor obtains an understanding of any deficiencies in the models, identified either by APRA, the ADI, or through any independent review, and how such deficiencies have been addressed by the ADI.
213. In concluding on the controls over internal risk models, the appointed auditor cannot place sole reliance on the work performed by APRA during the accreditation process to become an Advanced ADI, or on reports issued as a result of any independent review required under specific Prudential Standards dealing with credit risk, operational risk, market risk and interest rate risk in the banking book⁸³. Under these Standards, APRA may require Advanced ADIs to obtain an independent review of the use of any internal models, statistical techniques, other methods relevant to estimating or assessing risks, and risk data inputs used.⁸⁴
214. The appointed auditor reviews any reports issued as a result of independent reviews. In drawing a conclusion on whether to use these reports, the appointed auditor has regard to the level of independence of the reviewer, and their qualifications and competency to carry out such a review. In making this assessment, the appointed auditor complies with the requirements of ASAE 3000 and ASAE 3150.⁸⁵
215. The appointed auditor makes enquiries about the overall system controls over such models, including controls that ensure the consistency and integrity of the models.
216. Assurance procedures over the models would ordinarily include a review of:
- (a) the control environment and general controls, including the IT function; and
 - (b) change controls (including limited testing).
217. Assurance procedures of data produced from the risk measurement models would ordinarily include a review of:
- (a) the key controls over inputs to the models; and
 - (b) how management review and use the data outputs from the models in ADI Reporting Forms.

Such assurance procedures may include making enquiries of management and persons operating the control(s), assessing whether such persons have the appropriate degree of skill and authority to effectively operate the control(s), observation, 'walk through' tests, limited

⁸³ For example, APS 117 *Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs)* includes a requirement for an independent review of the ADI's interest rate risk in the banking book management framework and measurement system, both initially at the time that approval is sought from APRA to use the model and, thereafter, on an ongoing basis (at least once every three years or when a material change is made to the framework).

⁸⁴ The scope of an independent review of an Advanced ADI's risk management framework, may cover the following:

- the accuracy of the analytics underlying the calculation of the risk adjusted regulatory capital, the outputs of the risk measurement model and the consistency of this methodology;
- assessment of the reasonableness of any assumptions made in the risk measurement model;
- the accuracy and adequacy of documentation supporting the quantitative aspects of the risk measurement system; and
- the continuing appropriateness and adequacy of the risk modelling approach given industry developments in the modelling of risk.

The scope of an independent review of the risk data inputs to the internal risk models (to ensure the continued quality of the data and the effectiveness of internal controls) ordinarily includes an assessment of the controls surrounding the data collection and maintenance processes, as well as data inspection.

⁸⁵ Also see paragraphs 141-146 of this Guidance Statement.

re-performance and analytical review of the resulting Reporting Forms, or data items in a Reporting Form.

Limited Assurance on Controls addressing Generation of SCV Data and FCS Payment Instruction and Reporting Information (APS 910)

Objective

218. The appointed auditor is required to express a conclusion, based on a limited assurance engagement, whether anything has come to the attention of the auditor to cause the auditor to believe that, for the financial year, in all material respects:
- (a) the ADI has not implemented internal controls that are designed to ensure that SCV data as set out in APS 910 Attachment A, to the extent practicable, and FCS payment instruction and reporting information can be relied upon as being complete and accurate and in accordance with APS 910; and
 - (b) these controls have not operated effectively when tested.

Refer to Appendix 5 of this Guidance Statement for an Example Annual Prudential Assurance Report for engagements undertaken pursuant to APS 910.

AUASB Standards

219. The appointed auditor conducts the limited assurance engagement for APS 910 related to internal controls in accordance with ASAE 3150.

Obtaining Assurance Evidence

220. Under APS 310/3PS 310, the appointed auditor is required to perform a limited assurance engagement on the design, implementation and operating effectiveness of internal controls to ensure compliance with *all* Prudential Requirements⁸⁶, which includes compliance with the requirements of APS 910.
221. APS 910 identifies additional requirements for the appointed auditor to perform a limited assurance engagement on an ADI's controls to ensure that SCV data as set out in APS 910 Attachment A, to the extent practicable, and FCS payment instruction and reporting information can be relied upon as being complete and accurate and produced in a timely manner in accordance with the requirements specified in APS 910.
- Appendix 5 (see Attachment 3 to the example report, entitled: *Control Objectives and Evaluation Criteria*) of this Guidance Statement outlines the applicable control objectives for the engagement, used by the auditor to evaluate the ADI's compliance with APS 910 requirements.
222. In practice, the auditor's annual APS 310/3PS 310 assurance engagement on controls (Part C) factors in all APS 910 requirements with which the ADI is expected to be compliant. This approach allows the timing of the APS 910 engagement to be aligned with routine assurance work undertaken pursuant to APS 310/3PS 310.
223. Limited assurance procedures selected depend on the auditor's judgement, including assessment of the risks of a material breakdown in controls. In making those risk assessments, the auditor considers internal control systems and compliance functions relevant to ensuring compliance with APS 910 and, specifically, the requirements in relation to SCV data and FCS payment instruction and reporting information, in order to design limited assurance procedures that are appropriate in the circumstances.

⁸⁶ Part C of the APS 310/3PS 310 engagement – see paragraphs 190-218.

224. The limited assurance engagement in relation to APS 910 controls may include making enquiries of management and those responsible for the controls, examination of design specifications and documentation on a sample basis, observation of implementation and operation of the controls, events or business routines implemented by the ADI, as well as testing practices and results, ‘walkthrough’ of controls, and review of reports required under APS 910⁸⁷.
225. In applying the terms “complete” and “accurate” to the controls engagement, the auditor has regard to definitions and guidance provided by APRA in CPG 235. Refer to Appendix 5 of this Guidance Statement (see Attachment 3 to the example report, entitled: *Control Objectives and Evaluation Criteria*).
226. For guidance on how the term “to the extent practicable” is to be interpreted, the auditor refers to guidance provided by APRA in its August 2013 *Information Paper: Financial Claims Scheme for authorised deposit-taking institutions* and under *Financial Claims Scheme Frequently Asked Technical Questions for ADIs*, which can be accessed on APRA’s website.⁸⁸ Refer to Appendix 5 of this Guidance Statement (see Attachment 4 to the example report, entitled: *Additional Guidance*).
227. The phrase “to the extent practicable” applies to those limited circumstances and/or customers where it may not be possible or practical for an ADI to meet all the requirements of APS 910 or the Banking Act, despite best endeavours.⁸⁹ Where possible, it is expected that the underlying assurance objective be met in full. This guidance is principle-based and does not limit the application of the auditor’s professional judgement.
228. Under APS 910, the appointed auditor is required to perform limited assurance procedures to evaluate whether the ADI’s controls operated effectively *when tested* by the ADI in accordance with the testing requirements specified in APS 910⁹⁰. In addition, when conducting the audit, the auditor must undertake their own tests of the controls and must provide limited assurance that, when tested by the auditor, the controls operated effectively. The auditor will need to collect sufficient and appropriate evidence when forming their conclusions about the ADI’s controls.⁹¹

Considerations - Foreign ADIs⁹²

229. Prudential Requirements for foreign ADIs (branches) may differ from those of locally incorporated ADIs⁹³ and, consequently, these are considered by the appointed auditor. For example, foreign ADIs are not required to report in Australia with respect to branch capital adequacy. However, the Banking Act authority restricts the source and quantum of deposits that foreign ADIs may accept. In addition, APRA has set guidelines relating to the manner in which foreign ADIs inform depositors of the requirements of the Banking Act that do not apply to those ADIs. The appointed auditor reports to APRA on the foreign ADI’s compliance with all relevant Prudential Requirements.

⁸⁷ For example, refer to paragraph 20 of APS 910 and the [Approved forms for payments and reports: Financial Claims Scheme for authorised deposit-taking institutions \(August 2013\)](#).

⁸⁸ Refer to APRA’s website, <https://www.apra.gov.au/industries/authorised-deposit-taking-institutions>:

- *Information Paper: Financial Claims Scheme for authorised deposit-taking institutions*, August 2013, paragraph 37 on page 11.
- *Financial Claims Scheme – Frequently Asked Technical Questions for ADIs*, under *Section 3 Clearance* (Question 3.1, March 2014) and *Section 12 – Single Customer View (SCV)* (Question 12.2, March 2014).

⁸⁹ For example, where an ADI has been unable to obtain or update data required to be provided by a retail customer, and the ADI has exhausted all practical steps to contact the customer.

⁹⁰ See paragraph 25 of APS 910, which requires an ADI to undertake testing in accordance with a testing schedule specified by APRA in writing. Guidance on “when tested” can be found on APRA’s website: <https://www.apra.gov.au/financial-claims-scheme-frequently-asked-technical-questions-for-authorised-deposit-taking> under Question 13.2.

⁹¹ Refer to APRA’s website: <https://www.apra.gov.au/financial-claims-scheme-frequently-asked-technical-questions-for-authorised-deposit-taking>, Question 2.4 (November 2013).

⁹² “foreign ADIs” is defined in paragraph 28(i) of this Guidance Statement.

⁹³ Which includes a locally incorporated subsidiary of a foreign ADI.

230. APRA requires the appointed auditor of a foreign ADI to conform to APS 310⁹⁴ and other relevant Prudential Requirements as they apply to foreign ADIs. The appointed auditor of a foreign ADI considers the individual engagement requirements and circumstances at the foreign ADI when interpreting the guidance contained in this Guidance Statement.
231. As part of the requirements under APS 310, the appointed auditor of a foreign ADI (branch) is required to provide reasonable assurance over data sourced from accounting records, included in ADI Reporting Forms such as the “Statement of Financial Performance” and “Statement of Financial Position”⁹⁵
232. As a foreign ADI is not required to prepare a financial report under the Corporations Act, there is no requirement for a statutory financial report audit to be undertaken. Therefore, the accounting records of a foreign ADI would not generally be subjected to a full scope audit, unless the branch is included in the scope of the foreign ADI group audit, where the audit arrangements will be driven by head office audit requirements and applying materiality relevant to the entire group.
233. Since, generally, the appointed auditor of a foreign ADI has incomplete knowledge of the overseas operations of the foreign ADI, and would not have undertaken the statutory financial report audit of the foreign ADI, the appointed auditor considers the following additional matters (this is not a complete list):
- The reliance to be placed on work performed by overseas auditors (such as comfort or assurance in relation to systems and processes hosted offshore which impact the foreign ADI’s (branch’s) prudential reporting) and the requirements of ASA 600.
 - The financial reporting framework applied by the foreign ADI for head office (group) reporting and whether adjustments are required to comply with APRA Prudential Requirements.
 - Assessing materiality for APRA prudential reporting purposes, which may differ from materiality considerations for the purpose of head office (group) reporting.
 - The requirements of Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor’s Report*, in particular, where sufficient appropriate evidence cannot be obtained.
 - In the first year of reporting, the requirements of Auditing Standard ASA 510 *Initial Audit Engagements – Opening Balances*, in particular, with respect to the level of assurance which can be provided over opening balances.

Evaluation of Findings

Reporting on Specified ADI Reporting Forms

234. The auditor accumulates uncorrected misstatements identified during the engagement, other than those that are clearly trivial, for the purpose of evaluating whether, individually or in aggregate, they are material to the reported information. Materiality is to be applied in the context of paragraphs 110-131 of this Guidance Statement.
235. In evaluating whether uncorrected misstatements in Specified ADI Reporting Forms are material, the appointed auditor complies with the requirements of AUASB standards ASA 450⁹⁶, ASRE 2405, ASAE 3000 and ASAE 3450, as applicable. The appointed auditor

⁹⁴ For example, under APS 310, auditors are required to provide a consistent level of assurance for foreign ADIs and locally incorporated ‘stand-alone’ ADIs.

⁹⁵ Refer to Attachment A of APS 310 for a complete list of foreign ADI Reporting Forms to be subjected to a reasonable and/or limited assurance engagement.

⁹⁶ ASA 450 *Evaluation of Misstatements Identified during the Audit*.

exercises professional judgement, having regard to both the user and intended users of the information in the Reporting Forms, and taking into consideration the risk of issuing an inappropriate assurance report.

236. The magnitude of a misstatement alone is only one factor used to assess the misstatement. The appointed auditor evaluates each identified misstatement in the context of information relevant to users of the Reporting Form, by considering qualitative factors and the circumstances in which each misstatement has been made. For example, in evaluating identified misstatements, the appointed auditor has regard to factors such as the level of the ADI's buffer above the particular minimum Prudential Requirements (determined under periodic quantitative calculations) and the sensitivity of these buffers to fluctuations in the ADI's financial performance and position.
237. The appointed auditor may designate an amount below which misstatements would be clearly trivial and need not be accumulated, because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the reported subject matter information.⁹⁷ In doing so, the appointed auditor needs to consider the fact that the materiality of misstatements involves qualitative as well as quantitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the reported information.
238. In evaluating whether identified misstatements are material, the auditor will consider the criteria used by APRA and the Agencies to determine the need for resubmission of data. For example, in accordance with RPG 702.0 guidance, reporting entities are to notify APRA of all reporting errors based on the data quality benchmarks specified in RPG 702.0 and states that, depending on the size of the reporting entity and the potential impact on the Agencies' use of the data, APRA, in consultation with the Agencies, may require the data to be resubmitted.
239. Further, where errors have occurred in relation to EFS reporting that exceed the RPG 702.0 data quality benchmarks, this may be indicative of a control environment that is not appropriately designed or operating effectively. In these instances, the auditor would be expected to assess the nature of the error, whether deficiencies in the control environment contributed to the error, and what subsequent changes have occurred (if any) to address such deficiencies. Where such deficiencies exist, the significance of these would need to be considered against Parts A, B and C of the APS 310/3PS 310 opinion and conclusions.
240. In circumstances where the appointed auditor conclude that information reported in ADI Reporting Forms is not in accordance with the relevant APRA Prudential and Reporting Standards, the appointed auditor discusses the matter with management and, depending how it is resolved, determines whether, and how, to communicate the matter in the auditor's assurance report.

Reporting on Internal Controls

241. ASAE 3150 sets out the requirements and provides guidance to the appointed auditor to assist in evaluating evidence and forming a conclusion on controls.
242. In accordance with ASAE 3150, the appointed auditor accumulates uncorrected:
- (a) deficiencies in the suitability of the design of controls to achieve the relevant control objectives;
 - (b) deficiencies in the implementation of controls as designed; and
 - (c) deviations in the operating effectiveness of controls as designed.

⁹⁷ See ASAE 3000, paragraph A120.

243. The appointed auditor evaluates, individually and in aggregate, whether internal control deficiencies and deviations that have come to the auditor's attention are material. The auditor exercises professional judgement, having regard to the intended users of the auditor's assurance report. Materiality is to be applied in the context of paragraphs 110-114 and 132- 138 of this Guidance Statement.
244. In evaluating the severity of identified internal control deficiencies, the appointed auditor considers, based on materiality:
- (a) the likelihood that the relevant internal controls may fail to prevent or detect:
 - (i) non-compliance with a Prudential Requirement; or
 - (ii) a misstatement in the data being provided to APRA in ADI Reporting Forms; and
 - (b) the magnitude of the potential resulting non-compliance with a Prudential Requirement on the ADI's overall compliance with applicable Prudential Requirements; and
 - (c) the magnitude of the potential misstatement resulting from the internal control deficiency on the information reported in the ADI Reporting Forms.
245. The evaluation of the severity of a deficiency in internal control does not depend on whether a misstatement or non-compliance with a Prudential Requirement has actually occurred, but rather the likelihood that the ADI's controls may fail to prevent or detect a material misstatement or material non-compliance with a Prudential Requirement.
246. As noted above, the auditor is not required to use RPG 702.0 benchmarks as materiality thresholds for planning the scope of the assurance engagement. However, where the auditor identifies reporting errors as defined by RPG 702.0 it is expected that this be taken into consideration in assessing the adequacy of the design, implementation, and operating effectiveness of controls around data quality.
247. The auditor considers how the ADI has incorporated RPG 702.0 thresholds and other relevant guidance, for example CPG 235, into their data risk management processes. Should an ADI identify errors that have occurred in relation to EFS reporting that exceed the data quality benchmarks, this may be indicative of a control environment that is not appropriately designed, implemented or operating effectively to ensure entities have provided reliable data to APRA. In these instances, the auditor would be expected to assess the nature of the error, whether deficiencies in the control environment contributed to the error, and what subsequent changes have occurred (if any) to address such deficiencies and/or deviations. Where such deficiencies exist, the significance of these would need to be considered against Parts A, B and C of the APS 310/3PS 310 opinion and conclusions.
248. EFS reporting introduces new concepts and data that may not, historically, have been subject to an ADI's risk management framework in accordance with the expectations of RPG 702.0 and CPG 235. Therefore, whilst an ADI may have implemented additional processes and controls that address the reliability of information for the front book, for example, loans originated since the implementation of EFS reporting, the accuracy of the back book (existing portfolio) with respect to RPG 702.0 and CPG 235 remains uncertain. In these instances, the auditor will need to assess the significance of the matter and its impact on Parts B and C of the APS 310 conclusion.
249. Resubmission of data and reporting forms by an entity will require the auditor to exercise professional judgement, taking into consideration the nature and cause of the resubmission, in evaluating whether misstatements are material or if the resubmissions are indicative of a control environment that is not appropriately designed, implemented or operating effectively to ensure entities have provided reliable data to APRA.

250. Generally, the occurrence of even a single resubmission of a material nature due to error, or multiple non-material resubmissions of a recurring nature, may indicate a weak or inadequate control environment exists and, hence, may require modification of the Part C conclusion and, potentially, also the Part A opinion and Part B conclusion, where the impacted forms include Specified ADI Reporting Forms.
251. Notwithstanding, there may be instances where an ADI will resubmit reporting forms for reasons other than an error associated with its reporting process, such as changes or clarifications in APRA interpretations. Where resubmissions are not the result of errors, the auditor may determine that there is no impact on the opinion, with reporting of resubmissions limited to an appendix to the APS 310/3PS 310 report.
252. Where material breakdowns in controls are identified which results in a modification⁹⁸ to Part C of the auditor's conclusion, the auditor will need to assess the impact on procedures performed under Parts A and B of the APS 310/3PS 310 engagement. There may be instances where the auditor is able to perform additional substantive procedures to address the risks associated with a control deficiency and/or deviation that will support an unmodified opinion for Parts A and B of the report, but result in a qualification to Part C.

Reporting on Compliance with Prudential Requirements

253. The auditor accumulates instances of non-compliance, other than those that are clearly trivial, identified in undertaking the reasonable and limited assurance engagements on Specified ADI Reporting Forms (Parts A and B) and the limited assurance engagement on internal controls (Part C), in order to form a conclusion.
254. The APS 310/3PS 310 requirement to report matters of non-compliance to APRA on an annual basis, is in addition to the reporting obligations under section 16BA of the Banking Act, which requires certain matters to be reported to APRA immediately and certain other matters to be reported to APRA as soon as is practicable.⁹⁹
255. In determining whether a failure to comply with Prudential Requirements is or will be significant, the appointed auditor considers the factors listed in subsection 16BA(7) of the Banking Act, namely:
- (a) the number or frequency of similar failures;
 - (b) the impact the failure has or will have on the ADI's ability to conduct its business;
 - (c) the extent to which the failure indicates that the ADI's arrangements to ensure compliance with the Banking Act, the Prudential Standards or the Regulations might be inadequate;
 - (d) the actual or potential financial loss arising, or that will arise from the failure, to the depositors of the ADI or to the ADI; and
 - (e) any matters prescribed by the Regulations for the purposes of this subsection of the Banking Act.
256. The significance of a matter is to be judged by the appointed auditor in the context in which it is being considered, taking into account both quantitative and qualitative factors. This may, for example, include consideration of the significance of the potential impact of the non-compliance rather than the actual impact.

⁹⁸ For example, qualification of conclusion, adverse conclusion and disclaimer of conclusion. See ASAE 3150, paragraphs 84 and 87.

⁹⁹ Refer to section 16BA of the Banking Act.

257. Furthermore, it is possible that an instance of non-compliance, which is not significant in isolation, may become so when considered in totality with other identified instances of non-compliance.
258. Where the appointed auditor considers identified instances of non-compliance as being potentially significant to the ADI as a whole and/or to its depositors' interests, or where the matter may be considered important by APRA in performing its functions under the Act, then the identified instance of non-compliance is a matter to be reported to APRA.
259. Matters likely to prejudice materially the interests of depositors are related generally to capital adequacy, solvency and going concern matters, for example, the ADI's compliance with minimum capital levels as per APRA Prudential Standard APS 110. In assessing whether the interests of depositors may be prejudiced materially, the appointed auditor considers not only a single activity or a single deficiency in isolation, as depositors' interests may be prejudiced materially by a number of activities or deficiencies which, although not individually material, do amount to a material threat when considered in totality. Similarly, it is possible that a breach in compliance, although not significant in isolation, may become so when considered in the context of other possible breaches.
260. In order to conclude on an ADI's and/or ADI group's compliance with all relevant Prudential Requirements, the appointed auditor considers the existence of relevant matters, that may indicate instances of non-compliance, throughout the reporting period and up to the date of signing the auditor's assurance report.
261. The appointed auditor's review of subsequent events may include the following procedures:
- reading minutes of the ADI's Board, as well as minutes of any sub committees responsible, for example, for compliance and audit, held after balance date and enquiring about matters discussed at these meetings for which minutes are not yet available;
 - examining the ADI's breach registers up to the date of the auditor's assurance report; and
 - enquiring of the ADI's management as to whether any subsequent events have occurred which might represent non-compliance with relevant Prudential Requirements.
262. The appointed auditor reports instances of significant non-compliance which have not previously been reported to APRA by the appointed auditor. This will include matters the ADI indicated it was notifying, and which an auditor relied upon as a reason for the auditor not notifying APRA.¹⁰⁰

Inherent Limitations of the Engagement

263. Due to the inherent limitations of any internal control and compliance framework it is possible that, even if controls are suitably designed and operating effectively, the control objectives may not be achieved and that fraud, errors, or non-compliance with Prudential Requirements may occur and not be detected. As the systems, procedures and controls to ensure compliance with Prudential Requirements are part of the ADI's operations, it is possible that either the inherent limitations of the internal control structure, or weaknesses in it, may impact on the effective operation of the ADI's specific control procedures.
264. Further, due to the nature of assurance engagement procedures and other inherent limitations of a these engagements, there is a possibility that a properly planned and executed engagement

¹⁰⁰ Under subsections 16BA(5) and 16BA(10) of the Banking Act, an auditor is not required to notify APRA of matters that have been brought to the auditor's attention by the ADI, where the auditor is informed that APRA has been notified of the matter in writing by the ADI and the auditor has no reason to disbelieve the ADI.

may not detect all errors or omissions in ADI Reporting Forms, deficiencies and/or deviations in controls, or instances of non-compliance with Prudential Requirements.

265. As explained in ASAE 3000, a limited assurance engagement is substantially less in scope than a reasonable assurance engagement. In a reasonable assurance engagement, as the auditor's objective is to provide a high, but not absolute, level of assurance, the auditor uses more extensive audit procedures than in a limited assurance engagement. A limited assurance engagement therefore does not provide all the evidence required in a reasonable assurance engagement and, consequently, the level of assurance provided is less than that given in a reasonable assurance engagement.
266. The appointed auditor performs procedures appropriate to provide limited assurance in relation to internal controls existing at the date of the engagement, and whether those controls have operated as documented throughout the financial year. Projections of any evaluation of internal control procedures or compliance measures to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions after the auditor's annual prudential assurance report is signed, or that the degree of compliance may deteriorate. Furthermore, assurance engagement procedures on accounting records and data relied on for reporting and compliance are not performed continuously throughout the period and procedures performed are undertaken on a test basis only.
267. Consequently, there are inherent limitations on the level of assurance that can be provided.

Written Representations

268. Prior to issuing the auditor's annual prudential assurance report, the appointed auditor considers obtaining written representations¹⁰¹ from responsible management and, where appropriate, those charged with governance of the ADI and/or ADI group, as are considered appropriate to matters specific to the ADI and/or ADI group. Separate representation letters may be requested for the purposes of reporting under APS 310, 3PS 310 and APS 910.
269. These written representations are generally in the form of a representation letter. In obtaining and using these written representations, the appointed auditor complies with the requirements of, as appropriate, AUASB standards ASA 580¹⁰², ASRE 2405, ASAE 3000, ASAE 3150 and ASAE 3450.
270. Refer to Appendix 3 of this Guidance Statement for an illustrative example of the format of a representation letter, as well as examples of representations that may be considered appropriate in the specific engagement circumstances.

Communication with Those Charged with Governance

271. It is the responsibility of the appointed auditor to make the ADI aware, as soon as practicable, of any identified material misstatements in ADI Reporting Forms, material deficiencies and/or deviations in internal controls and instances of material non-compliance arising from the prudential reporting engagement.
272. Such communications are made as soon as practicable, either orally or in writing. The appointed 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, the appointed auditor needs to document the communication.

¹⁰¹ Including written confirmation of significant oral representations.

¹⁰² ASA 580 *Written Representations*.

273. When, in the appointed auditor's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the appointed auditor considers whether to modify the auditor's annual prudential assurance report.
274. It is important that the appointed auditor understands their additional statutory responsibilities to report certain matters to APRA under the Banking Act. Failure to notify APRA as required represents criminal offences, which attracts criminal penalties.¹⁰³
275. Material findings (misstatements, control deficiencies and/or deviations and non-compliance) are reported to APRA and the ADI's Board (or Board Audit Committee) as modifications to the appointed auditor's assurance report.
276. Under Auditing Standard ASA 260 *Communication with Those Charged With Governance*, ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* and ASAE 3000, the appointed auditor communicates relevant matters of governance interest arising from the engagement to those charged with governance on a timely basis. Examples of such matters may include:
- The general approach and overall scope of the engagement, or any additional requirements.
 - Fraud or information that indicates that fraud may exist.
 - Significant deficiencies and/or deviations in internal controls identified during the engagement. A significant deficiency is a deficiency or combination of deficiencies in internal control relevant to the engagement that, although not material, in the appointed auditor's professional judgement is of sufficient importance to merit the attention of those charged with governance.
 - Disagreements with management about matters that, individually or in aggregate, could be significant to the engagement.
 - Expected modifications to the auditor's prudential assurance report.
277. The appointed auditor informs those charged with governance of the ADI of those uncorrected misstatements, other than clearly trivial amounts, aggregated by the appointed auditor during and pertaining to the engagement that were considered to be immaterial, both individually and in the aggregate, to the assurance engagement.
278. Under APS 310 and 3PS 310, if requested by APRA, the appointed auditor submits directly to APRA all assessments and other material associated with the auditor's report, such as management letters issued by the appointed auditor to the ADI which contain material findings relating to the auditor's prudential assurance report(s).

The Appointed Auditor's Annual Prudential Assurance Report

279. The appointed auditor evaluates the conclusions drawn from the evidence obtained in conducting the assurance engagement as the basis for the auditor's opinion/conclusions as required under APS 310, 3PS 310 and APS 910, as applicable.
280. If the appointed auditor:
- (a) concludes that a material misstatement, internal control deficiency or deviation, and/or non-compliance exists; or

¹⁰³ Refer to sections 16B and 16BA of the Banking Act.

- (b) is unable to obtain sufficient appropriate assurance evidence to conclude whether a material misstatement, internal control deficiency or deviation, and/or non-compliance may exist,

the appointed auditor modifies their opinion/conclusions, and includes a clear description of the reasons in their assurance report, in accordance with the requirements of, as appropriate, ASA 705 and other applicable AUASB Standards.¹⁰⁴

281. As required under APS 310, 3PS 310 and APS 910, the appointed auditor of an ADI and ADI Group generally reports simultaneously to APRA and the ADI's Board (or Board Audit Committee)¹⁰⁵, within three¹⁰⁶ months of the end of the financial year of the ADI.
282. In accordance with the requirements of APS 310 and 3PS 310, where an ADI is the head entity of a Level 2 or Level 3 group, the auditor issues either separate reports for, as applicable, Level 1, Level 2 and Level 3, or a combined report for the ADI (head entity) and the group. The auditor's report must make it clear where the auditor is referring to matters relating to the ADI (head entity) or the group.
283. To avoid the possibility of the assurance report being used for purposes for which it was not intended, the appointed auditor ordinarily indicates in the auditor's report the purpose for which the report is prepared and any restrictions on its distribution and use.

Format of Auditor's Annual Prudential Assurance Report(s)

284. The appointed auditor prepares the prudential assurance report(s) in accordance with the relevant AUASB Standards applicable to each part of the engagement. AUASB Standards do not prescribe a standardised format for reporting on all assurance engagements. Instead, these Standards identify the basic elements¹⁰⁷ required to be included in the assurance report. The 'short form' auditor's report ordinarily includes only the basic elements.
285. Assurance reports are tailored to the specific assurance engagement circumstances. Although not specifically required, the appointed auditor may consider it appropriate to include other information and explanations that do not directly affect the auditor's opinion/conclusions, but provide additional useful information to the users (that is, a 'long form' style of reporting). The inclusion of this information depends on its significance to the needs of the intended users. The following are examples of additional information that may be considered for inclusion:
- Disclosure of materiality considerations (materiality levels) applied.
 - Significant findings or exceptions relating to aspects of the assurance engagement.
 - Recommendations.
286. The appointed auditor needs to ensure that this additional information is clearly separated from the auditor's opinion/conclusions, and worded in a manner to ensure that it does not affect the opinion/conclusions. This can be achieved, for example, by including any additional information in a:
- (a) separate appendix to the auditor's short form assurance report; or

¹⁰⁴ For example, refer to ASAE 3150, paragraphs 84-87.

¹⁰⁵ Or, for a foreign ADI, a senior officer outside Australia to whom authority has been delegated in accordance with CPS 510, for overseeing the Australian operations.

¹⁰⁶ For a non-disclosing ADI, the relevant period is four months.

¹⁰⁷ ASAE 3000 (paragraph 30) and ASAE 3150 (paragraph 27) permit an alternative form of assurance report where this is prescribed by regulation and the intended users would not misunderstand the alternative form. As APRA has agreed the prescribed form of the assurance report for the purposes of APS 310 and APS 910 engagements and is also the intended user, the form of the assurance report set out in Appendix 4 and Appendix 5 is taken to be in accordance with the requirements of ASAE 3150.

- (b) separate section of the auditor's short form assurance report, under an appropriate heading.¹⁰⁸

This will enable users to clearly distinguish this additional information from the auditor's responsibility to report on the matters identified in APS 310/3PS 310 and APS 910, if applicable.

287. Refer to Appendix 4 of this Guidance Statement for an illustrative example of the auditor's annual prudential assurance report, prepared pursuant to APRA's APS 310 and 3PS 310 annual reporting requirements. The format and content of this report has been approved by APRA as adequate for the purpose of reporting under APS 310/3PS 310.

APS 910 Assurance Report

288. APRA requires the timing of the annual APS 910 engagement to be aligned with the annual APS 310 engagement. Although there will be some overlap between APS 310/3PS 310 and APS 910 engagements, APRA's preference is that separate reports be prepared for the APS 310/3PS 310 and APS 910 engagements. APRA indicated that this single report facilitated clearer communication with respect to APS 910 matters. The requirement is for these reports to be submitted to APRA at the same time.
289. Therefore, all APS 910 requirements (compliance and controls) are aggregated into a separate APS 910 auditor's report and, to avoid duplication, are excluded from the APS 310 report.
290. Where the APS 910 auditor's report is modified, this is referred to in the APS 310/3PS 310 auditor's report and may lead to a modification of the APS 310/3PS 310 auditor's report.
291. Refer to Appendix 5 of this Guidance Statement for an illustrative example of the auditor's annual prudential assurance report, prepared pursuant to APRA's APS 910 annual reporting requirements. The format and content of this report has been approved by APRA as adequate for the purpose of reporting under APS 910.

Special Purpose Engagements

APRA Prudential Reporting Requirements

292. APRA may require an ADI, by notice in writing, to appoint an auditor, who may be the existing auditor or another auditor, as specified in APRA's notice, to undertake an assurance engagement of:
- (a) under APS 310/3PS 310, a particular aspect of the ADI's and/or the ADI group's operations, prudential reporting, risk management systems or financial position; and/or
 - (b) under APS 910, an ADI's SCV systems and data, and the systems used to generate and transmit FCS payment instruction and reporting information.
293. The APRA requirement for an auditor to undertake a special purpose engagement constitutes a separate reporting engagement. The details of the engagement will normally be the subject of a specific request from APRA to the ADI. A separate engagement letter will be issued based on that request.
294. The appointed auditor's special purpose engagement assurance report is generally to be submitted simultaneously to APRA and those charged with governance of the ADI and/or ADI group, within three months of the date of the notice commissioning the report, unless otherwise determined by APRA, and advised to the ADI by notice in writing.

¹⁰⁸ See examples of assurance reports included in *Appendix 6* of ASAE 3100.

Terms of the Engagement

295. Following the determination by APRA of the specific area to be examined, the appointed auditor, APRA and the ADI agree on the terms of the engagement in accordance with the requirements of applicable AUASB Standards. These arrangements are legally binding and include the required terms of engagement specified in APS 310, 3PS 310 and APS 910, as appropriate.
296. The appointed auditor accepts the engagement only when satisfied that relevant ethical requirements relating to the assurance engagement have been met. The concept of independence is important to the appointed auditor's compliance with the fundamental ethical principles of integrity and objectivity and the auditor must be able to meet the independence requirements stipulated under both CPS 510 and ASA 102. Furthermore, the auditor needs to satisfy the fitness and propriety requirements specified in CPS 520.
297. An engagement letter¹⁰⁹ confirms both the client's and the appointed auditor's understanding of the terms of the engagement, helping to avoid misunderstanding, and the auditor's acceptance of the appointment. Both parties sign the engagement letter to acknowledge that it is a legally binding contract.
298. To ensure that there is a clear understanding regarding the terms of the engagement, the following are examples of matters to be agreed:
- APRA is to identify the scope of the ADI's operations, prudential reporting, risk management or financial position to be the subject of the engagement.
 - The appointed auditor, APRA and the ADI are to agree on the objectives of the engagement, key features and criteria of the area(s) to be examined, and the period to be covered by the engagement.
 - APRA is to identify clearly the level of assurance required, that is, limited or reasonable assurance.
 - The format of reports required (for example, long and/or short form reports) or other communication of results of the engagement.
 - Responsibility of those charged with governance for the subject matter of the engagement.
 - Understanding of the inherent limitations of an assurance engagement.

Format of Reporting Requirements

299. The appointed auditor has regard to the requirements, guidance and illustrative examples of reports provided in relevant AUASB Standards - ASAs, ASREs and ASAEs, as applicable, when preparing the special purpose assurance report. These Standards do not require a standardised format for special purpose reporting under APS 310, 3PS 310 or APS 910. Instead, these Standards identify the basic elements to be included in the auditor's report. The format of the special purpose assurance report may vary depending on the type of engagement: that is, reasonable or limited assurance, as well as the subject matter and the findings.
300. Ordinarily, the appointed auditor adopts a long form style of reporting and the report may include a description of the terms of the engagement, materiality considerations applied, the assurance approach, findings relating to particular aspects of the engagement and, in some cases, recommendations.

¹⁰⁹ Or other suitable form of written agreement.

301. The appointed auditor's assurance report is to be restricted to the parties that have agreed to the terms of the special purpose engagement, namely the ADI and APRA, as well as other parties that APRA is lawfully entitled to share the information with.

Additional Reporting Requirements under the Banking Act

302. It is important that the auditor of an ADI recognises and understands their additional responsibilities under sections 16B, 16BA and 16C of the Banking Act, imposed on *any* auditor¹¹⁰ of an ADI, an authorised NOHC, or their subsidiaries, to provide information to APRA upon request, or where the auditor possesses reportable information specified in that Act, or where the auditor considers that the provision of information would assist APRA in performing its functions under the Banking Act or the FSCODA. Failure to notify APRA as required represent criminal offences, which attracts criminal penalties.¹¹¹
303. Under the Banking Act, these matters are to be reported to APRA in writing and within specified time periods.
304. Sections 16B, 16BA and 16C of the Banking Act is applicable to all and any auditor of an ADI, authorised NOHCs, or their subsidiaries, not only to auditors appointed by an ADI to meet the prudential requirements under APS 310.
305. In relation to reporting under sections 16B and 16BA of the Banking Act, there is no requirement for the appointed auditor of an ADI to carry out additional work to satisfy the auditor with respect to the above matters. The appointed auditor reports to APRA on the basis of, for example:
- (a) information obtained during the course of the auditor's financial report audit [and review] under the Corporations Act;
 - (b) additional reasonable and limited assurance procedures undertaken for APRA prudential reporting purposes (pursuant to APS 310 and 3PS 310, or in accordance with the requirements of another specific APRA Prudential Standard);
 - (c) other audit work undertaken at the ADI (for example, Australian Financial Services Licence audits); and
 - (d) the appointed auditor's current knowledge of the ADI's affairs at the time of issuing the auditor's assurance report.
306. In circumstances where the appointed auditor identifies that a reportable matter may exist, the auditor carries out such additional work as considered appropriate, to determine whether the facts and circumstances provide reasonable grounds for believing that the matter does in fact exist. In reaching this conclusion, the auditor exercises professional judgement and seeks appropriate legal advice if necessary.
307. The ADI may also notify APRA of the matter(s) identified by the appointed auditor, and provide details of any action(s) taken, or to be taken, in response. However, such notification by the ADI does not relieve the appointed auditor of the statutory obligation to report directly to APRA.

Conformity with International Pronouncements

308. As this Guidance Statement relates to Australian legislative requirements, there is no equivalent International Standard on Auditing or International Auditing Practice Note to this Guidance Statement.

¹¹⁰ Including the auditor appointed under APS 310, 3PS 310 and APS 910.

¹¹¹ Refer to sections 16B, 16BA and 16C of the Banking Act.

Appendix 1

(Ref: Para. 20, 21 and 83)

OUTLINE OF AUDITOR'S REPORTING REQUIREMENTS, LEVELS OF ASSURANCE, SUBJECT MATTER, EVALUATION CRITERIA AND APPLICABLE AUASB STANDARDS

The following table outlines the relevant reporting requirements applicable to the appointed auditor of an ADI and/or ADI group reporting pursuant to APRA's Prudential Standards APS 310 and 3PS 310 *Audit and Related Matters* and APS 910 *Financial Claims Scheme*, the level of assurance required, subject matter, evaluation criteria and relevant AUASB Standards. The table is not intended to be an exhaustive summary of an appointed auditor's obligations and requirements which are found in the *Banking Act 1959* (Banking Act), the *Financial Sector (Collection of Data) Act 2001* (FSCODA), APRA Prudential and Reporting Standards, other relevant APRA Prudential Requirements and applicable AUASB Standards.

APS 310/3PS 310 Annual Prudential Reporting Engagements (Routine Reporting)

Scope of Engagement	Levels of Assurance	Subject Matter	Criteria for Evaluating Subject Matter	Applicable AUASB Standards
PART A – Assurance on Specified ¹¹² ADI Reporting Forms (APS 310, para 36(a)(c)) (3PS 310, para 27(a)(c))	Reasonable assurance	Information included in Specified ¹¹² ADI Reporting Forms at the financial year-end of the ADI and/or Level 2 and/or Level 3 group, sourced from <i>accounting records</i> – historical financial information.	Information is reliable and in accordance with relevant APRA Prudential and Reporting Standards. ¹¹³	All relevant Auditing Standards ASA 805

¹¹² For a listing of ADI Reporting Forms to be subjected to the assurance engagement, refer to APRA Prudential Standard APS 310 *Attachment A – Data Collections subject to reasonable and/or limited assurance*. The requirements are different for Standardised, Advanced and Foreign ADIs.

¹¹³ Including relevant APRA Guidance materials (for example: Prudential and Reporting Practice Guides) and Reporting Form Instructions issued by APRA.

Guidance Statement GS 012 Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups

Scope of Engagement	Levels of Assurance	Subject Matter	Criteria for Evaluating Subject Matter	Applicable AUASB Standards
PART B – Assurance on Specified ¹¹² ADI Reporting Forms (APS 310, para 36(b)(c)) (3PS 310, para 27(b)(c))	Limited assurance	Information included in Specified ¹¹² ADI Reporting Forms at the financial year-end of the ADI and/or Level 2 and/or Level 3 group, sourced from <i>non-accounting records</i> : <ul style="list-style-type: none"> historical financial information information other than historical financial information prospective financial information.¹¹⁴ 	<ul style="list-style-type: none"> Information is reliable and in accordance with relevant APRA Prudential and Reporting Standards.¹¹³ Reasonableness of assumptions and calculation methodology used (for prospective financial information). 	As applicable: ASAE 3000 ASRE 2405 ASAE 3450
PART C (i) – Assurance on Internal Controls to ensure Compliance with Prudential Requirements: <ul style="list-style-type: none"> suitability of design of controls to achieve identified control objectives implementation of controls as designed operating effectiveness of controls as designed (APS 310, para 36(d)(i)) (3PS 310, para 27(d)(i))	Limited assurance	Internal Controls as designed, implemented and in operation.	<p>To ensure:</p> <ul style="list-style-type: none"> Compliance with all applicable APRA Prudential Requirements Applicable controls operated effectively throughout the financial year 	ASAE 3150

¹¹⁴ For example, refer to APRA ADI Reporting Forms 210.1A and 210.1B *Liquidity Coverage Ratio*, listed in APRA Prudential Standard APS 310 *Attachment A – Data Collections subject to reasonable and/or limited assurance*

Guidance Statement GS 012 Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups

Scope of Engagement	Levels of Assurance	Subject Matter	Criteria for Evaluating Subject Matter	Applicable AUASB Standards
<p>PART C (ii) – Assurance on Internal Controls to ensure Reliability of Data in Reporting Forms:</p> <ul style="list-style-type: none"> • suitability of design of controls to achieve identified control objectives • implementation of controls as designed • operating effectiveness of controls as designed <p>(APS 310, para 36(d)(ii)) (3PS 310, para 27(d)(ii))</p>	Limited assurance	Internal Controls as designed, implemented and in operation.	<p>To ensure:</p> <ul style="list-style-type: none"> • Data provided to APRA in <i>all</i> Reporting Forms prepared under the FSCODA are reliable and in accordance with relevant APRA Prudential and Reporting Standards. • Applicable controls operated effectively throughout the financial year 	ASAE 3150
<p>PART D – Reporting on Compliance with Prudential Requirements</p> <p>(APS 310, para 36) (3PS 310, para 27(e))</p>	Limited assurance	All of the above.	Compliance with all relevant Prudential Requirements under the Banking Act and the FSCODA.	No requirement for auditor to carry out additional assurance engagement procedures. Auditor may consider principles and guidance provided in ASAE 3100.

APS 910 Annual Prudential Reporting Assurance Engagements (Routine Reporting)

Scope of Engagement	Level of Assurance	Subject Matter	Criteria for Evaluating Subject Matter	Applicable AUASB Standards
<p>Assurance on Internal Controls addressing generation of Single Customer View Data (SCV), as set out in APS 910 Attachment A, and Financial Claims Scheme (FCS) Payment Instruction and Reporting Information:</p> <ul style="list-style-type: none"> • suitability of design of controls to achieve identified control objectives • implementation of controls as designed • operating effectiveness of controls as designed <p>(APS 910, paragraph 27)</p>	Limited Assurance	Internal Controls as designed, implemented and in operation.	<p>To ensure:</p> <ul style="list-style-type: none"> • SCV data as set out in APS 910 Attachment A, to the extent practicable, and FCS payment instruction and reporting information can be relied upon as being complete and accurate and in accordance with APS 910. • Applicable controls operated effectively throughout the financial year. <p>(Also see Appendix 5 (Attachment 3) of this Guidance Statement)</p>	ASAE 3150

Special Purpose Engagements under APS 310/3PS 310 and APS 910

Level of Assurance	Subject Matter	Criteria for Evaluating Subject Matter	Applicable AUASB Standards
Reasonable and/or Limited assurance	<ul style="list-style-type: none"> Particular aspect of an ADI's and/or Level 2 and/or Level 3 group's operations, prudential reporting, risk management systems or financial position, as determined by APRA (APS 310/3PS 310). SCV systems and data, and the systems used to generate and transmit FCS payment and reporting information (APS 910). 	As determined by APRA.	ASAE 3000 and relevant topic specific ASAEs, for example ASAE 3100 and/or ASAE 3150.

Additional Reporting Requirements under the Banking Act¹¹⁵

Section of Banking Act	Statutory Reporting Requirement	Applicable AUASB Standards
Section 16B	Duty to provide information to APRA on request.	No requirement for an auditor to carry out additional assurance engagement procedures.
Section 16BA	Requirement to provide information to APRA where the auditor possesses specified reportable information. Section 16BA identifies matters of which APRA needs to be notified of: (a) immediately; and (b) as soon as is practicable (no longer than 10 business days).	
Section 16C	Auditor may provide information to APRA where the auditor considers that the provision of such information would assist APRA in performing its functions under the Banking Act or FSCODA.	

¹¹⁵ Sections 16B, 16BA and 16C of the Banking Act is applicable to *all* auditors of ADIs, authorised NOHCs, or their subsidiaries, not only to auditors appointed by an ADI to meet the prudential reporting requirements under APS 310, 3PS 310 and APS 910.

Appendix 2

(Ref: Para. 66)

EXAMPLE ENGAGEMENT LETTER – LEVEL 1 ADI AND/OR LEVEL 2 ADI GROUP

For Annual Prudential Reporting Engagements undertaken pursuant to APRA Prudential Standards APS 310 *Audit and Related Matters* and APS 910 *Financial Claims Scheme* (Routine Reporting)

The following example engagement letter is to be used as a guide only and will need to be adapted according to individual engagement requirements and circumstances of the ADI and/or ADI group.

Note:

1. In this example engagement letter, the ADI on a “Level 1” basis is referred to as “the ADI”. The group of which the ADI is a member on a “Level 2 basis”, is referred to as “the ADI group”.
2. If the engagement letter also covers a “Level 3” conglomerate group, this fact must be indicated by using the appropriate terminology throughout the letter.¹¹⁶
3. “Level 1”, “Level 2” and “Level 3” have the meaning given in APRA Prudential Standards APS 001 and 3PS 001 *Definitions*.

4. APS 910 *Financial Claims Scheme* assurance engagements:

APS 910 identifies additional requirements for ADIs and their appointed auditors, including a requirement for the appointed auditor to perform a limited assurance engagement on the ADI’s controls in relation to the generation of Single Customer View (SCV) data and Financial Claims Scheme (FCS) payment instruction and reporting information. These requirements are in addition to the APS 310 requirement for appointed auditors to perform a limited assurance engagement on controls implemented by the ADI to ensure compliance with all prudential requirements (which includes compliance with APS 910).

This example engagement letter has been prepared on the basis that the auditor has been appointed to undertake both the APS 310 and APS 910 engagements. As there will be some overlap between the engagements, the appointed auditor may decide to prepare a single engagement letter covering both engagements. Alternatively, separate engagement letters may be prepared for the purposes of the APS 310 and APS 910 engagements.

Where an ADI or ADI group is not subject to the requirements of APS 910, for example, a foreign ADI, references in the letter to APS 910 need to be removed.¹¹⁷

¹¹⁶ APRA Prudential Standard 3PS 310 *Audit and Related Matters* sets out the prudential reporting requirements for Level 3 groups.

¹¹⁷ APS 910 *Financial Claims Scheme* does not apply to foreign ADIs and providers of purchased payment facilities. See APS 910, paragraph 2.

To [Appropriate Addressee¹¹⁸] of the ADI [and/or head entity of the ADI group]

Engagement as auditors pursuant to APRA Prudential Standards APS 310 *Audit and Related Matters* [and APS 910 *Financial Claims Scheme*]

We are pleased to confirm the [acceptance/continuation] of our appointment as auditor of [Name of ADI] [for the Level 1 ADI] (the ADI) [and/or the Level 2 ADI group] (the ADI group) for the purposes of the Australian Prudential Regulation Authority's (APRA's) Prudential Standard(s) APS 310 *Audit and Related Matters* (APS 310) [and APS 910 *Financial Claims Scheme* (APS 910)].

APS 310 [and APS 910] identifies APRA's reporting requirements for appointed auditors of ADIs and appointed group auditors of Level 2 ADI groups. We set out below, in general terms, our understanding of the terms, objectives and scope of this engagement, as well as a description of the responsibilities of both those charged with governance of the ADI [and/or the ADI group] and the appointed auditor.

This engagement is a separate engagement from our audit [and half-year review] appointment(s) under the *Corporations Act 2001* (Corporations Act).

1. Objective and Scope of Engagement

APS 310 [and APS 910] require us to report simultaneously, on an annual basis, to APRA and your [Title of those charged with governance¹¹⁹] on the matters set out below, insofar as they relate to the ADI [and/or the ADI group].

[If applicable: In addition to requirements for reasonable and limited assurance in relation to APRA's ADI Reporting Forms, APS 310 requires us to perform a limited assurance engagement on the controls implemented by the ADI [and/or the ADI group] to ensure compliance with Prudential Requirements, which includes compliance with APS 910. APS 910 identifies additional requirements for ADIs and appointed auditors and requires the auditor to perform a limited assurance engagement on the control procedures of the ADI in relation to the Single Customer View (SCV) data and Financial Claims Scheme (FCS) payment and reporting information.

To reduce duplication of reporting compliance matters to APRA, we will aggregate all matters in relation to the FCS into one report. We will therefore provide two reports:

- (a) Independent assurance report in relation to APS 310 (excluding APS 910); and
- (b) Independent assurance report in relation to APS 910 covering both compliance with the Prudential Requirements and internal controls relating to the FCS.]

In accordance with APS 310 we are required to provide:

- (a) reasonable assurance that the information, sourced from the ADI's [and/or the ADI group's] accounting records, included in the ADI Reporting Forms at the financial year-end as specified in Attachment A of APS 310, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (b) limited assurance, unless otherwise indicated by APRA in writing, that the information, sourced from non-accounting records, included in the ADI Reporting Forms at the financial year-end as specified in Attachment A of APS 310, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards;

¹¹⁸ Amend to reflect the appropriate addressee of the report, for example, "Chairman of Board or Board Audit Committee" for a locally incorporated ADI or, for a foreign ADI, "Senior Officer Outside Australia" to whom authority has been delegated in accordance with APRA Prudential Standard CPS 510 *Governance*, for overseeing the Australian branch operations.

¹¹⁹ Amend this term to reflect the appropriate title for those charged with governance of the ADI, for example, "Board of Directors" for a locally incorporated ADI or, for a foreign ADI, "the Senior Officer Outside Australia" to whom authority has been delegated in accordance with CPS 510, for overseeing the Australian branch operations. Insert appropriate title, when prompted, throughout the letter.

- (c) limited assurance that, in all material respects:
 - (i) the ADI [and/or the ADI group] have implemented internal controls that are designed to ensure:
 - a. compliance with all applicable Prudential Requirements; and
 - b. reliable data is provided to APRA in the ADI Reporting Forms prepared under the *Financial Sector (Collection of Data) Act 2001* (FSCODA); and
 - (ii) the controls in (c)(i) have operated effectively throughout the financial year; and
- (d) limited assurance, based on our work under (a) to (c) above, that the ADI [and/or the ADI group] have complied, in all material respects, with all relevant Prudential Requirements under the *Banking Act 1959* (Banking Act) and the FSCODA, including compliance with APRA Prudential and Reporting Standards during the financial year.

[If applicable: In accordance with APS 910 we are required to provide:

- (a) limited assurance that, in all material respects:
 - (i) the ADI has implemented internal controls that are designed to ensure:
 - a. compliance with all applicable Prudential Requirements relating to APS 910; and
 - b. that SCV data as set out in APS 910 Attachment A, to the extent practicable, and FCS payment instruction and reporting information can be relied upon as being complete and accurate and in accordance with APS 910; and
 - (ii) these controls have operated effectively throughout the financial year; and
- (b) limited assurance, based on our work under (a) above, that the ADI has complied, in all material respects, with all relevant Prudential Requirements under the Banking Act relating to APS 910.]

Our annual prudential assurance reports will cover the same period as the annual financial report required under the Corporations Act and is to be issued within three [four] months of the financial year-end of the ADI.

2. Appointed Auditor's Responsibilities

[If applicable: As the statutory auditor of the ADI, we carry out sufficient procedures to enable us to form an opinion on the state of the [type of ADI]'s affairs and its results, and to report thereon to the members of the [type of ADI] in accordance with the requirements of the Corporations Act¹²⁰. Although our audit [and review] under the Corporations Act will include such review of the ADI's [and/or the ADI group's] systems of accounting and internal control and performance of such tests and enquiries as we consider necessary, these audit [and review] procedures are not designed to form an opinion on the systems of accounting and internal control taken as a whole.

In order to satisfy the requirements of APRA, we will carry out additional procedures over and above those which are performed in our capacity as the auditor under the Corporations Act¹²¹.

Despite our involvement in examining the ADI's [and/or the ADI group's] systems of control, it must be appreciated that it is the responsibility of the [Title of those charged with governance] of the ADI [and/or head of the ADI group] to establish and maintain all of the ADI's [and/or the ADI group's] internal control systems. All such systems have their limitations and, this being so, errors or

¹²⁰ Or other appropriate local or overseas requirements.

¹²¹ Or other relevant legislation.

irregularities may occur, and which may not be detected. Our work is not to be relied upon for the purposes of discovering fraud, error, deficiencies, or non-compliance with laws and regulations, although we will report to the appropriate level of management any fraud, error, deficiencies, or non-compliance that may be identified as a result of our assurance engagement.

We recognise that there may be some overlap between our audit [and review] under the Corporations Act and work that is necessary to fulfil APRA's APS 310 prudential reporting requirements. In order to help ensure the most efficient use of resources, wherever possible, reliance will be placed on work that is carried out for the statutory financial report audit [and review] purposes.]

In order to report on the matters set out in the *Objective and Scope of Engagement* section of this letter, we are required to undertake both reasonable and limited assurance engagements, as described below, and to report our opinion and conclusions based on the procedures we have performed and the evidence we have obtained.

We will conduct our reasonable assurance engagement in accordance with applicable Australian Auditing Standards and our limited assurance engagements in accordance with applicable Standards on Assurance Engagements and Standards on Review Engagements, and with reference to Guidance Statement GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups*, issued by the Australian Auditing and Assurance Standards Board (AUASB). These standards require that we comply with relevant ethical requirements relating to assurance and review engagements.

As part of our procedures, we will request representations from management and, where appropriate, those charged with governance, in respect of representations made to us in connection with the engagement.

After the completion of our prudential engagement report, it is our normal practice to report any matters of significance, together with suggestions for their correction and any recommendations we may have on the systems, procedures and controls in general. However, as our examination will be limited to the reasonable and limited assurance engagements in relation to matters set out in the *Objective and Scope of Engagement* section above, you cannot assume that any matters reported to you indicate that there are no additional matters or matters that you need to be aware of in meeting your responsibilities.

Responsibilities under APS 310:

PART A: Reasonable Assurance on Information included in Specified ADI Reporting Forms at financial year-end, sourced from Accounting Records

Our responsibility is to express an opinion, based on our reasonable assurance engagement, on whether the information sourced from the ADI's [and/or the ADI group's] accounting records, included in the ADI Reporting Forms at the financial year-end as specified in Attachment A to APS 310, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

We will conduct our reasonable assurance engagement in accordance with applicable Australian Auditing Standards. These Auditing Standards require that we plan and perform our engagement to obtain reasonable assurance whether the relevant data included in the Specified APRA Reporting Forms are free from material misstatement.

A reasonable assurance engagement involves performing procedures to obtain evidence on whether the information sourced from the accounting records included in the Specified ADI Reporting Forms are, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards. The procedures selected depend on our judgement, including our assessment of the risks of material misstatement of the data in the Specified ADI Reporting Forms, whether due to fraud or error. In making those risk assessments, we consider internal control systems and compliance functions relevant to the preparation of the Specified ADI Reporting Forms, in order to design assurance procedures that are appropriate in the circumstances.

PART B: Limited Assurance on Information included in Specified ADI Reporting Forms at financial year-end, sourced from Non-Accounting Records

Our responsibility is to perform a limited assurance engagement on information sourced from the ADI's [and/or the ADI group's] non-accounting records, included in ADI Reporting Forms at the financial year-end as specified in Attachment A to APS 310, and to express a conclusion on whether anything has come to our attention that causes us to believe that this information is not, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

We will conduct our limited assurance engagement in accordance with the AUASB's Standards on Assurance Engagements ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* (ASAE 3000) and ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, and AUASB's Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial report*, as applicable.

The objective of our limited assurance engagement is to provide us with a basis for reporting whether anything has come to our attention that causes us to believe that the relevant data in the Specified ADI Reporting Forms, is not, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

A limited assurance engagement consists of making enquiries of responsible ADI [and/or the ADI group] personnel and applying analytical and other review procedures considered necessary and does not, ordinarily, require corroboration of the information obtained. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with Australian Auditing and Assurance Standards and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion.

The procedures we select will depend on our judgement, including our assessment of the risks of material misstatement of the ADI Reporting Forms, whether due to fraud or error or of a material breakdown of controls. In making those risk assessments, we consider internal control systems and compliance functions relevant to the preparation of the Specified ADI Reporting Forms in order to design limited assurance procedures that are appropriate in the circumstances.

PART C: Limited Assurance on Internal Controls addressing Compliance with Prudential Requirements and Reliability of Data included in ADI Reporting Forms

Our responsibility is to perform a limited assurance engagement and to express a conclusion, based on the limited assurance procedures we have performed and the evidence we have obtained, on whether anything has come to our attention that causes us to believe that, in all material respects, throughout the period from [date] to [date]:

- (a) the ADI [and/or ADI group] has not implemented internal controls that are designed to ensure:
 - (i) compliance with all applicable Prudential Requirements [(excluding APS 910)]; and
 - (ii) reliable data is provided to APRA in ADI Reporting Forms prepared under the FSCODA; and
- (b) these controls have not operated effectively.

We will conduct our limited assurance engagement on controls in accordance with the AUASB's Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls*.

A limited assurance engagement on controls in accordance with ASAE 3150 involves performing procedures to obtain evidence about the design, implementation and operating effectiveness of controls. The procedures we select will depend on our judgement, including our assessment of the risks of material deficiencies in the design and/or implementation of the controls, or deviation in their

operating effectiveness. In making those risk assessments, we will consider internal control systems and compliance functions relevant to ensuring compliance with all Prudential Requirements and provision of reliable data to APRA in ADI Reporting Forms prepared under the FSCODA, in order to design assurance procedures that are appropriate in the circumstances.

As part of our limited assurance engagement on controls we will perform procedures primarily consisting of making enquiries of management and other responsible personnel within the ADI [and/or the ADI group], as appropriate, examination of design specifications and documentation, and observation of implementation and operation of controls.

We will perform additional procedures if we become aware of matters that cause us to believe that the controls may not be suitably designed, implemented or operating effectively.

Because of the inherent limitations of an assurance engagement, together with the inherent limitations of any system of controls, there is an unavoidable risk that some deficiencies in the design and/or implementation of the controls or deviation in their operating effectiveness may not be detected, even though the engagement is properly planned and performed in accordance with ASAE 3150.

The system within which the controls that we will examine operate, will not be examined, except to the extent the system is relevant to the achievement of the control objectives. Therefore, no opinion will be expressed as to the effectiveness of the system of controls as a whole.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are substantially less in scope than for a reasonable assurance engagement conducted in accordance with Australian Auditing and Assurance Standards and, consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Therefore, there is a higher risk than there would be in a reasonable assurance engagement, that any material deficiencies or deviations in controls that exist may not be revealed by the engagement, even though the engagement is properly performed in accordance with ASAE 3150. In expressing our conclusion, our report on the design, implementation and operating effectiveness of controls will expressly disclaim any reasonable assurance conclusion on controls.

PART D: Limited Assurance on Compliance with Prudential Requirements

Our responsibility is to express a limited assurance conclusion, based on our work performed under Parts A to C above, on whether anything has come to our attention that causes us to believe that, for the financial year ended [date], the ADI [and/or the ADI group] has not, in all material respects, complied with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards.

[If applicable: Responsibilities under APS 910:

PART A – Limited Assurance on Internal Controls addressing Generation of SCV Data, as set out in Attachment A to APS 910, and FCS Payment Instruction and Reporting Information

In relation to APS 910 paragraph 27, our responsibility is to perform a limited assurance engagement as described below, and to express a conclusion based on the limited assurance procedures we have performed and the evidence we have obtained, on whether anything has come to our attention that causes us to believe that, in all material respects, throughout the period from [date] to [date]:

- (a) the ADI has not implemented internal controls that are designed to ensure that SCV data as set out in APS 910 Attachment A, to the extent practicable, and FCS payment instruction and reporting information can be relied upon as being complete and accurate and in accordance with APS 910; and
- (b) these controls have not operated effectively when tested.

PART B – Limited Assurance on Internal Controls addressing Compliance with Prudential Requirements relating to APS 910 conducted as part of APS 310 Requirements

In relation to APS 310 paragraph 36(d), our responsibility is to perform a limited assurance engagement as described below, and to express a conclusion based on the limited assurance procedures we have performed and the evidence we have obtained, on whether anything has come to our attention that causes us to believe that, in all material respects, throughout the period from [date] to [date]:

- (a) the ADI did not have controls that are designed to ensure that the ADI has complied with all applicable prudential requirements relating to APS 910; and
- (b) these controls have not operated effectively.

PART C – Reporting on Compliance with Prudential Requirements

In relation to APS 310 paragraph 36, our responsibility is to express a conclusion, based on our work performed under Parts A and B above, on whether anything has come to our attention that causes us to believe that, for the period [date] to [date], the ADI has not, in all material respects, complied with all relevant prudential requirements under the Banking Act relating to APS 910.

We will conduct our limited assurance engagement on controls for Parts A and B above in accordance with ASAE 3150.

A limited assurance engagement on controls in accordance with ASAE 3150 involves performing procedures to obtain evidence about the design, implementation and operating effectiveness of controls. The procedures we select will depend on our judgement, including our assessment of the risks of material deficiencies in the design and/or implementation of the controls, or deviation in their operating effectiveness. In making those risk assessments, we will consider internal control systems and compliance functions relevant to ensuring compliance with APS 910 and specifically the requirements set out above in relation to the SCV data and FCS payment instruction and reporting information.

As part of our limited assurance engagement on controls, we will perform procedures consisting of making enquiries, primarily of persons responsible for the control procedures, inspection of evidence and observation on a sample basis of the design and operation of the controls, events or business routines implemented by the ADI as well as testing practices and results in order to meet the control objectives identified in Appendix [insert].¹²²

We will perform additional procedures if we become aware of matters that cause us to believe that the controls may not be suitably designed, implemented or operating effectively.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are substantially less in scope than for a reasonable assurance engagement conducted in accordance with Australian Auditing and Assurance Standards and, consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Therefore, there is a higher risk than there would be in a reasonable assurance engagement, that any material deficiencies or deviations in controls that exist may not be revealed by the engagement, even though the engagement is properly performed in accordance with ASAE 3150. In expressing our conclusion, our report on the design, implementation and operating effectiveness of controls will expressly disclaim any reasonable assurance conclusion on controls.]

¹²² See Attachment 3 to Appendix 5 of this Guidance Statement.

3. Responsibilities of the [Title of Those Charged with Governance¹²³] and Management of the ADI [and/or the ADI Group]

In accordance with APRA Prudential Standard CPS 220 *Risk Management*, it is the responsibility of the [Title of those charged with governance] of the ADI [and/or head of the ADI group] to ensure that the ADI [and/or the ADI group] has prudent risk management practices.

This responsibility includes providing APRA with a Risk Management Declaration, as set out in Attachment A to CPS 220.

In relation to the APS 310 annual prudential assurance report(s) this responsibility includes:

- (a) ensuring that the information included in ADI Reporting Forms at the financial year-end is reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (b) establishing and maintaining internal controls that are designed to ensure:
 - (i) the ADI [and/or the ADI group] complies with all applicable Prudential Requirements;
 - (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the FSCODA; and
- (c) ensuring that the internal controls under (b) operate effectively throughout the financial year;
- (d) ensuring that the ADI [and/or the ADI group] complies with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards during the financial year; and
- (e) ensuring that the ADI and the ADI group maintain accounting records which at any time disclose with reasonable accuracy the financial position of the ADI [and/or the ADI group].

Furthermore, in accordance with APS 310, it is the responsibility of the [Title of those charged with governance] and management of an ADI [and/or ADI group] to ensure that the auditor:

- (a) has access to all data, information, reports and staff of the ADI that the auditor reasonably believes is necessary to fulfil its role and responsibilities under APS 310. This includes access to the ADI's [Title of those charged with governance], [Title of those charged with governance] Committees and internal auditors, as required;
- (b) is fully informed of all prudential requirements applicable to the ADI [and/or the ADI group]. Prudential requirements include requirements imposed by the Act, regulations, prudential standards, the FSCODA, reporting standards, conditions on authority and any other requirements imposed by APRA, in writing, in relation to an ADI.
- (c) is provided with any other information APRA has provided to the ADI that may assist the auditor in fulfilling its role and responsibilities under APS 310.

[If applicable: In accordance with APS 910 specifically, it is the responsibility of the [Title of those charged with governance] and management of the ADI to ensure that appropriate policies and procedures are in place to ensure the integrity of operations, internal controls and information required by APS 910. This includes, but is not limited to, responsibility for:

- (a) undertaking all necessary steps to ensure compliance with APS 910;
- (b) ensuring systems and processes are in place to identify, to the extent practicable, each unique account-holder who holds a protected account;

¹²³ Alternatively, for a foreign ADI, "senior officer outside Australia" (to whom authority has been delegated in accordance with CPS 510, for overseeing the Australian operations). Insert appropriate title, when prompted, throughout the letter.

- (c) being able to calculate a SCV for each unique account holder identified and transmit that data to APRA, or a person nominated by APRA;
- (d) being able to generate and transmit payment instruction information for FCS purposes to the RBA, or another paying agent nominated by APRA;
- (e) being able to generate and transmit reporting information to APRA, an account-holder, the ATO and any other party nominated by APRA;
- (f) ensuring systems and associated controls are adequate for the purposes of ensuring that data generated by SCV systems are complete and accurate, to the extent practicable;
- (g) ensuring systems and associated controls are adequate for the purposes of ensuring that the FCS payment instruction and reporting information generated and transmitted by the systems, including the ability to capture alternative ADI account data, are complete and accurate.
- (h) complying with the communications requirements set out in APS 910; and
- (i) complying with the testing requirements set out in APS 910]

4. Auditor's Independence and Quality Control

In undertaking the assurance engagement, we will comply with:

- (a) the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour;
- (b) the independence requirements specified by APRA in Prudential Standard CPS 510 *Governance*;
- (c) the fitness and propriety criteria specified by APRA in Prudential Standard CPS 520 *Fit and Proper*; and
- (d) Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

5. Inherent Limitations

Due to the inherent limitations of any internal control and compliance framework it is possible that, even if the controls are suitably designed and operating effectively, the control objectives may not be achieved and that fraud, error, or non-compliance with Prudential Requirements may occur and not be detected. Further, the internal control structure, within which the controls that we have assured operate, has not been assured and no opinion is expressed as to its design or operating effectiveness.

Projections of any evaluation of internal control procedures or compliance measures to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate.

A reasonable or limited assurance engagement is not designed to detect all misstatements in ADI Reporting Forms, or deficiencies and/or deviations in internal controls, or instances of non-compliance with applicable Prudential Requirements, as assurance engagement procedures are not performed continuously throughout the period and are undertaken on a test basis.

Consequently, there are inherent limitations on the level of assurance that can be provided.

The opinion and conclusions expressed in our prudential assurance report(s) are to be read in the context of the foregoing comments.

6. Internal Audit

The ADI's internal audit function is considered well placed to review and test properly documented systems, procedures and controls operating within the ADI [and/or the ADI group]. Consequently, it is our intention to liaise closely with internal auditors throughout the year.

Where work is carried out by internal auditors as part of the internal control procedures of the ADI [and/or ADI group], we [intend to/may] review the work performed and carry out such re-performance tests and other procedures as we consider necessary. Where we are satisfied with the work carried out by internal auditors, it is our intention to place reliance on such work in accordance with Auditing Standard ASA 610 *Using the Work of Internal Auditors*, and, where appropriate, reduce the extent of our own procedures relating to internal controls.

7. Special Purpose Engagements

Under APS 310, APRA may require you, by notice in writing, to appoint an auditor to provide a report on a particular aspect of the ADI's [and/or ADI group's] operations, prudential reporting, risk management systems or financial position.

[If applicable: Under APS 910, APRA may, in writing, require an ADI to engage an auditor to undertake a reasonable or limited assurance engagement of SCV systems and data, and the systems used to generate and transmit FCS payment instruction and reporting information.]

The details of such engagements will be the subject of specific requests from APRA and will constitute separate engagements and reporting. In these circumstances, separate engagement letters will be issued.

8. Liaison with APRA

Under normal circumstances, liaison with APRA will take place under tripartite arrangements involving APRA, the ADI [and/or the head of the ADI group] and its appointed auditor(s). Notwithstanding the tripartite relationship, APS 310 allows for communication between an auditor and APRA on a bilateral basis, at the request of either party. APRA can, although not commonly, request information directly from an appointed auditor.

Under CPS 510, an ADI is required to ensure that its internal policy and contractual arrangements do not explicitly or implicitly restrict or discourage auditors from communication with APRA.

9. Additional Reporting Responsibilities under the Banking Act

Under sections 16B, 16BA and 16C of the Banking Act, we are required to provide information to APRA upon request, or where we possess reportable information specified in the Banking Act, or where we consider that the provision of information would assist APRA in performing its functions under the Banking Act or the FSCODA.

Part VIA of the Banking Act includes provisions to protect an auditor providing information to APRA, in good faith and without negligence, from any action, claim or demand by, or any liability to, any other person in respect of the information.

10. Restriction on Distribution and Use of Report(s)

Our annual APS 310 [and APS 910] prudential assurance report(s) and any special purpose engagement report(s) will be prepared for distribution to the [Title of those charged with governance] or [Title of those charged with governance] Audit Committee of the ADI [and/or head of ADI group] and APRA. These assurance reports will be prepared in accordance with the terms of this engagement letter, in order to satisfy APRA's prudential reporting requirements for appointed auditors of ADIs [and/or ADI groups], as specified in APS 310 [and APS 910]. As a result, these reports may not be suitable for another purpose.

This report is not to be distributed to any party other than those to whom it is addressed, APRA, and other parties to whom APRA is lawfully entitled to provide relevant information ("Other Parties"). In accordance with the *Australian Prudential Regulation Authority Act 1998*, APRA may make our assurance reports available to Other Parties when APRA is satisfied that such information may assist those parties in performing their functions or exercising their powers. We disclaim any assumption of responsibility for any reliance on these reports, or the subject matter to which it relates, to any party other than the ADI [and/or the ADI group] and APRA in the performance of its functions under the Banking Act, or for any purpose other than that for which it was prepared.

11. Fees

The requirement to report pursuant to APS 310 is in addition to, and separate from, the audit [and review] of financial reports required under the Corporations Act and will result in additional assurance procedures being carried out. Fees relating to this work will be based on the degree of responsibility and skill involved and the time necessarily occupied by the work undertaken.

As the fees will not relate to our audit [and review] carried out in our capacity as the statutory auditor under the Corporations Act, our invoices will be rendered separately, to clearly identify the additional cost of APRA's prudential reporting requirements.

[Insert additional information here regarding fee arrangements, billings and other specific items, as appropriate.]

We look forward to full cooperation with you and your staff and we trust that you will make available to us whatever records, documentation and other information are requested in connection with our assurance engagement.

This letter will be effective for future years unless we advise you of its amendment or replacement, or the engagement is terminated.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our prudential assurance engagement pursuant to APS 310 [and APS 910].

Yours faithfully,
(signed)

.....

Name and Title

Date

Acknowledged on behalf of [name of ADI] by
(signed)

.....

Name and Title

Date

Appendix 3

(Ref: Para. 270)

EXAMPLE REPRESENTATION LETTER – LEVEL 1 ADI AND/OR LEVEL 2 ADI GROUP

For Annual Prudential Reporting Engagements undertaken pursuant to APRA Prudential Standards APS 310 *Audit and Related Matters* and APS 910 *Financial Claims Scheme* (Routine Reporting)

The following example representation letter is to be used as a guide only and will need to be adapted according to individual engagement requirements and circumstances of the ADI and/or ADI group.

Note:

1. In this example representation letter, the ADI on a “Level 1” basis is referred to as “the ADI”. The group of which the ADI is a member on a “Level 2” basis, is referred to as “the ADI group”.
2. If the representation letter also covers a “Level 3” conglomerate group, this fact must be indicated by using the appropriate terminology throughout the letter.¹²⁴
3. “Level 1”, “Level 2” and “Level 3” have the meaning given in APRA Prudential Standards APS 001 and 3PS 001 *Definitions*.
4. This example representation letter has been prepared on the basis that the auditor has requested management to include representations in relation to the APS 310 engagement and APS 910 engagement into a single letter. Alternatively, separate representation letters may be prepared for the purposes of APS 310 and APS 910.

Where an ADI or ADI group is not subject to the requirements of APS 910, for example, a foreign ADI, references in the letter to APS 910 need to be removed.¹²⁵

¹²⁴ APRA Prudential Standard 3PS 310 *Audit and Related Matters* sets out the prudential reporting requirements for Level 3 groups.

¹²⁵ APS 910 *Financial Claims Scheme* does not apply to foreign ADIs and providers of purchased payment facilities. See APS 910, paragraph 2.

[name of ADI [and/or ADI group] Letterhead]

[Addressed to Appointed Auditor]

[Date]

Dear Sir/Madam

Representation Letter for Annual Prudential Reporting Engagement(s) undertaken pursuant to APRA Prudential Standard(s) APS 310 *Audit and Related Matters* [and APS 910 *Financial Claims Scheme* for the period [date] to [date]]

This representation letter is provided in connection with your reasonable and limited assurance engagement(s), as required by APRA's Prudential Standard(s) APS 310 *Audit and Related Matters* (APS 310) [and APS 910 *Financial Claims Scheme* (APS 910)], of [name of ADI] [for the Level 1 ADI] (the ADI) [and/or the Level 2 ADI group (the ADI group)] for the period [date] to [date]¹²⁶, for the purpose of you providing:

In accordance with APS 310:

- (a) reasonable assurance that the information sourced from the ADI's [and/or the ADI group's] accounting records, included in the APRA ADI Reporting Forms at [the financial year-end] as specified in Attachment A of APS 310, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (b) limited assurance, unless otherwise indicated by APRA in writing, that the information sourced from the ADI's [and/or the ADI group's] non-accounting records, included in the ADI Reporting Forms at [the financial year-end] as specified in Attachment A of APS 310, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (c) limited assurance that, in all material respects:
 - (i) the ADI [and/or the ADI group] has implemented internal controls that are designed to ensure:
 - (i) compliance with all applicable Prudential Requirements; and
 - (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the *Financial Sector (Collections of Data) Act 2001* (FSCODA); and
 - (iii) the controls in (c)(i) have operated effectively throughout the financial year; and
- (d) limited assurance, based on your work under (a) to (c) above, that the ADI [and/or the ADI group] has complied, in all material respects, with all relevant Prudential Requirements under the *Banking Act 1959* (Banking Act) and the FSCODA, including compliance with APRA Prudential and Reporting Standards during the financial year.

[In accordance with APS 910:

- (a) limited assurance that, in all material respects, the ADI has controls that are designed to ensure that Single Customer View (SCV) data as set out in APS 910 Attachment A, to the extent practicable, and Financial Claims Scheme (FCS) payment instruction and reporting information can be relied upon as being complete and accurate and in accordance with APS 910, and these controls have operated effectively when tested;

¹²⁶ Wording in this paragraph, including definitions for the ADI/ADI group, should be consistent with wording used in the Engagement Letter and Prudential Assurance Reports. See Appendices 2, 4 and 5 of this Guidance Statement.

- (b) limited assurance that, in all material respects, the ADI has controls that are designed to ensure compliance with all applicable prudential requirements relating to APS 910 and these controls have operated effectively throughout the period [date] to [date]; and
- (c) limited assurance, based on your work under (a) and (b) above, that the ADI has complied, in all material respects, with all relevant prudential requirements under the *Banking Act 1959* (Banking Act), including compliance with APS 910, throughout the period [date] to [date].]

We acknowledge our responsibility under APS 310 for ensuring that:

- (a) the ADI [and/or the ADI group] complies with all relevant prudential and statutory requirements and has prudent risk management practices.
- (b) the ADI [and/or the ADI group] identifies key risks and establishes risk management practices that are detailed in descriptions of risk management systems and are regularly reviewed and updated, at least annually, to take account of changing circumstances;
- (c) APRA is provided with high-level descriptions of our key risk management systems covering all major areas of risk, and APRA is informed of all material changes to the ADI's [and/or the ADI group's] risk management systems descriptions when they are made;
- (d) adequate controls have been designed to ensure:
 - (i) compliance with all applicable Prudential Requirements[, including all Prudential Requirements set out in APS 910]; and
 - (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the FSCODA;and that these controls operated effectively throughout the [period] to [period];
- (e) the information included in ADI Reporting Forms at [the financial year-end] is reliable, and in accordance with the relevant APRA Prudential Standards and Reporting Standards;
- (f) accounting and non-accounting records, and the ADI Reporting Forms prepared from them, are accurate;
- (g) the ADI [and/or ADI group] maintain accounting records which at any time disclose with reasonable accuracy the financial position and financial performance of the ADI [and/or ADI group];
- (h) you are informed of all Prudential Requirements applicable to the ADI [and/or the ADI group];
- (i) the ADI [and/or ADI group] have provided you with any other information APRA has provided to the ADI [and/or the ADI group] that may assist you in fulfilling your role and responsibilities under APS 310; and
- (j) we have provided you with access to all data, information, reports and staff of the ADI [and/or the ADI group] that you reasonably believe are necessary to fulfil your role and responsibilities under APS 310. This includes access to the ADI's [Title of those charged with governance]¹²⁷, [Title of those charged with governance] Audit Committee and internal auditors as required.

¹²⁷ Or, for a foreign ADI, "the Senior Officer Outside Australia" to whom authority has been delegated in accordance with CPS 510 Governance, for overseeing the Australian branch operations. Insert appropriate title, when prompted, throughout the letter.

[In addition, in accordance with APS 910, we acknowledge our responsibility for ensuring that appropriate policies and procedures are in place to ensure the integrity of operations, internal controls and information required by APS 910. This includes, but is not limited to, responsibility for the ADI:

- (a) undertaking all necessary steps to ensure compliance with APS 910;
- (b) ensuring systems and processes are in place to identify, to the extent practicable, each unique account-holder who holds a protected account;
- (c) calculating a SCV for each unique account holder identified in accordance with relevant requirements, and transmit that data to APRA or to a person nominated by APRA;
- (d) being able to generate and transmit payment instruction information for FCS purposes to the Reserve Bank of Australia (RBA), or another paying agent nominated by APRA;
- (e) being able to generate and transmit reporting information to APRA, an account-holder, the Australian Tax Office (ATO) and any other party nominated by APRA;
- (f) ensuring systems and associated controls are adequate for the purposes of ensuring that data generated by SCV systems are complete and accurate, to the extent practicable;
- (g) ensuring systems and associated controls are adequate for the purposes of ensuring that the FCS payment instruction and reporting information generated and transmitted by the systems, including the ability to capture alternative ADI account data, are complete and accurate;
- (h) complying with the communications requirements set out in APS 910; and
- (i) complying with the testing requirements set out in APS 910.]

We confirm, to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves, the following representations made to you during your assurance engagement:

[Include representations relevant to the ADI [and/or the ADI group]. Such representations may include the following examples.]

1. We have made available to you for the purpose of your assurance engagement:
 - (a) all data, information, reports and staff of the ADI [and/or the ADI group] that you have required to fulfil your role and responsibilities under APS 310 [and APS 910];
 - (b) access to the ADI's [and/or the ADI group's] [Title of those charged with governance], audit committee(s) and internal auditors as required, and related data, minutes of meetings, reports, other information, explanations and assistance necessary for the conduct of the assurance engagements pursuant to APS 310 [and APS 910];
 - (c) all correspondence with APRA concerning all Prudential Requirements applicable to the ADI [and/or the ADI group];
 - (d) all policies and procedures (including all changes in the reporting period) that are designed to ensure the ADI [and/or the ADI group] has:
 - (i) complied with all applicable Prudential Requirements [, including APS 910 requirements]; and
 - (ii) provided reliable data to APRA in the ADI Reporting Forms prepared under the FSCODA;
 - (e) all high level descriptions of our key risk management systems covering all material risks, approved by the [Title of those charged with governance] and management, and

including all material changes to the risk management systems descriptions provided to APRA during the financial period; and

- (f) all other information APRA has provided to the ADI [and/or the ADI group] that may assist you in fulfilling your role and responsibilities under APS 310 [and APS 910].

2. There has been:

- (a) no fraud, error or non-compliance with APRA Prudential Requirements that could have a material effect on the reporting of data to APRA under the FSCODA, or compliance with applicable Prudential Requirements;
- (b) no fraud, error or non-compliance with APRA Prudential Requirements involving management or employees who have a significant role in the internal control structure; and
- (c) no communications from APRA concerning non-compliance with, or deficiencies in, prudential compliance and reporting practices and controls relating to compliance with Prudential Standards [, including APS 910 requirements], that could have a material effect on your report.

[If applicable: other than instances detected by our control framework and provided to you in the course of your engagement and/or as included by you in your report.]

3. We have disclosed to you the results of management's assessment of the risk of non-compliance with Prudential Standards as a result of fraud.

4. We have established and maintained adequate internal controls designed to prevent and detect fraud and error and to ensure the ADI [and/or the ADI group] has:

- (a) complied with all applicable Prudential Requirements [including APS 310 and APS 910 requirements]; and
- (b) provided reliable data to APRA in the ADI Reporting Forms prepared under the FSCODA;

and that those controls have operated effectively throughout the period [date] to [date].

[If applicable: other than instances that have been provided to you in the course of your engagement and/or as included by you in your report];

5. There has been no breakdown in internal controls or non-compliance with the policies and procedures which are designed to ensure the ADI [and/or the ADI group] has:

- (a) complied with all applicable Prudential Requirements; and
- (b) provided reliable data to APRA in the ADI Reporting Forms prepared under the FSCODA,

[If applicable: other than instances that have been provided to you in the course of your engagement and/or as included by you in your report];

6. We have complied with all prudential and statutory requirements applicable to the ADI [and/or the ADI group] throughout the period [date] to [date].

[If applicable: other than instances that have been provided to you in the course of your engagement and/or as included by you in your report]

7. We have provided to APRA:

- (a) all high level descriptions of our key risk management systems covering all identified key risks, approved by the [Title of those charged with governance] and management, and including all material changes to the risk management systems descriptions made during the financial year; and
- (b) all information as prescribed by the Prudential Standards for disclosure to APRA within the prescribed period.

[If applicable: other than instances that have been provided to you in the course of your engagement and/or as included by you in your report]

8. We have consulted with APRA on all matters such as new business ventures and other initiatives, where prescribed by the Prudential Standards, and provided you with the responses from APRA.
9. In accordance with CPS 220 *Risk Management*, we have signed [or intend to sign] a Risk Management Declaration to APRA, stating that for the period [date] to [date], to the best of our knowledge and having made appropriate enquiries, in all material respects:
 - (a) the ADI [and/or the ADI group] has in place systems for ensuring compliance with all Prudential Requirements;
 - (b) the systems and resources that are in place for identifying, measuring, evaluating, monitoring, reporting, and controlling or mitigating material risks, and the risk management framework, are appropriate to the ADI [and/or the ADI group], having regard to the size, business mix and complexity of the ADI [and/or the ADI group];
 - (c) the risk management and internal control systems in place are operating effectively and are adequate having regard to the risks they are designed to control;
 - (d) the ADI [and/or the ADI group] has a Risk Management Strategy (RMS) that complies with CPS 220, and the ADI [and/or the ADI group] has complied with each measure and control described in the RMS; and
 - (e) the ADI [and/or the ADI group] is satisfied with the efficacy of the processes and systems surrounding the production of financial information at the ADI [and/or the ADI group].
10. [In accordance with APS 910, we have signed [or intend to sign] a declaration to APRA from our CEO attesting that for the period [date] to [date], the ADI:
 - (a) has taken all necessary steps to ensure that it is compliant with the requirements set out in APS 910,
 - (b) has systems and processes that allows it to identify, to the extent practicable, each unique account-holder who holds a protected account,
 - (c) is able to calculate an SCV for each unique account-holder identified and transmit that data to APRA, or to a person nominated by APRA, as required by APS 910,
 - (d) is able to generate and transmit payment instruction information for FCS purposes to the RBA, or another paying agent nominated by APRA, as required by APS 910;
 - (e) is able to generate and transmit reporting information to APRA, an account-holder, the ATO and any other party nominated by APRA, as required by APS 910,
 - (f) has systems and associated controls that are adequate for the purposes of ensuring that data generated by SCV systems are complete and accurate, to the extent practicable,

- (g) has systems and associated controls that are adequate for the purpose of ensuring that the FCS payment and reporting information generated and transmitted by the ADI's systems, including the ability to capture alternative ADI account data, are complete and accurate;
 - (h) is able to comply with the communications requirements set out in APS 910; and
 - (i) is able to comply with the testing requirements as set out in APS 910.]
11. With respect to ADI Reporting Forms prepared under the FSCODA:
- (a) the data has been compiled in accordance with the relevant APRA Prudential and Reporting Standards, and related guidance applicable to each form;
 - (b) the ADI Reporting Forms have been resubmitted where assurance engagement adjustments of a material nature were identified;
 - (c) there are no material transactions that have not been recorded properly in the accounting records supporting the ADI Reporting Forms; and
 - (d) information in the ADI Reporting Forms, sourced from records other than the ADI's [and/or the ADI group's] accounting records, are prepared from reliable records applicable to the matters to be provided to APRA, in accordance with the applicable guidance provided by APRA.
12. We acknowledge that you have advised management of uncorrected misstatements, deficiencies and deviations in controls and non-compliance with Prudential Standards that you became aware of as a result of your assurance engagement procedures.
13. We believe the effects of all uncorrected misstatements, deficiencies and deviations in controls, and instances of non-compliance with Prudential Standards, identified by you during the assurance engagement and summarised in the attached [insert Appendix], pertaining to the reporting period [date] to [date] (including the effects of prior year issues impacting the current reporting period) are immaterial, both individually and in the aggregate, or adequately reported to APRA.
14. No events have occurred subsequent to [the financial year-end date] and through to the date of this letter that would require adjustment to, or disclosure in, the ADI Reporting Forms.
15. [Include any additional matters relevant to the circumstances of the engagement.]

We understand that your examination was made in accordance with applicable AUASB Standards and was, therefore, designed primarily for the purpose of reporting pursuant to the requirements of APS 310 [and APS 910], and that your procedures were limited to those which you considered necessary for that purpose.

Yours faithfully

[Name of signing officer and title]

Signed by resolution of the [Title of those charged with governance]¹²⁸

¹²⁸ Locally incorporate ADIs: letter to be tabled at Board/Board Audit Committee meeting, but may be signed by management, as directed by Board.
Foreign ADIs: letter may be signed by either Senior Officer outside Australia or CEO/Senior Officer in Australia with responsibility for Australian operations, with appropriate approval from Senior Officer outside Australia.

Appendix 4

(Ref: Para. 164, 166, 176, 189, 287; Appendices 5 and 6)

EXAMPLE ANNUAL PRUDENTIAL ASSURANCE REPORT

Engagements undertaken pursuant to APRA Prudential Standards APS 310 and 3PS 310 Audit and Related Matters (Routine Reporting)

The following example auditor's report is to be used as a guide only and will need to be adapted according to the individual engagement requirements and circumstances of the ADI and/or ADI group.

Note:

1. In this example auditor's report:
 - the "Level 1" ADI is referred to as "the ADI";
 - the "Level 2" ADI and its controlled entities, is referred to as "the Level 2 ADI group"
 - the "Level 3" conglomerate group, that is, the ADI and all entities determined by APRA to be members of the Level 3 group, is referred to as "the Level 3 group".

"Level 1", "Level 2" and "Level 3" have the meaning given in APRA Prudential Standards APS 001 and 3PS 001 *Definitions*.
2. Under APS 310 and 3PS 310, separate auditors may be appointed to meet the APS 310 and 3PS 310 reporting requirements on a Level 1, Level 2 and Level 3 basis.

In accordance with the requirements of APS 310 and 3PS 310:

 - Where the ADI is the head entity of a Level 2 or Level 3 group, the auditor can issue either separate reports for Level 1, Level 2 and Level 3, or a combined report for the ADI (head entity) and the group.
 - The auditor's report must make it clear where the auditor is referring to matters relating to the ADI/head entity or the group.
3. APS 910 *Financial Claims Scheme* auditor's report

Although there is some overlap between APS 310 and APS 910 engagements, APRA's preference is for a separate assurance report to be prepared for the purposes of reporting pursuant to APS 910, which is required to be submitted to APRA at the same time as the APS 310 assurance report. Refer to Appendix 5 of this Guidance Statement for an Example Annual Prudential Assurance Report prepared pursuant to APS 910.

Where an ADI or ADI group is not subject to the requirements of APS 910, for example, a foreign ADI, references to APS 910 need to be removed.¹²⁹

¹²⁹ APS 910 *Financial Claims Scheme* does not apply to foreign ADIs and providers of purchased payments facilities. See APS 910, paragraph 2.

To:

[Appropriate addressee¹³⁰] of [name of ADI] [and/or Level 2 ADI group and/or Level 3 group]

[Australian Prudential Regulation Authority]

Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standards APS 310 and 3PS 310 Audit and Related Matters for the financial year ended [date]

1. Introduction

We have performed reasonable and limited assurance engagements, as applicable, pursuant to the reporting requirements specified in Australian Prudential Regulation Authority (APRA) Prudential Standards APS 310 and 3PS 310 *Audit and Related Matters* (APS 310) (3PS 310), as described in PARTS A to D of this report, for the:

- (a) Level 1 ADI, [name of ADI] [including any extended licensed entities] (the ADI).
- (b) the Level 2 ADI group, [name of ADI and its controlled entities] (the Level 2 ADI group).
- (c) the Level 3 conglomerate group, [name of ADI] and all entities determined by APRA to be members of the Level 3 group (the Level 3 group).

APS 310 and 3PS 310 require an ADI and/or ADI group to appoint an auditor to undertake an annual assurance engagement, as set out in those Prudential Standards. The responsibilities and reporting requirements arising from this appointment, have been outlined in our letter of engagement dated [date].

[If applicable: APS 310 also requires us to perform a limited assurance engagement on the controls implemented by the ADI to ensure compliance with prudential requirements which includes compliance with APS 910 *Financial Claims Scheme*. Refer to Part C(a)(i) of this report. The scope of work undertaken and our conclusions relating to this work have been included in our report titled *Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standard APS 910 Financial Claims Scheme for the period [date] to [date]*, issued on [report date¹³¹], a copy of which is attached.¹³² This report [was/was not] subject to modification.]¹³³

[If applicable: Our Independent Auditor's Report on the Financial Report of [ADI name and group name] for the year ended [insert day, month and year end] was signed on [date] and [was/was not] subject to modification. Our audit [and review] of the financial report(s) required under the *Corporations Act 2001*¹³⁴ was directed towards obtaining sufficient evidence to form an opinion under the appropriate legislation. Our statutory audit [and review] was not designed to enable us to conclude on other matters outlined in APS 310 and 3PS 310.

Accordingly, we have performed additional procedures in order to form our reasonable assurance opinion and limited assurance conclusions, as applicable, pursuant to the reporting requirements specified in APS 310 for the ADI [and/or the Level 2 ADI group] and 3PS 310 for the Level 3 group.]¹³⁵

¹³⁰ Amend to reflect the appropriate addressee of the report, for example, Chairman of Board or Board Audit Committee for a locally incorporated ADI or, for a foreign ADI (i.e. a branch of a foreign ADI), the senior officer outside Australia to whom authority has been delegated, in accordance with Prudential Standard CPS 510 *Governance*, for overseeing the Australian operations.

¹³¹ Should be the same date as for the APS 310/3PS 310 report(s).

¹³² Refer to Appendix 5 of this Guidance Statement.

¹³³ Delete this paragraph if not relevant, for example, in relation to foreign ADIs which are not subject to APS 910. Where the APS 910 auditor's report is modified, this is referred to in the introduction to the APS 310/3PS 310 auditor's report and may lead to a modification of the APS 310/3PS 310 auditor's report.

¹³⁴ Or other appropriate local or overseas legislation.

¹³⁵ Delete if no statutory audit is performed, for example, in relation to foreign branches.

2. [Qualified/Adverse/Disclaimer of] Opinion and Conclusions¹³⁶

PART A – Reasonable Assurance on Information included in Specified ADI Reporting Forms at financial year-end, sourced from Accounting Records

In our opinion, [except for the effects of the matter(s) described in the *Basis for [Qualified/Adverse/Disclaimer of] Opinion and Conclusions* section of this report,] the information in the Specified ADI Reporting Forms of the ADI [and/or the Level 2 ADI group and/or the Level 3 group] as at [financial year-end], sourced from the ADI's [and/or the Level 2 ADI group's and/or the Level 3 group's] accounting records, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

The ADI Reporting Forms which are the subject of this assurance report are [attached or disclosed] in Appendix [insert]:

[Two different approaches are possible to identify ADI Reporting Forms which are the subject of the opinion:

Option 1:

Attach all the ADI Reporting Forms, which are the subject matter of this assurance report, to the report, and identify on each ADI Reporting Form the date it was submitted and whether or not the data items have been subjected to a reasonable or limited assurance engagement. Include in the assurance report by reference to “the data identified on the ADI Reporting Forms attached under Attachment [insert]”

Option 2:

Alternatively, list here, or include a reference to an appendix which lists the specific title, number and date submitted of each relevant ADI Reporting Form, based on those specified in Attachment A of APS 310, where such forms contain information sourced from accounting records, which have been subjected to a reasonable assurance engagement.

Note:

Clearly identify data items within each ADI Reporting Form that have been sourced from accounting records and are therefore the subject matter of this opinion.]

PART B – Limited Assurance on Information included in Specified ADI Reporting Forms at financial year-end, sourced from Non-accounting Records

Based on the procedures we have performed and the evidence we have obtained as part of our limited assurance engagement, which is not a reasonable assurance engagement, [and except for the effects of the matter(s) described in the *Basis for [Qualified/Adverse/Disclaimer of] Opinion and Conclusions* section of this report,] nothing has come to our attention that causes us to believe that the information in the ADI Reporting Forms of the ADI [and/or the Level 2 ADI group and/or the Level 3 group] as at [financial year-end], sourced from non-accounting records, is not, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

The ADI Reporting Forms which are the subject of this assurance report are [attached or disclosed] in Appendix [insert]:

[Two different approaches are possible to identify ADI Reporting Forms which are the subject of the conclusion:

¹³⁶ Where the auditor determines it necessary to issue a modified opinion/conclusion(s), this section will be amended to comply with the requirements set out in relevant AUASB standards. These standards also include further guidance, application material and illustrative examples, which the auditor may find useful. For example, refer to ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* and ASAE 3150, paragraphs 93-95 and Appendix 9.

Option 1:

Attach all the ADI Reporting Forms, which are the subject matter of this assurance report, to the report, and identify on each ADI Reporting Form the date it was submitted and whether or not the data items have been subjected to a reasonable or limited assurance engagement. Include in the assurance report by reference to “the data identified on the ADI Reporting Forms attached under Attachment [insert]”

Option 2:

Alternatively, list here, or include a reference to an appendix which lists the specific title, number and date submitted of each relevant ADI Reporting Form, based on those specified in Attachment A of APS 310, where such forms contain information sourced from non-accounting records, which have been subjected to a limited assurance engagement.

Note: Clearly identify data items within each ADI Reporting Form that have been sourced from non-accounting records and therefore the subject matter of this conclusion.]

PART C – Limited Assurance on Internal Controls addressing Compliance with Prudential Requirements and Reliability of Data included in ADI Reporting Forms

Based on the procedures we have performed and the evidence we have obtained as part of our limited assurance engagement, which is not a reasonable assurance engagement, [except for the effects of the matters described in the *Basis for [Qualified/Adverse/Disclaimer of] Opinion and Conclusions* section of this report,] nothing has come to our attention that causes us to believe that, in all material respects, throughout the period from [date] to [date]:

- (a) the ADI [and/or the Level 2 ADI group and/or the Level 3 group] has not implemented internal controls that are designed to ensure:
 - (i) compliance with all applicable Prudential Requirements [(excluding APS 910)]; and
 - (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the FSCODA; and
- (b) these controls have not operated effectively.

PART D – Limited Assurance on Compliance with Prudential Requirements

Based on the procedures we have performed and the evidence we have obtained as part of our reasonable and limited assurance engagements in Parts A to C above, [except for the effects of the matter(s) described in the *Basis for [Qualified/Adverse/Disclaimer of] Opinion and Conclusions* section of this report,] nothing has come to our attention that causes us to believe that, for the period [date] to [date], the ADI [and/or the Level 2 ADI group and/or the Level 3 group] has not, in all material respects, complied with all relevant Prudential Requirements under the *Banking Act 1959* (Banking Act) and the FSCODA, including compliance with APRA Prudential and Reporting Standards.

3. Basis for [Qualified/Adverse/Disclaimer of] Opinion and Conclusions

We conducted our assurance engagement in accordance with applicable Standards issued by the Australian Auditing and Assurance Standards Board (AUASB). Our responsibilities under these Standards are further described in the *Appointed Auditor’s Responsibilities* section of this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion and conclusions.

[If applicable: The bases for any modification of our opinion/conclusions below, are set out in Attachment 1 to this report.]¹³⁷

4. Responsibilities of the [Title of Those Charged with Governance]¹³⁸ and Management of the ADI [and/or the Level 2 ADI Group and/or Level 3 Group]

In accordance with APRA Prudential Standard CPS 220 *Risk Management*, it is the responsibility of the [Title of those charged with governance] of an ADI [and/or head of the Level 2 ADI group and/or head of the Level 3 group] to ensure that the ADI [and/or the Level 2 ADI group and/or Level 3 group] has prudent risk management practices.

This responsibility includes providing APRA with a Risk Management Declaration, as set out in Attachment A to CPS 220.

In relation to the APS 310/3PS 310 annual prudential assurance report(s), this responsibility includes:

- (a) ensuring that the information included in ADI Reporting Forms at the financial year-end is reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (b) establishing and maintaining internal controls that are designed to ensure:
 - (i) the ADI [and/or the Level 2 ADI group and/or Level 3 group] complies with all applicable Prudential Requirements; and
 - (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the FSCODA;
- (c) ensuring that the internal controls under (b) have operated effectively throughout the financial year;
- (d) ensuring that the ADI [and/or the Level 2 ADI group and/or the Level 3 ADI group] complies with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards, during the financial year.
- (e) The ADI [and/or the Level 2 ADI group and/or the Level 3 group] maintain accounting records which at any time disclose with reasonable accuracy the financial position of the ADI [and/or the ADI group and/or Level 3 ADI group].

Furthermore, in accordance with APS 310/3PS 310, it is the responsibility of the [Title of those charged with governance] and management of an ADI [and/or head of the Level 2 ADI group and/or head of the Level 3 group] to ensure that the auditor:

- (a) is granted access to all data, information, reports and staff of the ADI [and/or the level 2 ADI group and/or the Level 3 group] that the auditor reasonably believes is necessary to fulfil its role and responsibilities under APS 310 and 3PS 310. This includes access to the [Title of those charged with governance], [Title of those charged with governance] Committees and internal auditors, as required.
- (b) is fully informed of all prudential requirements applicable to the ADI [and/or Level 2 ADI group and/or Level 3 group]. Prudential requirements include requirements imposed by the

¹³⁷ Include a description of the matter giving rise to any qualified/adverse opinion/conclusion or, for a disclaimer of opinion/conclusion, provide the reasons for the inability to obtain sufficient appropriate evidence. Alternatively, refer to an attachment to the report which includes the information required under relevant AUASB Standards. Attachment 1 to this report shows an example attachment that may be used as a guide, adapted to take account of the circumstances of the ADI and the type of modification to be issued. APRA requires this appendix to be included as part of the report regardless of whether there are any modifications to report.

¹³⁸ Amend this term to reflect the appropriate title for those charged with governance of the ADI, for example, "Board of Directors" for a locally incorporated ADI or, for a foreign ADI, "the Senior Officer Outside Australia" to whom authority has been delegated in accordance with CPS 510, for overseeing the Australian branch operations. Insert appropriate title, when prompted, throughout the report.

Act, regulations, prudential standards, the FSCODA, reporting standards, conditions on authority and any other requirements imposed by APRA, in writing, in relation to an ADI.

- (c) is provided with any other information APRA has provided to the ADI [and/or Level 2 ADI group and/or Level 3 group] that may assist the auditor in fulfilling its role and responsibilities under APS 310 and 3PS 310.

5. Independence and Quality Control

In undertaking this assurance engagement, we have complied with:

- (a) the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour;
- (b) the independence requirements specified by APRA in Prudential Standard CPS 510 *Governance*;
- (c) the fitness and propriety criteria specified by APRA in Prudential Standard CPS 520 *Fit and Proper*; and
- (d) Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

6. Appointed Auditor's Responsibilities

PART A – Reasonable Assurance on Information included in Specified ADI Reporting Forms at financial year-end, sourced from Accounting Records

Our responsibility is to express an opinion, based on our reasonable assurance engagement, on whether information sourced from the ADI's [and/or the Level 2 ADI group's and/or Level 3 group's] accounting records, included in the ADI Reporting Forms at [financial year-end] as specified in Attachment A to APS 310, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

We conducted our reasonable assurance engagement in accordance with applicable Australian Auditing Standards issued by the Australian Auditing and Assurance Standards Board (AUASB). These Auditing Standards require that we plan and perform our reasonable assurance engagement to obtain reasonable assurance as to whether the relevant data included in the Specified ADI Reporting Forms are free from material misstatement.

A reasonable assurance engagement involves performing procedures to obtain evidence on whether the information sourced from the accounting records included in the Specified ADI Reporting Forms is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards. The procedures selected depend on our judgement, including our assessment of the risks of material misstatement of the data in the Specified ADI Reporting Forms, whether due to fraud or error. In making those risk assessments, we considered internal control systems and compliance functions relevant to the preparation of the Specified ADI Reporting Forms, in order to design assurance procedures that are appropriate in the circumstances.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our reasonable assurance opinion.

PART B – Limited Assurance on Information included in Specified ADI Reporting Forms at financial year-end, sourced from Non-accounting Records

Our responsibility is to perform a limited assurance engagement on the information sourced from the ADI's [and/or the Level 2 ADI group's and/or Level 3 group's] non-accounting records, included in ADI Reporting Forms at [financial year-end] as specified in Attachment A to APS 310, and to express

a conclusion based on the limited assurance procedures we have performed and the evidence we have obtained.

We conducted our limited assurance engagement in accordance with the AUASB's Standards on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ASAE 3000) and ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, and the AUASB's Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, as applicable, in order to state whether, on the basis of the assurance procedures performed and evidence obtained, anything has come to our attention that causes us to believe that the information in the relevant Specified ADI Reporting Forms, sourced from non-accounting records, is not, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

A limited assurance engagement consists of making enquiries of responsible ADI [and/or the Level 2 ADI group and/or the Level 3 group] personnel and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with Australian Auditing and Assurance Standards and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion.

Procedures selected depend on our judgement, including our assessment of the risks of material misstatement of the ADI Reporting Forms, whether due to fraud or error, or of a material breakdown of controls. In making those risk assessments, we considered internal control systems and compliance functions relevant to the preparation of the Specified ADI Reporting Forms in order to design limited assurance procedures that are appropriate in the circumstances.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

PART C – Limited Assurance on Internal Controls addressing Compliance with Prudential Requirements and Reliability of Data included in ADI Reporting Forms

Our responsibility is to perform a limited assurance engagement and to express a conclusion, based on the limited assurance procedures we have performed and the evidence we have obtained, on whether anything has come to our attention that causes us to believe that, in all material respects, throughout the period from [date] to [date]:

- (a) the ADI [and/or Level 2 ADI group and/or the Level 3 group] has not implemented internal controls that are designed to ensure:
 - (i) compliance with all applicable Prudential Requirements [(excluding APS 910)]; and
 - (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the FSCODA; and
- (b) these controls have not operated effectively.

We conducted our limited assurance engagement on controls in accordance with the AUASB's Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls*.

A limited assurance engagement on controls in accordance with ASAE 3150 involves performing procedures to obtain evidence about the design, implementation and operating effectiveness of controls. The procedures selected depend on our judgement, including our assessment of the risks of material deficiencies in the design and/or implementation of the controls, or deviation in their operating effectiveness. In making those risk assessments, we considered internal control systems and compliance functions relevant to ensuring compliance with all Prudential Requirements and provision

of reliable data to APRA in ADI Reporting Forms prepared under the FSCODA, in order to design assurance procedures that are appropriate in the circumstances.

Procedures performed in our limited assurance engagement primarily consist of making enquiries of management and other responsible personnel within the ADI [and/or the Level 2 ADI group and/or the Level 3 group], as appropriate, examination of design specifications and documentation, and observation of implementation and operation of controls.

[The auditor considers including an informative summary of the nature, timing and extent of procedures performed that, in the auditor's judgement, provides additional information that may be relevant to the users' understanding of the basis for the auditor's conclusion.¹³⁹]

Where we become aware of matters that cause us to believe that the controls may not be suitably designed, implemented or operating effectively, we will perform additional procedures.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are substantially less in scope than for, a reasonable assurance engagement conducted in accordance with Australian Auditing and Assurance 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/ reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion on the controls.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

PART D – Limited Assurance on Compliance with Prudential Requirements

Our responsibility is to express a limited assurance conclusion, based on our work performed under Parts A to C above, on whether anything has come to our attention that causes us to believe that, for the period [date] to [date], the ADI [and/or the Level 2 ADI group and/or Level 3 group] has not, in all material respects, complied with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

7. Inherent Limitations

Due to the inherent limitations of any internal control and compliance framework it is possible that, even if the controls are suitably designed and operating effectively, the control objectives may not be achieved and that fraud, error, or non-compliance with Prudential Requirements may occur and not be detected. Further, the internal control structure, within which the controls that we have assured operate, has not been assured and no opinion is expressed as to its design or operating effectiveness.

Projections of any evaluation of internal control procedures or compliance measures to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate.

A reasonable or limited assurance engagement is not designed to detect all misstatements in ADI Reporting Forms, or deficiencies and/or deviations in internal controls, or instances of non-compliance with applicable Prudential Requirements, as assurance engagement procedures are not performed continuously throughout the period and procedures performed are undertaken on a test basis.

Consequently, there are inherent limitations on the level of assurance that can be provided.

¹³⁹ The auditor may include a summary of procedures performed but not to the extent that it is ambiguous or described in a manner that is overstated or that could suggest that reasonable assurance has been obtained. It is also important that the description of the procedures does not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan.

The opinion and conclusions expressed in this report, are to be read in the context of the foregoing comments.

8. General and Specific Observations

In addition to any scope limitations and other qualifications reported in Attachment 1 to this report, we have reported relevant observations (where applicable) arising from the work we have performed in Attachment 2 to this report.¹⁴⁰

9. Other Matter - Restriction on Distribution and Use

This report has been prepared for distribution to the [Title of those charged with governance] of the ADI [and/or the head of the Level 2 ADI group and/or the head of the Level 3 group] and APRA, in accordance with the terms of our engagement letter dated [date], in order to satisfy APRA's prudential reporting requirements for appointed auditors, as specified in APS 310 and 3PS 310. As a result, this report may not be suitable for another purpose.

This report is not to be distributed to any party other than those to whom it is addressed, APRA, and other parties to whom APRA is lawfully entitled to provide relevant information ("Other Parties"). In accordance with the *Australian Prudential Regulation Authority Act 1998*, APRA may make this report available to Other Parties when APRA is satisfied that such information may assist those parties in performing their functions or exercising their powers. We disclaim any assumption of responsibility for any reliance on this report, or the subject matter to which it relates, to any party other than the ADI [and/or the Level 2 ADI group and/or the Level 3 group] and APRA in the performance of its functions under the Banking Act, or for any purpose other than that for which it was prepared.

[Firm]

[Name of appointed auditor]

[Date of the auditor's report]

[Auditor's address]

¹⁴⁰ Provide details of other significant (but not material) findings or matters arising from the engagement considered necessary to highlight to APRA for information purposes, but which do not impact on the opinion/conclusion in an attachment to the assurance report. Attachment 2 to this example assurance report shows an example attachment that may be used as a guide, adapted to take account of the circumstances of the ADI and nature of findings or matters arising. APRA expects this appendix to be included as part of the report regardless of whether or not there are any observations to report.

Attachment 1: Basis for [Qualified/Adverse/Disclaimer of] Opinion/Conclusions

[The following example attachment may be used by the appointed auditor to report material findings or exceptions, in circumstances where a modification to the auditor's opinion/conclusions is required. It is to be used as a guide only and will need to be adapted according to the engagement requirements and circumstances of the ADI, subject matter information, and the type of modified opinion/conclusion issued.]

[Note: APRA expects Attachment 1 to be included as part of the APS 310/3PS 310 annual prudential assurance report regardless of whether or not there are any modifications to the auditor's opinion/conclusions to report.]

This attachment accompanies, and forms part of, the *Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standards APS 310 and 3PS 310 Audit and Related Matters for the financial year ended [date], dated [insert report date]*.

[If applicable: Our prudential assurance report pertaining to the Financial Claims Scheme for the period [date] to [date], issued on [date], [was/was not] subject to modification.] [Details of those modifications can be found in Attachment [insert] to that report, a copy of which is attached.]

If there are no modifications, insert the following words:

There were no matters arising that resulted in a modification of our opinion/conclusions in our report.

If there are modifications, then insert the following words below:

During our limited assurance engagement, we noted the following:

Scope Limitations

We have been unable to obtain sufficient appropriate evidence in order to form an opinion in relation to the following items:

[Insert details of the subject matter to which a limitation of scope is being applied, providing a context as to why these items have been included within the limitation of scope].

Basis for other Qualified Opinion and Conclusions¹⁴¹

Material Misstatements in ADI Reporting Forms (Parts A and B of the Engagement)

During our reasonable and limited assurance engagements in relation to ADI Reporting Forms, we noted the following:

Form name	Date(s)	Error in Line No:	Reported Amount	Correct Amount	Error due to	Recommendation	Action taken

Material Internal Control Deficiencies and/or Deviations

¹⁴¹ It is recommended that the basis for any qualifications be set out in this manner to highlight whether APRA are already aware of the matters being raised.

[Include a description of the matter giving rise to any qualified/adverse conclusion or, for a disclaimer of conclusion, provide the reasons for the inability to obtain sufficient appropriate evidence. ASAE 3150, paragraphs 93-95 and Appendix 9, may provide helpful guidance.]

Significant Non-compliance with Prudential Requirements

Significant non-compliance with relevant Prudential Requirements under the *Banking Act 1959* and the *Financial Sector (Collection of Data) Act 2001*, including APRA Prudential and Reporting Standards, identified during the financial year and up to the date of signing the auditor's assurance report.

- (a) Matters not previously reported to APRA:

[Include a description of each new matter/non-compliance. For this category include correspondence with APRA (if any), recommendations for remediation and management actions and/or plans, if applicable.]

- (b) Matters previously reported to APRA by the appointed auditor:

[Include a description of each of the matters/non-compliance (if any) reported to APRA by the auditor in relation to the ADI for the financial year under review, recommendations for remediation and management actions and/or plans, if applicable.]

- (c) Matters previously reported to APRA by the ADI [and/or the Level 2 ADI group and/or the Level 3 group]:

[Include a description of each of the matters/non-compliance (if any) the ADI has reported to APRA for the financial year under review, recommendations for remediation and management actions and/or plans, if applicable.]

Attachment 2: General and Specific Observations

[Note: APRA expects Attachment 2 to be included as part of the APS 310/3PS 310 assurance report regardless of whether or not there are any observations to report.]

This attachment accompanies, and forms part of, the *Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standards APS 310 and 3PS 310 Audit and Related Matters for the financial year ended [date]*, dated [insert report date].

If there are no observations, insert the following words:

There were no adverse matters observed within the scope of our APS 310/3PS 310 engagement.

If there are observations, then insert the following words below:

The following findings (individually or collectively) did not cause us to qualify the *Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standards APS 310 and 3PS 310 Audit and Related Matters for the financial year ended [date]*, dated [insert report date].

(a) General Observations

[insert all applicable APS 310/3PS 310 general observations]

(b) Specific Observations

[insert all applicable APS 310/3PS 310 specific observations]

Appendix 5

(Ref: Para. 218, 291; Appendix 4)

EXAMPLE ANNUAL PRUDENTIAL ASSURANCE REPORT

Engagements undertaken pursuant to APRA Prudential Standard APS 910 *Financial Claims Scheme* (Routine Reporting)

The following example auditor's report is to be used as a guide only and will need to be adapted according to the individual engagement requirements and circumstances of the ADI.

Note:

Although there is some overlap between APS 310 and APS 910 engagements, APRA's preference is for a separate assurance report to be prepared for the purpose of reporting pursuant to APS 910, which is required to be submitted to APRA at the same time as the APS 310 assurance report.

To:

[Appropriate addressee¹⁴²] of [name of ADI]

[Australian Prudential Regulation Authority]

Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standard APS 910 *Financial Claims Scheme* for the period [date] to [date]

1. Introduction

We have performed a limited assurance engagement on the adequacy of design and operating effectiveness of the controls of [insert ADI name] (the ADI) in relation to the Single Customer View (SCV) data and Financial Claims Scheme (FCS) payment instruction and reporting information from [start date] to [end date] pursuant to the reporting requirements specified in Australian Prudential Regulation Authority (APRA) Prudential Standard APS 310 *Audit and Related Matters* (APS 310) and Prudential Standard APS 910 *Financial Claims Scheme* (APS 910)¹⁴³. This assurance report pertains to the ADI being able to meet the requirements of APS 910 in the event it is declared subject to the FCS. This report should be read in conjunction with the *Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standard(s) APS 310 [and 3PS 310] Audit and Related Matters for the financial year ended [year end]* dated [date of APS 310 report¹⁴⁴] which was issued in accordance with the reporting requirements of APS 310.

APS 310 and APS 910 require the ADI to appoint an independent auditor to undertake annual assurance engagements, as set out in those Prudential Standards. The responsibilities and reporting requirements arising from this appointment have been outlined in our letter of engagement dated [insert date].

[Our independent auditor's report on the financial report of [insert ADI name and group name] for the year ended [insert day, month and year end] was signed on [date] and [was/was not] subject to modification. As statutory auditor, our work is directed towards obtaining sufficient audit evidence to form an opinion under the *Corporations Act 2001*. This audit work was not designed to enable us to conclude on the matters outlined in APS 310 and APS 910.

Accordingly, we have performed additional procedures in order to form our conclusions, as applicable, pursuant to the reporting requirements specified in APS 310 and APS 910 for the ADI, as they relate to APS 910.]¹⁴⁵

2. [Qualified/Adverse/Disclaimer of] Conclusions¹⁴⁶

Our limited assurance conclusions have been formed on the basis of the matters outlined in this assurance report.

[Where the auditor determines it necessary to issue a modified conclusion(s), the respective part(s) are modified as appropriate]

¹⁴² Amend to reflect the appropriate addressee of the report, for example, Chairman of Board or Board Audit Committee.

¹⁴³ Insert: "as detailed in [Title of ADI document, that is, management's APS 910 internal control report/statement] dated [insert date]", as applicable.

¹⁴⁴ Should be the same date as for the APS 310/3PS 310 report(s).

¹⁴⁵ Delete if not the statutory auditor for the ADI.

¹⁴⁶ Where the auditor determines it necessary to issue a modified conclusion(s), this section will be amended to comply with the requirements of ASAE 3150. This standard also includes further guidance, application material and illustrative examples which the auditor may find useful. For example, refer to paragraphs 93-95 and Appendix 9 of ASAE 3150.

PART A – Limited Assurance on Internal Controls addressing Generation of SCV Data and FCS Payment Instruction and Reporting Information¹⁴⁷

Based on the procedures we have performed and the evidence we have obtained as part of our limited assurance engagement, which is not a reasonable assurance engagement, [except for the effect of the matter(s) described in the *Basis for [Qualification/Adverse/Disclaimer of] Conclusions* section of this report,] nothing has come to our attention that causes us to believe that, in all material respects, throughout the period from [start date] to [end date]:

- (a) the ADI did not have controls that are designed to ensure that SCV data as set out in Attachment A to APS 910, to the extent practicable, and FCS payment instruction and reporting information can be relied upon as being complete and accurate and in accordance with APS 910; and
- (b) these controls have not operated effectively when tested.

PART B – Limited Assurance on Internal Controls addressing Compliance with Prudential Requirements¹⁴⁸ relating to APS 910 conducted as part of APS 310 Requirements¹⁴⁹

Based on the procedures we have performed and the evidence we have obtained as part of our limited assurance engagement, which is not a reasonable assurance engagement, [except for the effect of the matter(s) described in the *Basis for [Qualified/Adverse/Disclaimer of] Conclusions* section of this report,] nothing has come to our attention that causes us to believe that, in all material respects, throughout the period from [start date] to [end date]:

- (a) the ADI did not have controls that are designed to ensure compliance with all applicable Prudential Requirements relating to APS 910; and
- (b) these controls have not operated effectively.

PART C – Reporting on Compliance with Prudential Requirements¹⁵⁰

Based on the procedures we have performed and the evidence we have obtained as part of our limited assurance engagements in Parts A and B above, [except for the effects of the matter(s) described in the *Basis for [Qualified/Adverse/Disclaimer of] Conclusions* section of this report,] nothing has come to our attention that causes us to believe that, for the period [start date] to [end date], the ADI has not, in all material respects, complied with all relevant Prudential Requirements under the *Banking Act 1959* (Banking Act) relating to APS 910.

3. Basis for [Qualified/Adverse/Disclaimer of] Conclusions

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls*, issued by the Auditing and Assurance Standards Board (AUASB). Our responsibilities under this Standard are further described in the *Appointed Auditor's Responsibilities* section of this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

¹⁴⁷ Refer to paragraph 27 of APS 910.

¹⁴⁸ "Prudential Requirements" is defined in APRA Prudential Standard APS 001 *Definitions* and includes requirements imposed by the Banking Act, Prudential Standards made under the Banking Act, Reporting Standards made under the FSCODA, conditions on the ADI's authorisation, and any other requirements imposed by APRA in writing.

¹⁴⁹ See paragraph 36(d) of APS 310

¹⁵⁰ See paragraph 36 of APS 310

[If applicable: The bases for any modification of our conclusions below, are set out in Attachment 1 to this report.]¹⁵¹

4. Responsibilities of the [Title of Those Charged with Governance]¹⁵² and Management of the ADI

In accordance with APS 310, as it pertains to APS 910, it is the responsibility of the [Title of those charged with governance] and management of the ADI to:

- (a) establish and maintain internal controls that are designed to ensure the ADI complies with all applicable prudential requirements;
- (b) ensure that these controls operated effectively throughout the financial year; and
- (c) ensure that the ADI complies with all relevant Prudential Requirements under the Banking Act, including compliance with Prudential Standards, throughout the financial year.

In addition, in accordance with APS 910 specifically, it is the responsibility of the [Title of those charged with governance] and management of the ADI to ensure that appropriate policies and procedures are in place to ensure the integrity of operations, internal controls and information required by APS 910. This includes, but is not limited to, responsibility for the ADI:

- (a) undertaking all necessary steps to ensure compliance with APS 910;
- (b) ensuring systems and processes are in place to identify, to the extent practicable, each unique account-holder who holds a protected account;
- (c) calculating a SCV for each unique account holder identified in accordance with relevant requirements;
- (d) being able to generate and transmit payment instruction information for FCS purposes to the RBA, or another paying agent nominated by APRA;
- (e) being able to generate and transmit reporting information to APRA, an account-holder, the Australian Tax Office (ATO) and any other party nominated by APRA;
- (f) ensuring systems and associated controls are adequate for the purposes of ensuring that data generated by SCV systems are complete and accurate, to the extent practicable;
- (g) ensuring systems and associated controls are adequate for the purposes of ensuring that the FCS payment instruction and reporting information generated and transmitted by the systems, including the ability to capture alternative ADI account data, are complete and accurate;
- (h) complying with the communications requirements set out in APS 910; and
- (i) complying with the testing requirements set out in APS 910.

¹⁵¹ Attachment 1 to this report shows an example attachment that may be used as a guide, adapted to take account of the circumstances of the ADI and the type of modification to be issued. APRA requires this appendix to be included as part of the report regardless of whether there are any modifications to report. Include the information required under ASAE 3150, for example, a description of the matter giving rise to any qualified/adverse conclusion or, for a disclaimer of conclusion, provide the reasons for the inability to obtain sufficient appropriate evidence.

¹⁵² Amend this term to reflect the appropriate title for those charged with governance of the ADI, for example, "Board of Directors". Insert appropriate title, when prompted, throughout the report.

5. Independence and Quality Control

In undertaking this assurance engagement, we have complied with:

- (a) the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour;
- (b) the independence requirements specified by APRA in Prudential Standard CPS 510 *Governance*;
- (c) the fitness and propriety criteria specified by APRA in Prudential Standard CPS 520 *Fit and Proper*; and
- (d) Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

6. Appointed Auditor's Responsibilities

Our responsibility is to perform a limited assurance engagement as required under APS 310 and APS 910, and to express a conclusion, based on our engagement as described below, on whether anything has come to our attention that causes us to believe that, in all material respects, throughout the period from [start date] to [end date]:

PART A – Generation of SCV Data and FCS Payment Instruction and Reporting Information

In relation to APS 910, paragraph 27:

- (a) the ADI did not have controls that are designed to ensure that SCV data, to the extent practicable, and FCS payment instruction and reporting information can be relied upon as being complete and accurate and in accordance with APS 910; and
- (b) these controls have not operated effectively when tested.

[Please refer this responsibility to Part A of Section 2 [*Qualified/Adverse/Disclaimer of*] *Conclusions* of this report.]

PART B – Internal Controls addressing Compliance with Prudential Requirements relating to APS 910 conducted as part of APS 310 Requirements

In relation to APS 310 paragraph 36(d):

- (a) the ADI did not have controls that are designed to ensure that the ADI complies with all applicable prudential requirements relating to APS 910; and
- (b) these controls have not operated effectively throughout the financial year.

[Please refer this responsibility to Part B of Section 2 [*Qualified/Adverse/Disclaimer of*] *Conclusions* of this report.]

PART C – Reporting on Compliance with Prudential Requirements

In relation to APS 310 paragraph 36, based on our work performed under Parts A and B above, the ADI has not, in all material respects, complied with all relevant prudential requirements under the Banking Act relating to APS 910.

[Please refer this responsibility to Part C of Section 2 [*Qualified/Adverse/Disclaimer of*] *Conclusions* of this report.]

Scope of Limited Assurance Engagement

A limited assurance engagement on controls in accordance with ASAE 3150 involves performing procedures to obtain evidence about the design, implementation and operating effectiveness of controls. The procedures selected depend on our judgement, including our assessment of the risks of material deficiencies in the design and/or implementation of the controls, or deviation in their operating effectiveness. In making those risk assessments, we considered internal control systems and compliance functions relevant to ensuring compliance with APS 910 and specifically the requirements set out above in relation to the SCV data and FCS payment instruction and reporting information.

Procedures performed in our limited assurance engagement primarily consist of making enquiries of management and other responsible personnel within the ADI, examination of design specifications and documentation on a sample basis, observation of implementation and operation of the controls, events or business routines implemented by the ADI as well as testing practices and results in order to meet the control objectives identified in Attachment 3 of this report¹⁵³.

[The auditor considers including an informative summary of the nature, timing and extent of procedures performed that, in the auditor's judgement, provides additional information that may be relevant to the users' understanding of the basis for the auditor's conclusion.¹⁵⁴]

Where we become aware of matters that cause us to believe that the controls may not be suitably designed, implemented or operating effectively, we will perform additional procedures.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are substantially less in scope than for a reasonable assurance engagement conducted in accordance with Australian Auditing and Assurance 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/ reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion on the controls.

7. Inherent limitations

Due to the inherent limitations of any internal control and compliance framework it is possible that, even if the controls are suitably designed and operating effectively, the control objectives may not be achieved and that fraud, error, or non-compliance with Prudential Requirements may occur and not be detected. Further, the internal control structure, within which the controls that we have assured operate, has not been assured and no opinion is expressed as to its design or operating effectiveness.

Projections of any evaluation of internal control procedures or compliance measures to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate.

A limited assurance engagement is not designed to detect all deficiencies in internal controls, or instances of non-compliance with applicable Prudential Requirements, as procedures are not performed continuously throughout the period and procedures performed are undertaken on a test basis.

Consequently, there are inherent limitations on the level of assurance that can be provided.

The conclusions in this report are to be read in the context of the foregoing comments.

¹⁵³ Attachment 3 to this example assurance report shows an example attachment that may be used as a guide.

¹⁵⁴ The auditor may include a summary of procedures performed but not to the extent that it is ambiguous or described in a manner that is overstated or that could suggest that reasonable assurance has been obtained. It is also important that the description of the procedures does not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan.

8. General and Specific Observations

In addition to any scope limitations and other qualifications reported in Attachment 1 to this report, we have reported relevant observations (where applicable) arising from the work we have performed in Attachment 2 to this report.¹⁵⁵

9. Other Matter - Restriction on Distribution and Use

This report has been prepared for distribution to the [Title of those charged with governance] of the ADI and APRA, in accordance with the terms of our engagement letter dated [date], in order to satisfy APRA's prudential reporting requirements for appointed auditors of ADIs, as specified in APS 310 (as it relates to APS 910) and APS 910. As a result, this report may not be suitable for another purpose.

This report is not to be distributed to any party other than those to whom it is addressed, APRA, and other parties to whom APRA is lawfully entitled to provide relevant information ("Other Parties"). In accordance with the *Australian Prudential Regulation Authority Act 1998*, APRA may make this report available to Other Parties when APRA is satisfied that such information may assist those parties in performing their functions or exercising their powers. We disclaim any assumption of responsibility for any reliance on this report or the subject matter to which it relates, to any party other than the [Title of those charged with governance] of the ADI and APRA in the performance of its functions under the Banking Act, or for any purpose other than that for which it was prepared.

[Firm]

[Name of appointed auditor]

[Date of auditor's report]

[Auditor's address]

¹⁵⁵ Provide details of other significant (but not material) findings or matters arising from the engagement considered necessary to highlight to APRA for information purposes, but which do not impact on the conclusion, in an attachment to the assurance report. Attachment 2 to this example assurance report shows an example attachment that may be used as a guide, adapted to take account of the circumstances of the ADI and nature of findings or matters arising. APRA expects this appendix to be included as part of the report regardless of whether or not there are any observations to report.

Attachment 1: Basis for [Qualified/Adverse/Disclaimer of] Conclusions

[The following example attachment may be used by the appointed auditor to report material findings or exceptions, in circumstances where a modification to the auditor's conclusions is required. It is to be used as a guide only, and will need to be adapted according to the engagement requirements and circumstances of the ADI, subject matter information, and the type of modified conclusion issued.]

[Note: APRA expects Attachment 1 to be included as part of the APS 910 annual prudential assurance report regardless of whether or not there are any modification to the auditor's conclusions to report.]

This attachment accompanies, and forms part of, the *Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standard APS 910 Financial Claims Scheme for the period [start date] to [end date] dated [insert report date]*.

If there are no modifications, insert the following words:

There were no matters arising that resulted in a modification of our conclusions in our report.

If there are modifications, then insert the following words below:

During our limited assurance engagement, we noted the following:

Scope Limitations

We have been unable to obtain sufficient appropriate evidence in order to form a conclusion in relation to the following items:

[Insert details of the subject matter to which a limitation of scope is being applied, providing a context as to why these items have been included within the limitation of scope].

Basis for other Qualified/Adverse Conclusions

Material Internal Control Deficiencies and/or Deviations

[Include a description of the matter giving rise to any qualified/adverse conclusion or, for a disclaimer of conclusion, provide the reasons for the inability to obtain sufficient appropriate evidence. ASAE 3150, paragraphs 93-95 and Appendix 9, may provide helpful guidance.]

Significant Non-compliance with Prudential Requirements¹⁵⁶

Significant non-compliance with relevant Prudential Requirements under the *Banking Act 1959* and the *Financial Sector (Collection of Data) Act 2001*, including APRA Prudential and Reporting Standards, identified during the financial year and up to the date of signing the auditor's assurance report.

- (a) Matters not previously reported to APRA

[Include a description of each new matter/non-compliance. For this category include correspondence with APRA (if any), recommendations for remediation and management actions and/or plans, if applicable.]

- (b) Matters previously reported to APRA by the appointed auditor

¹⁵⁶ It is recommended that the basis for any qualifications be set out in this manner to highlight whether APRA are already aware of the matters being raised.

[Include a description of each of the matters/non-compliance (if any) reported to APRA by the auditor in relation to the ADI for the financial year under review, recommendations for remediation and management actions and/or plans, if applicable.]

(c) Matters previously reported to APRA by the ADI

[Include a description of each of the matters/non-compliance (if any) the ADI has reported to APRA for the financial year under review from [date] to [date], recommendations for remediation and management actions and/or plans, if applicable.]

[Note: If these matters were material to the conclusion, they should be incorporated in the basis of qualified auditors conclusion.]

Attachment 2: General and Specific Observations

[Note: APRA expects Attachment 2 to be included as part of the APS 910 annual prudential assurance report regardless of whether or not there are any observations to report.]

This attachment accompanies, and forms part of, the *Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standard APS 910 Financial Claims Scheme for the period [start date] to [end date] dated [insert report date]*.

If there are no observations, insert the following words:

There were no adverse matters observed within the scope of this limited assurance APS 910 engagement.

If there are observations, then insert the following words below:

The following findings (individually or collectively) did not cause us to qualify the *Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standard APS 910 Financial Claims Scheme for the period [start date] to [end date] dated [insert report date]*.

(c) General Observations

[insert all applicable APS 910 general observations]

(d) Specific Observations

[insert all applicable APS 910 specific observations]

Attachment 3: Control Objectives and Evaluation Criteria (Ref: Para 221,225; Attachment 4 to Appendix 5)

[The following example attachment may be used by the appointed auditor for the purpose of identifying the control objectives used as criteria for evaluating the design, implementation and operating effectiveness of controls. It is to be used as a guide only and will need to be adapted according to the engagement requirements and circumstances of the ADI.]

This attachment accompanies, and forms part of, the *Independent Auditor's Annual Prudential Assurance Report pursuant to APRA Prudential Standard APS 910 Financial Claims Scheme for the period [start date] to [end date] dated [insert report date]*.

The following criteria have been used to evaluate the ADI's compliance with the requirements of APS 910.

Control Objectives

ADI controls are to meet the following control objectives:

Suitably designed controls are implemented to ensure that Single Customer View (SCV) data, Financial Claims Scheme (FCS) payment instruction information and FCS reporting information, to the extent practicable, can be relied upon as being:

- (a) complete and accurate; and
- (b) in accordance with APS 910, including the requirements as specified in APS 910 Attachment A, paragraph 6.

The term 'to the extent practicable' is explained in Attachment 4 to this assurance report.

Completeness and Accuracy

When evaluating the controls designed and operated by the ADI, we have taken the terms "completeness" and "accuracy" to have the meaning attributed to them in paragraph 16 of APRA's Prudential Practice Guide CPG 235 *Managing Data Risk* (CPG 235), on the basis that the controls that are the subject of the limited assurance engagement relate to the data used to generate the SCV, payment instruction information and reporting information. The definitions provided in CPG 235 are as follows:

- (a) Accuracy: the degree to which data is error free and aligns with what it represents; and
- (b) Completeness: the extent to which data is not missing and is of sufficient breadth and depth for the intended purpose.

Testing

When assessing whether the controls have operated effectively when tested, the ADI's testing in accordance with APRA's testing schedule has been considered and assessed. This includes the ADI's ability to run testing in sequence within the designated timeframes to ensure the timeliness of SCV data, FCS payment instruction information and FCS reporting information.

[Where the auditor believes further clarification may be beneficial, the auditor considers including APRA's APS 910 Testing Schedule for ADI's¹⁵⁷, which outlines the minimum requirements for regular APS 910 testing, as an attachment to the assurance report.]

¹⁵⁷ See paragraph 25 of APS 910, which requires an ADI to undertake testing in accordance with a testing schedule specified by APRA in writing. Refer to the *Financial Claims Scheme Frequently Asked Technical Questions for ADIs* (Question 13.2) on APRA's website at: <https://www.apra.gov.au/financial-claims-scheme-frequently-asked-technical-questions-for-authorised-deposit-taking-0>.

Attachment 4: Additional Guidance (Ref: para 226, 228; Attachment 3 to Appendix 5)

To the extent practicable

When evaluating the design, implementation and operating effectiveness of ADI controls, we have taken the term “to the extent practicable” to have the meaning attributed to it by APRA in their *Information paper: Financial Claims Scheme for authorised deposit-taking institutions (August 2013)* (Information Paper)¹⁵⁸ (see below). We have also had regard for relevant APRA responses to Financial Claims Scheme Frequently Asked Technical Questions (FAQs)¹⁵⁹ (see below).

We note that the guidance provided by APRA in the Information Paper and FAQs with respect to the term “to the extent practicable”, is principle-based, and does not limit the application of professional judgement. We have engaged with both the ADI and APRA in interpreting this term in the relevant contexts as the issues relating to the extent practicable vary on a case by case basis.

Information Paper, paragraph 37 on page 11:

“The relief granted by the term ‘to the extent practicable’ in relation to the SCV in APS 910 is recognition that, when compiling the SCV using available data, some issues may arise initially with the aggregation and/or data matching. APRA envisages that any deficiencies identified would be noted and plans for enhancements and further testing would be put in place. Over time, with continuous improvement, these issues are expected to be resolved to ensure that SCVs are as accurate as possible and that the FCS limit is correctly applied.”

APRA responses to relevant FAQs:

Section 3 Clearance:

FAQ 3.1: “What happens to funds that have not been ‘cleared’ in accordance with the Banking Regulations at the time of generating payment instruction information?”

Paragraph 11 of APS 910 requires that an ADI ‘must be able, to the extent practicable, to identify payment instruction information’. APRA expects ADIs to be able to identify cleared and uncleared funds accurately, to the extent practicable, at the time of generating the payment instruction information. APRA acknowledges that payment data contained in the payment instruction information may be different from the FCS entitlement under the Banking Act 1959 and Banking Regulations 1966. To the extent there are uncleared funds identified as part of the initial FCS entitlement that cannot be paid with a high level of confidence at the time that the payment instruction information is generated by the ADI, these amounts should be excluded from the payment instruction information. Such transactions will be dealt with subsequently by the statutory manager/liquidator of the ADI, once the period of clearance has been met in accordance with the Banking Act and Banking Regulations. (March 2014)”

¹⁵⁸ Refer to APRA’s website: [Information paper: Financial Claims Scheme for authorised deposit-taking institutions \(August 2013\)](#).

¹⁵⁹ Refer to APRA’s website: [Financial Claims Scheme - frequently asked technical questions for authorised deposit-taking institutions](#).

Section 12 – Single Customer View (SCV):

FAQ 12.2 “How accurate do SCV data and payment instruction information have to be?”

Paragraph 6 (a) of Attachment A to APS 910 requires that there be controls in place to ensure that ‘data sourced from any product, customer or other ADI system for SCV purposes are complete and accurate, to the extent practicable’. APRA accepts that there are a small number of circumstances and/or customers for which meeting all the requirements of APS 910 and (for SCV calculation purposes) the Banking Act 1959 and Banking Regulations 1966 will not be practical. This also applies to the requirement in paragraph 32(f) of APS 910 that the CEO must attest ‘that data generated by SCV systems are complete and accurate, to the extent practicable’ and the audit requirement in paragraph 27(a) of APS 910. Similarly, APRA interprets the requirement in paragraph 11 of APS 910 – that an ADI must, ‘to the extent practicable’, identify payment instruction information in accordance with Attachment C (including the requirement in paragraph 1 of that Attachment as to accuracy of the calculation) – to mean that in some limited circumstances it may be difficult for ADIs to accurately calculate the size of the FCS payment (see FAQ 3.1).”

In particular, APRA recognises that, depending on the exact timing of a Ministerial declaration, certain processes required to meet the APS 910 requirements may have to be run over non-business days. This may be the case where the declaration falls on or around a long weekend. In these instances, payment instruction information should be based on SCV data that are as accurate as practicable in the circumstances. For example, this could mean using accrual components, such as interest, calculated up to the last complete business day before declaration or using a contingency strategy to deal with transactions that are yet to be finalised for FCS purposes (such as cheques deposited but not yet exchanged, or cheque/direct entry items that have been exchanged but are awaiting clearance). In those circumstances, to the extent that the payment data contained in the payment instruction information are ultimately different from the account-holder’s FCS entitlement under the Banking Act and Banking Regulations, APRA expects that the statutory manager/liquidator of the ADI would make additional FCS payments if required. APRA expects ADIs to be mindful to avoid, as far as possible, any overpayment of the account-holder’s initial FCS entitlement. (March 2014)”



AUASB Agenda Paper

Project:	Quality Standards	Management	Meeting:	9 September 2020
Topic:	ISQM 1		Agenda Item:	9.1.0
Strategic Objective:	International Influence		Decision-Making:	For Discussion and AUASB input
ATG Staff:	Rene Herman		Project Status:	In Progress
AUASB Sponsor:	Gareth Bird			

Action Required and Decisions to be Made

- 1 The purpose of this Agenda Paper is to update the AUASB on any significant amendments to ISQM 1 since the June 2020 AUASB meeting (refer Section A of the Matters for Discussion of this paper); as well as to summarise the actions taken by the IAASB in relation to AUASB matters raised throughout the development of ISQM 1 (refer Section B of the Matters for Discussion of this paper).
- 2 **The IAASB intends to vote to issue ISQM 1 at the September 2020 IAASB meeting. Accordingly, and in line with the AUASB International Strategy, AUASB members are encouraged to comment on any areas of the standard to inform the AUASB Chair of their views. AUASB members are reminded that this standard is drawing close to finalisation and that the IAASB will largely discuss fatal flaw type issues as well as any amendments made to the proposed standard subsequent to the June 2020 IAASB meeting.**
- 3 A link to the 'final' clean proposed ISQM 1 is provided [\[here\]](#) and is attached at **Agenda Item 9.1.0.1.**

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	The AUASB is requested to provide any feedback / input on the new proposals to the AUASB Chair in line with the AUASB International Influencing Strategy (refer matters for matters for discussion, section A).	N/A

Question 2	The AUASB is requested to provide any feedback / input to the AUASB Chair in line with the AUASB International Influencing Strategy (refer matters for matters for discussion, section B).	N/A
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Background

- 4 The IAASB issued ED-ISQM 1 in February 2019, with a comment period ending 1 July 2019.
- 5 The AUASB did extensive outreach on this Exposure Draft and [submitted a response to the IAASB](#).
- 6 The ATG considers that the ISQM 1 taskforce has addressed the substantive matters raised by the AUASB through the development of this proposed standard. A summary of all AUASB matters raised and where the IAASB task force has gotten to is summarised in section B of the Matters for Discussion part of this paper.

Previous Discussions on Topic

- 7 Over the past year, the AUASB has been tracking the progress of the updates to ED-ISQM 1 against the key matters raised in the AUASB's submission to the IAASB and throughout the updated progress of the standard. This tracking is reflected in the following AUASB meeting papers:
- (a) 11 September 2019 (Agenda Item 4.4)
 - (b) 3 December 2019 (Agenda Item 16.3)
 - (c) 10 March 2020 (Agenda Item 3)
 - (d) 9 June 2020 (Agenda Item 8.1)

Matters for Discussion and ATG Recommendations

A. Significant amendments made to ISQM 1 since June 2020:

- 8 Enhanced transparency and communication with those charged with governance (TCWG) has been an important focus of the IAASB in recent years. The IAASB agreed with the view of the ISQM 1 taskforce that communication with TCWG about the firm's SOQM is important because: (a) It enables TCWG to understand the SOQM and how it supports the consistent performance of quality audit engagements, which assists TCWG in providing oversight to the financial reporting process. (b) It promotes transparency with TCWG.

The ISQM 1 TF considered the requirements of proposed ISQM 1 relevant to external communication, and in order to enhance two-way communication about the SOQM, was of the view that an additional requirement was needed to address communication with TCWG. The ISQM 1 taskforce recognised that the requirements in ISA 260 have been developed in a scalable manner, with certain communication requirements being applicable to audits of listed entities only. In view of this approach, the ISQM 1 taskforce proposed a new requirement addressing communication about the SOQM with TCWG of listed entities for whom the firm performs audit engagements, with application material that deals with considerations for other engagements.

Considering the above, there is a new specified response (paragraph 34(e)) for the firm to establish policies or procedures that:

- Require communication with TCWG when performing an audit of a listed entity about how the system of QM supports the consistent performance of quality engagements;
- addresses when it is otherwise appropriate to communicate with external parties about the firm's system of QM and the information to be provided under such circumstances.

There is extensive application material supporting when it may be appropriate to communicate with external parties, matters that may be communicated externally as well and the form and timing of such communications (A124-A132).

9 **Question 1 for the AUASB: The AUASB is requested to provide any feedback / input to the AUASB Chair on paragraph 34(e) and AM paragraphs A124-A132 in line with the AUASB international influencing strategy.**

B. Tracking of AUASB matters raised and how the IAASB has dealt with these matters in the final proposed ISQM 1 being presented to the IAASB at the September 2020 IAASB meeting.

	AUASB Issue	Changes made to ISQM 1
1	Concerns with complexity, prescriptiveness, repetitiveness of information and general length of the standard.	<p>(a) To aid with the complexity, structure and length of the standard, ISQM - 1 has been restructured so that:</p> <ul style="list-style-type: none"> (i) The Risk Assessment Process is now near the front of the requirements, before the governance and leadership component. This has also facilitated a reduction in the introduction section. (ii) The system of quality management at the beginning of the requirements section, has a link into governance and leadership to emphasise the importance of this component and that governance and leadership is a pre-requisite to setting up a SOQM. <p>(b) Refocussed components on the quality objectives by removing duplication between objectives and responses and repurposing responses as objectives where possible and relocating responses to a discrete section 'specified responses' where possible – refer 2a below.</p> <p>(c) Drafting and presentation</p> <ul style="list-style-type: none"> (i) Example boxes have been used, with specific signposting to scalable examples. The boxed examples continue to be used by the IAASB and are currently supported by most members on the IAASB. The boxed examples do not create new requirements, they are illustrative only. The examples address less and more complex examples demonstrating the scaling-up and scaling-down of the standard. (ii) The ATG notes that as part of the LCE project, there is an ISA focused workstream, the objective of which is to enable more consistent and effective use of the ISAs through a focus on how the ISAs are written and presented. As part of this workstream the LCE working group would develop and consult on drafting principles and guidelines. It would then be determined how to take these principles forward (i.e. on which standards). (iii) Duplicate information removed e.g.: explanations in the introduction, appendix, repetitive AM.

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>(iv) Removal of AM that may only be relevant for a first time through – separate guidance/guide to be introduced.</p> <p>(d) Simplified RAP – refer point 2 below.</p> <p>(e) Clarifying the framework for evaluating findings and identifying deficiencies including a new definition of findings and reducing the complexity of the definition of deficiency – refer point 3 below.</p>
2	<p>Concerns with the level of granularity around the Risk Assessment Process (RAP), particularly the granular and prescriptive approach to quality objectives and responses in the components. Additionally, the AUASB raised concerns regarding the requirement to always establish additional quality objectives over and above the objectives in the standard. Furthermore, the AUASB raised concerns that the pre-determined required responses may not be applicable where a firm has no associated risk.</p>	<p>(a) Refined quality objectives and responses by component to be outcome based incorporating some previous responses to quality objectives. This results in a reduction in prescribed responses to quality risks – essentially up to the firm to determine their responses to achieve their quality objectives. Responses that have not been combined with an objective have been moved to separate section ‘specified responses’ (paragraph 34). The specified responses include responses to address: independence, investigating and resolving complaints, acceptance and continuance, communication with TCWG of listed entities and EQR in accordance with ISQM 2, all other required responses have been included within the quality objective.</p> <p>(b) Included the conditions, events, circumstances, actions or inactions that the firm needs to understand in identifying and assessing quality risks, which are focused on the nature and circumstances of the firm and the engagements performed by the firm (see paragraph 25). In doing so, included examples in the application material to demonstrate how conditions, events, circumstances, actions or inactions may give rise to quality risks (see paragraph A46). The intent of these revisions is to promote proactivity, scalability (upwards and downwards) and tailoring the SOQM to the firm’s circumstances. The intent is also to assist firms in “thinking through” what quality risks may arise, and support a more robust risk identification and assessment process. The standard recognises that not all conditions, events, circumstances will give rise to quality risks. Paragraphs A46 and A48 describes that the firm exercises professional judgment in determining whether a risk is a quality risk.</p> <p>(c) Amended the definition of quality risk to include the threshold for identifying quality risks:</p> <p>Quality risks – A risk that has a reasonable possibility of:</p> <p>(i) Occurring; and</p> <p>(ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.</p> <p>(d) Clarified that quality objectives beyond those set out in the standard may not always been required, however the objectives set out in the standard are all required (refer paragraph 24, A43). Additionally, paragraph 27 clarifies that the firm sets policies or procedures designed to identify information about changes in the nature and circumstances of the firm or its engagements that may indicate that quality risks and responses set out in the standard may be modified.</p>

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
3	<p>Concerns in relation to monitoring and remediation included:</p> <ul style="list-style-type: none"> ○ The differences between findings and deficiencies was unclear with findings not being defined. ○ The requirement to inspect completed files was supported, but the AUASB considered that the requirement and application material could be more principles focused. ○ Lack of clarity around when root-cause analysis is required and the lack of 'flexing' of such analysis. ○ The seemingly disproportional requirements in relation to monitoring and remediation and the associated disproportional documentation requirements. The AUASB considered that that the granularity of the requirements may be onerous on SMPs, especially sole practitioners. 	<p>(a) The definition of Deficiency (paragraph 16(a)) has been clarified by explaining the threshold for a deficiency for each aspect of the SOQM with examples of deficiencies provided in the application material.</p> <p>(b) Amended the definition of findings to more clearly distinguish between a finding and a deficiency. The intent of introducing the term 'findings' is to explain the filtering process the firm would follow to identify deficiencies, so that they can be remediated. The definition 'findings' needs to scope the information to facilitate that filtering process. At the time of the ED – findings were broad enough to focus on both positive and negative, but respondents to the ED raised concerns as to how findings then were evaluated to determine whether a deficiency exists. Furthermore, other information that is accumulated from the performance of monitoring activities, external inspections and other relevant sources that does not indicate that a deficiency exists (such as positive outcomes) form part of the firm's information and communication component and may be used by the firm in multiple ways in the context of the SOQM. The ISQM 1 Taskforce is of the view that this other information is important, however it does not need to be comingled with the concept of findings. Application material, paragraph A157 has been added to emphasise the point that information accumulated from the performance of monitoring activities, external inspections and other relevant sources may be broader than just findings, i.e., it may include positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management.</p> <p>(c) The requirement in relation to selection of completed engagements for inspections has been revised and supplemented with application material to focus on a risk based selection and taking into account that the selection is affected by the nature, timing and extent of other monitoring activities undertaken by the firm – thereby providing improved flexibility for firms in determining the appropriate cycle for the inspection of completed engagements. Additionally, in order to improve the focus on the selection of engagements based on risks, there is additional application material paragraph A153 giving examples of how the firm may apply a cyclical basis for inspections – including flexing the period between selections up or down.</p> <p>(d) The IAASB is of the view that monitoring and remediation is fundamental to Quality Management of a Firm. While there are many requirements, there are no requirements that would not apply to all firms regardless of size – however these requirements could be scaled/flexed. There are a few areas where scalability and flexibility are demonstrated in the monitoring and remediation section and this relates to:</p> <ul style="list-style-type: none"> • Flexibility demonstrated by way of examples of how the firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner (A153) • Inclusion of new application material paragraph A156 which explains that firms may use service providers to perform

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>monitoring activities – this was added to respond to application of this section of the standard for smaller firms.</p> <ul style="list-style-type: none"> An example demonstrating how monitoring the design of the M&R process may be done in a less complex firm (A144).
4	<p>Overall comments from the AUASB in the submission on ED-ISQM 1 supported the proposals addressing service providers in ISQM 1, but recommended that the term ‘service provider’ is more clearly defined within ISQM 1, with examples provided to assist practitioners identify not only who is a service provider captured under ISQM 1, but also to provide clarity as to who is outside the definition.</p>	<p>(a) Service Provider is now defined in paragraph 16(v)</p> <p>(b) Paragraph A105 provides examples of resources from a service provider.</p> <p>(c) One of the factors the firm considers when identifying an assessing quality risks is the resources of a firm including service providers (paragraph 25(a)(i)(d)). Service providers have been included under the resources component and is no longer a stand-alone section of the standard. The standard (A105-A108) recognises that the nature, timing and extent of the firm’s responses to address service providers depends on the assessed quality risks identified by the firm i.e. not all resources from service providers will necessitate a response.</p>
5	<p>The AUASB was supportive of guidance around the quality objective of appropriate communications with external parties, however the AUASB was concerned that transparency reports would be a requirement of the standard.</p>	<p>Adjusted the requirement addressing communication externally by:</p> <ul style="list-style-type: none"> Explicitly requiring firms to communicate with those charged with governance when performing an audit of financial statements of listed entities about how the SOQM supports the consistent performance of quality engagements (see paragraph 34(e)). Refer matters for discussion Section A. Removing the reference in the requirement to transparency reports, in order to promote innovation and the most effective means of communication (the reference to transparency reports has been retained in application material to highlight that it may be a form of communication). Enhanced the application material setting out the factors the firm considers in determining when it is appropriate to communicate with external parties, and if so, the nature, timing and extent and appropriate form of such communication (see paragraphs A125, A126, A129 and A131).
6	<p>In the submission on ED-ISQM 1, the AUASB raised a concern in relation to an annual evaluation of the SOQM, noting that an annual evaluation could be onerous particularly for SMPs or sole practitioners. SOQM is likely to be less</p>	<p>The ISQM 1 taskforce is of the view that a cyclical evaluation would not achieve the intended purpose of the requirement, i.e., that leadership is aware and conscious of the effectiveness of their SOQM. An annual evaluation had strong support from IAASB members. The taskforce notes that the way leadership of an SMP may evaluate the SOQM is likely to be less complex, and this has been emphasized in the example given in the application material paragraph A188.</p> <p>(a) Including that the evaluation is taken at a point in time – application material A187 has been included to provide examples of the point in time when the evaluation may be undertaken.</p> <p>(b) Application material A189 has been added to explain the matters that may be considered by leadership in concluding on the SOQM including: severity and pervasiveness of identified deficiencies, whether the deficiencies have been</p>

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>remediated (or how being addressed), whether the effect of the deficiencies have been corrected. It is intended that leadership considers the combination of these matters.</p> <p>Additionally, in relation to the SOQM, the standard now clarifies/emphasises:</p> <ul style="list-style-type: none"> that the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles (see paragraph A33) that roles related to the SOQM should be assigned to individuals who have the appropriate influence and authority within the firm (see paragraphs 21 and A34), and added application material to explain that the individuals assigned responsibilities may further assign roles, procedures, tasks or actions to other individuals to assist them in fulfilling their responsibilities (see paragraph A35). that the individuals assigned operational responsibility for the SOQM need to have an appropriate understanding of the firm's strategic decisions and actions and have experience with the firm's business operations, so that the role is not perceived as a compliance function (see paragraph A38)
7	Overall comments from the AUASB in the submission on ED-ISQM 1 demonstrated concern for the scalability of the standard.	<p>(a) In applying a risk-based approach, firm takes into account nature and circumstances of the firm and engagements performed (i.e. complexity and formality of system will vary);</p> <p>(b) Signposting scalability examples in application material;</p> <p>(c) With the examples in the application material, including examples that address less complex and more complex firms to demonstrate the 'scaling up' and 'scaling down'.</p>
8	Overall comments from the AUASB in the submission on ED-ISQM 1 demonstrated concern for the extent of documentation that may be required by the standard.	<p>(a) Application material paragraph A202 enhances the emphasis in the standard on the need for professional judgement in determining documentation. A202 describes factors that may affect the firm's judgements about the form, content and extent of documentation including how often documentation is updated.</p> <p>(b) A204 clarifies that the firm is not required to document every factor that was considered in identifying and assessing quality risks.</p>

10 **Question 1 for the AUASB: The AUASB is requested to provide any feedback / input to the AUASB Chair in line with the AUASB international influencing strategy.**

Collaboration with NZAuASB and other standard setters

11 Through the AUASB Chair in capacity as IAASB member.

Next steps/Way Forward

12 The ISQM 1 taskforce recognises the need for implementation support and recommendations include:

- (a) Implementation working group to respond to practical challenges;
 - (b) Issuance of non-authoritative guidance including first time implementation guide and FAQs.
- 13 While the IAASB is expected to vote to issue ISQM 1 at the September 2020 IAASB meeting, the standards are still subject to PIOB approval, with the PIOB expected to meet in December 2020. The ATG expect that the IAASB will issue the final QM standards in late December 2020.
- 14 The effective date of the proposed standard is expected to be 15 December 2022 with the exact wording to read: *'Systems of quality management in compliance with this ISQM are required to be designed and implemented by [15 December 2022], and the evaluation of the system of quality management required by paragraph 65A of this ISQM is required to be performed within one year following [15 December 2022].'*
- 15 The ATG will work with the AUASB at the December 2020 AUASB meeting to obtain AUASB input into any proposals for compelling reasons to amend ISQM 1.
- 16 The APESB issues APES 320 *Quality Control for Firms* and APES 325 *Risk Management for Firms*. The ATG has met with the Chief Executive of the APESB and has begun discussions regarding the revised QM series, particularly ISQM 1. The ATG will work with the technical team of the APESB in Q4 2020/Q1 2021 regarding the placement and alignment of these standards with a revised ASQM 1.
- 17 The ATG to bring a proposed ASQM 1 along with compelling reason finalisation to the March 2021 AUASB meeting for AUASB discussion and input with a view to issue the final Australian standard soon thereafter.

PROPOSED INTERNATIONAL STANDARD ON QUALITY MANAGEMENT 1 (PREVIOUSLY INTERNATIONAL STANDARD ON QUALITY CONTROL 1) – QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

(Effective as of December 15, 2022)

CLEAN

How to provide written comments

If providing written comments, Board members are asked to provide suggested wording in a comment box, rather than as changes to the text in the draft. If it is not possible to provide suggested wording in a comment box, please indicate in a comment box that there are suggested changes in the text. This will help Staff combine all comments from Board members in a more efficient manner.

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[Content Page to be Inserted]

Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, should be read in conjunction with the *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

Introduction	Application and Other Explanatory Material
Scope of this ISQM	Scope of this ISQM (Ref: Para. 3–4)
1. This International Standard on Quality Management (ISQM) deals with a firm's responsibilities to design, implement and operate	

<p>a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.</p> <p>2. Engagement quality reviews form part of the firm's system of quality management and:</p> <p>(a) This ISQM addresses the firm's responsibility to establish policies or procedures for which engagements are required to be subject to engagement quality reviews.</p> <p>(b) ISQM 2¹ deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.</p>	
<p>3. Other pronouncements of the International Auditing and</p>	<p>A1. Other pronouncements of the IAASB, including ISRE 2400 (Revised)³ and ISAE 3000 (Revised),⁴ also establish requirements for the engagement partner for the management of quality at the engagement level.</p>

¹ Proposed ISQM 2, *Engagement Quality Reviews*

³ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁴ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<p>Assurance Standards Board (IAASB):</p> <p>(a) Are premised on the basis that the firm is subject to the ISQMs or to national requirements that are at least as demanding;² and</p> <p>(b) Include requirements for engagement partners and engagement teams regarding quality management at the engagement level. For example, ISA 220 (Revised) deals with 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. (Ref: Para. A1)</p>	
<p>4. This ISQM is to be read in conjunction with relevant ethical requirements. Law, regulation or</p>	<p>A2. The IESBA Code⁵ 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</p>

² See, for example, Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statement* (Revised), paragraph 3

⁵ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

relevant ethical requirements may establish responsibilities for the firm's management of quality beyond those described in this ISQM. (Ref: Para. A2)	of engagement performance as described in this ISQM, the consistent performance of quality engagements forms part of the professional accountant's responsibility to act in the public interest.
5. 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).	
The Firm's System of Quality Management	The Firm's System of Quality Management (Ref: Para. 6–9)
6. A system of quality management is continual, iterative and 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 ISQM, a system of quality management addresses the following eight components: (Ref: Para. A3) (a) The firm's risk assessment process;	A3. The firm may use different terminology or frameworks to describe the components of its system of quality management.

<p>(b) Governance and leadership;</p> <p>(c) Relevant ethical requirements;</p> <p>(d) Acceptance and continuance of client relationships and specific engagements;</p> <p>(e) Engagement performance;</p> <p>(f) Resources;</p> <p>(g) Information and communication; and</p> <p>(h) The monitoring and remediation process.</p>	
<p>7. This ISQM requires the firm to apply a risk-based approach in designing, implementing and operating the components of the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm. (Ref: Para. A4)</p>	<p>A4. Examples of the interconnected nature of the components include the following:</p> <ul style="list-style-type: none"> • The firm's risk assessment process sets out the process the firm is required to follow in implementing a risk-based approach across the system of quality management. • The governance and leadership component establishes the environment that supports the system of quality management. • The resources and information and communication components enable the design, implementation and operation of the system of quality management. • The monitoring and remediation process is a process designed to monitor the entire system of quality management. The results of the monitoring and remediation process provide information that is relevant to the firm's risk assessment process.

	<ul style="list-style-type: none"> There may be interrelationships of specific matters, for example, certain aspects of relevant ethical requirements are relevant to accepting and continuing client relationships and specific engagements.
<p>8. The risk-based approach is embedded in the requirements of this ISQM through:</p> <p>(a) Establishing quality objectives. The quality objectives established by the firm consist of objectives in relation to the components of the system of quality management that are to be achieved by the firm. The firm is required to establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.</p> <p>(b) Identifying and assessing risks to the achievement of the quality objectives (referred to in this standard as quality risks). The firm is required to identify and assess quality risks to</p>	

<p>provide a basis for the design and implementation of responses.</p> <p>(c) Designing and implementing responses to address the quality risks. The nature, timing and extent of the firm's responses to address the quality risks are based on, and responsive to, the reasons for the assessments given to the quality risks.</p>	
<p>9. The purpose of a system of quality management is to provide the firm with reasonable assurance that the objectives of the system of quality management, stated in paragraph 14(a) and (b), are achieved. This ISQM requires that, at least annually, the individual(s) assigned ultimate responsibility and accountability for the system of quality management evaluates the system of quality management and the firm concludes whether the system of quality management provides the firm with reasonable assurance</p>	<p>A5. Reasonable assurance is obtained when the system of quality management reduces to an acceptably low level the risk that the objectives stated in paragraph 14(a) and (b) are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a system of quality management. Such limitations include that human judgment in decision making can be faulty and that breakdowns in a firm's system of quality management may occur, for example, due to human error or behavior or failures in IT applications.</p>

<p>that the objectives of the system are being achieved. (Ref: Para. A5)</p>	
<p><i>Scalability</i></p> <p>10. In applying a risk-based approach, the firm is required to take into account:</p> <ul style="list-style-type: none"> (a) The nature and circumstances of the firm; and (b) The nature and circumstances of the engagements performed by the firm. <p>Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, 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, will likely need to have a more complex and formalized system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or compilation engagements.</p>	

<p><i>Networks and Service Providers</i></p> <p>11. This ISQM addresses the firm's responsibilities when the firm:</p> <ul style="list-style-type: none"> (a) Belongs to a network , and the firm is required to comply with network requirements or uses network services in the system of quality management or in performing engagements; or (b) Uses resources from a service provider in the system of quality management or in performing engagements. <p>Even when the firm complies with network requirements or uses network services or resources from a service provider, the firm is responsible for its system of quality management.</p>	
<p>Authority of this ISQM</p>	<p>Authority of this ISQM (Ref: Para. 12)</p>
<p>12. This ISQM contains the objective of the firm in following this ISQM, and requirements designed to enable the firm to meet that stated</p>	<p>A6. The objective of this ISQM provides the context in which the requirements of this ISQM are set, establishes the desired outcome of this ISQM and is intended to assist the firm in understanding what needs to be accomplished and, where necessary, the appropriate means of doing so.</p> <p>A7. The requirements of this ISQM are expressed using "shall."</p>

<p>objective. In addition, this ISQM 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 ISQM, and definitions. (Ref: Para. A6–A9)</p>	<p>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:</p> <ul style="list-style-type: none"> • Explain more precisely what a requirement means or is intended to cover; and • Include examples that illustrate how the requirements might be applied. <p>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 ISQM. Where appropriate, additional considerations specific to public sector audit organizations are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQM. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQM.</p> <p>A9. This ISQM includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQM. These definitions are provided to assist in the consistent application and interpretation of this ISQM, 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 International Standards issued by the IAASB in the <i>Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> published by IFAC includes the terms defined in this ISQM. The Glossary of Terms also includes descriptions of other terms found in the ISQMs to assist in common and consistent interpretation and translation.</p>
<p>Effective Date</p>	
<p>13. Systems of quality management in compliance with this ISQM are required to be designed and implemented by December 15, 2022, and the evaluation of the system of quality management required by paragraphs 53–54 of this ISQM is required to be</p>	

performed within one year following December 15, 2022.	
Objective	
<p>14. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:</p> <p>(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</p> <p>(b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.</p> <p>15. The public interest is served by the consistent performance of</p>	

<p>quality engagements. The design, implementation and operation of the system of quality management enables 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 judgment and, when applicable to the type of engagement, exercising professional skepticism.</p>	
<p>Definitions</p>	<p>Definitions</p>
<p>16. For purposes of this ISQM, the following terms have the meanings attributed below:</p>	
<p>(a) Deficiency in the firm's system of quality management (referred to as "deficiency" in this</p>	<p><i>Deficiency</i> (Ref: Para. 16(a)) A10. The firm identifies deficiencies through evaluating findings. A deficiency may arise from a finding, or a combination of findings.</p>

<p>ISQM) – This exists when: (Ref: Para. A10, A159)</p> <p>(i) A quality objective required to achieve the objective of the system of quality management is not established;</p> <p>(ii) A quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: Para. A11)</p> <p>(iii) A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or</p> <p>(iv) An other aspect of the system of quality management is</p>	<p>A11. When a deficiency is identified as a result of a quality risk, or combination of quality risks, not being identified or properly assessed, the response(s) to address such quality risk(s) may also be absent, or not appropriately designed or implemented.</p> <p>A12. The other aspects of the system of quality management consist of the requirements in this ISQM addressing:</p> <ul style="list-style-type: none"> • Assigning responsibilities (paragraphs 20–22); • The firm’s risk assessment process; • The monitoring and remediation process; and • The evaluation of the system of quality management. <div data-bbox="709 639 1858 1239" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of deficiencies related to other aspects of the system of quality management</i></p> <ul style="list-style-type: none"> • The firm’s risk assessment process fails to identify information that indicates changes in the nature and circumstances of the firm and its engagements and the need to establish additional quality objectives, or modify the quality risks or responses. • The firm’s monitoring and remediation process is not designed or implemented in a manner that: <ul style="list-style-type: none"> ○ Provides relevant, reliable and timely information about the design, implementation and operation of the system of quality management. ○ Enables the firm to take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis. • The individual(s) assigned ultimate responsibility and accountability for the system of quality management does not undertake the annual evaluation of the system of quality management. </div>
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<p>absent, or not properly designed, implemented or operating effectively, such that a requirement of this ISQM has not been addressed. (Ref: Para. A12)</p>	
<p>(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).</p>	
<p>(c) Engagement partner ⁶ – 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</p>	

⁶ “Engagement partner” and “partner” should be read as referring to their public sector equivalents where relevant.

a professional, legal or regulatory body.	
(d) Engagement quality review – An objective evaluation of the significant judgments 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, excluding an external expert engaged by	A13. Proposed ISA 220 (Revised) ⁸ provides guidance in applying the definition of engagement team in the context of an audit of financial statements.

⁸ Proposed ISA 220 (Revised), paragraphs A15–A21

the firm or a network firm ⁷ and internal auditors who provide direct assistance on an engagement. (Ref: Para. A13)	
(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. A14)	<p><i>External Inspections</i> (Ref: Para. 16(g))</p> <p>A14. In some circumstances, an external oversight authority may undertake other types of inspections, for example, thematic reviews that focus on, for a selection of firms, particular aspects of audit engagements or firm-wide practices.</p>
(h) Findings (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or	<p><i>Findings</i> (Ref: Para. 16(h))</p> <p>A15. As part of accumulating findings from monitoring activities, external inspections and other relevant sources, the firm may identify other observations about the firm’s system of quality management, such as positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management. Paragraph A157 explains how other observations may be used by the firm in the system of quality management.</p> <p>A16. Paragraph A148 provides examples of information from other relevant sources.</p> <p>A17. Monitoring activities include monitoring at the engagement level, such as inspection of engagements. Furthermore, external inspections and other relevant sources may include information that relates to specific engagements. As a result, information about the design, implementation and operation of the system of quality management includes engagement-level findings that may be indicative of findings in relation to the system of quality management.</p>

⁷ ISA 620, *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

more deficiencies may exist. (Ref: Para. A15–A17)	
(i) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A18)	<p><i>Firm</i> (Ref: Para. 16(i))</p> <p>A18. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ISQM.</p>
(j) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.	
(k) Network firm – A firm or entity that belongs to a network.	
<p>(l) Network – A larger structure: (Ref: Para. A19–A20)</p> <p>(i) That is aimed at cooperation, and</p> <p>(ii) That is clearly aimed at profit or cost-sharing or shares common ownership,</p>	<p><i>Network</i> (Ref: Para. 16(l), 48)</p> <p>A19. Networks and the firms within the network may be structured in a variety of ways. In the context of a firm’s system of quality management:</p> <ul style="list-style-type: none"> • The network may establish requirements for the firm related to its system of quality management, or provide services that are used by the firm in its system of quality management or in performing engagements; • Other firms within the network may provide services (e.g., resources) that are used by the firm in its system of quality management or in performing engagements; or

<p>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.</p>	<ul style="list-style-type: none"> Other structures or organizations within the network may establish requirements for the firm related to its system of quality management, or provide services. <p>For the purposes of this ISQM, any network requirements or network services that are obtained from the network, another firm within the network or another structure or organization in the network are considered “network requirements or network services.”</p> <p>A20. The IESBA Code defines and provides guidance in relation to the terms “network” and “network firm.”</p>
<p>(m) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.</p>	
<p>(n) Personnel – Partners and staff. (Ref: Para. A21–A22)</p>	<p><i>Personnel</i> (Ref: Para. 16(n))</p> <p>A21. Personnel includes partners and staff in a service delivery center of the firm.</p> <p>A22. In addition to its personnel, the firm may use other individuals external to the firm in performing activities in the system of quality management or in performing engagements.</p>
<p>(o) Professional judgment – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about</p>	

the courses of action that are appropriate in the design, implementation and operation of the firm's system of quality management.	
(p) Professional standards – IAASB Engagement Standards, as defined in the IAASB's <i>Preface to the International Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements</i> , and relevant ethical requirements.	
(q) Quality objectives – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.	
(r) Quality risk – A risk that has a reasonable possibility of: (i) Occurring; and (ii) Individually, or in combination with other risks, adversely	

<p>affecting the achievement of one or more quality objectives.</p>	
<p>(s) Reasonable assurance – In the context of the ISQMs, a high, but not absolute, level of assurance.</p>	
<p>(t) 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 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</p>	<p><i>Relevant Ethical Requirements</i> (Ref: Para. 16(t), 29)</p> <p>A23. 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 IESBA Code defines the term “professional accountant” and further explains the scope of provisions in the IESBA Code that apply to individual professional accountants in public practice and their firms.</p> <p>A24. The IESBA Code addresses circumstances when law or regulation precludes the professional accountant from complying with certain parts of the IESBA 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 IESBA 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.</p> <p>A25. Various provisions of the relevant ethical requirements may apply only to individuals in the context of performing engagements and not the firm itself. For example:</p> <ul style="list-style-type: none"> • 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, whether as a contractor, employee or owner, and may be relevant in the context of performing engagements. • Certain requirements in Parts 3 and 4 of the IESBA Code address the individual professional accountant in public practice when performing professional activities for clients.

<p>restrictive. (Ref: Para. A23–A25, A62)</p>	<p>Compliance with such relevant ethical requirements by individuals may need to be addressed by the firm's system of quality management.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p><i>Example of relevant ethical requirements that are applicable only to individuals and not the firm, and which relate to performing engagements</i></p> <p>Part 2 of the IESBA Code addresses pressure to breach the fundamental principles, and includes requirements that an individual shall not:</p> <ul style="list-style-type: none"> • Allow pressure from others to result in a breach of compliance with the fundamental principles; or • Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles. <p>For example, circumstances may arise when, in performing an engagement, an individual considers that the engagement partner or another senior member of the engagement team has pressured them to breach the fundamental principles.</p> </div>
<p>(u) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address one or more quality risk(s): (Ref: Para. A26–A28, A50)</p> <p>(i) Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be</p>	<p><i>Response</i> (Ref: Para. 16(u))</p> <p>A26. Policies are implemented through the actions of personnel and other individuals whose actions are subject to the policies (including engagement teams), or through their restraint from taking actions that would conflict with the firm's policies.</p> <p>A27. Procedures may be mandated, through formal documentation or other communications, or may result from behaviors that are not mandated but are rather conditioned by the firm's culture. Procedures may be enforced through the actions permitted by IT applications, or other aspects of the firm's IT environment.</p> <p>A28. If the firm uses individuals external to the firm in the system of quality management or in performing engagements, different policies or procedures may need to be designed by the firm to address the actions of the individuals.</p>

<p>documented, explicitly stated in communications or implied through actions and decisions.</p> <p>(ii) Procedures are actions to implement policies.</p>	
<p>(v) Service provider (in the context of this ISQM) – An individual or organization external to the firm that provides a resource that is used in the system of quality management or in performing engagements. Service providers exclude the firm's network, other firms within the network or other structures or organizations in the network. (Ref: Para. A105)</p>	
<p>(w) Staff – Professionals, other than partners, including any experts the firm employs.</p>	
<p>(x) System of quality management – A system</p>	

<p>designed, implemented and operated by a firm to provide the firm with reasonable assurance that:</p> <p>(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</p> <p>(ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.</p>	
Requirements	
Applying, and Complying with, Relevant Requirements	Applying, and Complying with, Relevant Requirements (Ref: Para. 17)
17. The firm shall comply with each requirement of this ISQM unless	<div data-bbox="653 1317 1858 1373" data-label="Text"> <p>A29. <i>Examples of when a requirement of this ISQM may not be relevant to the firm</i></p> </div>

the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A29)	<ul style="list-style-type: none"> The firm is a sole practitioner. For example, the requirements addressing the organizational structure and assigning roles, responsibilities and authority within the firm, direction, supervision and review and addressing differences of opinion may not be relevant. 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.
18. 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 firm's system of quality management shall have an understanding of this ISQM, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly.	
System of Quality Management	System of Quality Management
19. The firm shall design, implement and operate a system of quality management. In doing so, the firm shall exercise professional judgment, taking into account the nature and circumstances of the	<p><i>Design, Implement and Operate a System of Quality Management</i> (Ref: Para. 19)</p> <p>A30. Quality management is not a separate function of the firm; it is the integration of a culture that demonstrates a commitment to quality with the firm's strategy, operational activities and business processes. As a result, designing the system of quality management and the firm's operational</p>

<p>firm and its engagements. The governance and leadership component of the system of quality management establishes the environment that supports the design, implementation and operation of the system of quality management. (Ref: Para. A30–A31)</p>	<p>activities and business processes in an integrated manner may promote a harmonious approach to managing the firm, and enhance the effectiveness of quality management.</p> <p>A31. The quality of professional judgments exercised by the firm is likely to be enhanced when individuals making such judgments demonstrate an attitude that includes an inquiring mind, which involves:</p> <ul style="list-style-type: none"> • Considering the source, relevance and sufficiency of information obtained about the system of quality management, including information related to the nature and circumstances of the firm and its engagements; and • Being open and alert to a need for further investigation or other action.
<p><i>Responsibilities</i></p> <p>20. The firm shall assign: (Ref: Para. A32–A35)</p> <p>(a) 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);</p> <p>(b) Operational responsibility for the system of quality management;</p> <p>(c) Operational responsibility for specific aspects of the system of quality management, including:</p>	<p><i>Responsibilities</i> (Ref: Para. 20–21, 28(d))</p> <p>A32. The governance and leadership component includes a quality objective that the firm has an organizational structure and assignment of roles, responsibilities and authority that is appropriate to enable the design, implementation and operation of the firm's system of quality management.</p> <p>A33. Notwithstanding the assignment of responsibilities related to the system of quality management in accordance with paragraph 20, the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles. For example, in accordance with paragraph 53, the firm is responsible for the evaluation of the system of quality management, and assigns the performance of the evaluation to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p> <p>A34. An individual(s) assigned responsibility for the matters in paragraph 20 is typically a partner of the firm so that they have appropriate influence and authority within the firm to fulfill the requirements of paragraph 21. However, based on the legal structure of the firm, there may be circumstances when an individual(s) may not be a partner of the firm or employed by the firm but the individual(s) has the appropriate influence and authority within the firm to perform their assigned role because of arrangements made by the firm or the firm's network.</p> <p>A35. How the firm assigns roles, responsibilities and authority within the firm may vary and law or regulation may impose certain requirements for the firm that affect the leadership and management structure or their assigned responsibilities. An individual(s) assigned responsibility for a matter(s) in paragraph 20 may further assign roles, procedures, tasks or actions to other individuals to assist</p>

<p>(i) Compliance with independence requirements; and (Ref: Para. A36)</p> <p>(ii) The monitoring and remediation process.</p>	<p>them in fulfilling their responsibilities. However, an individual(s) assigned responsibility for a matter(s) in paragraph 20 remains responsible and accountable for the responsibilities assigned to them.</p> <div data-bbox="724 285 1858 909" style="border: 1px solid black; padding: 10px;"> <p><i>Scalability example to demonstrate how assigning roles and responsibilities may be undertaken</i></p> <ul style="list-style-type: none"> • In a less complex firm, ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner with sole responsibility for the oversight of the firm. This individual may also assume responsibility for all aspects of the system of quality management, including operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process. • In a more complex firm, there may be multiple levels of leadership that reflect the organizational structure of the firm, and the firm may have an independent governing body that has non-executive oversight of the firm, which may comprise external individuals. Furthermore, the firm may assign operational responsibility for specific aspects of the system of quality management beyond those specified in paragraph 20(c), such as operational responsibility for compliance with ethical requirements or operational responsibility for managing a service line. </div> <p>A36. Compliance with independence requirements is essential to the performance of audits, or reviews of financial statements, or other assurance engagements, and is an expectation of stakeholders relying on the firm's reports. The individual(s) assigned operational responsibility for compliance with independence requirements is ordinarily responsible for the oversight of all matters related to independence so that a robust and consistent approach is designed and implemented by the firm to deal with independence requirements.</p>
<p>21. In assigning the roles in paragraph 20 the firm shall determine that the individual(s): (Ref: Para. A37)</p> <p>(a) Has the appropriate experience, knowledge, influence and authority</p>	<p>A37. Law, regulation or professional standards may establish requirements for an individual assigned responsibility for a matter(s) in paragraph 20, such as requirements for professional licensing, professional education or continuing professional development.</p> <p>A38. The appropriate experience and knowledge for the individual(s) assigned operational responsibility for the system of quality management may include an understanding of the firm's strategic decisions and actions and experience with the firm's business operations.</p>

<p>within the firm, and sufficient time, to fulfill their assigned responsibility; and (Ref: Para. A38)</p> <p>(b) Understands their assigned roles and that they are accountable for fulfilling them.</p>	
<p>22. The firm shall determine that the individual(s) assigned operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process have a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>	
<p>The Firm's Risk Assessment Process</p>	<p>The Firm's Risk Assessment Process (Ref: Para. 23)</p>
<p>23. The firm shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks. (Ref: Para. A39–A41)</p>	<p>A39. How the firm designs the firm's risk assessment process may be affected by the nature and circumstances of the firm, including how the firm is structured and organized.</p> <div data-bbox="724 1166 1890 1385" style="border: 1px solid black; padding: 10px;"> <p><i>Scalability examples to demonstrate how the firm's risk assessment process may differ</i></p> <ul style="list-style-type: none"> • In a less complex firm, the individual(s) assigned operational responsibility for the system of quality management may have a sufficient understanding of the firm and its engagements to undertake the risk assessment process independently, and may document the quality objectives, quality risks and responses in a simple form. </div>

	<div data-bbox="724 203 1896 527" style="border: 1px solid black; padding: 10px;"> <ul style="list-style-type: none"> • In a more complex firm, there may be a formal risk assessment process, involving multiple individuals and numerous activities. The 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 decentralized (e.g., the quality objectives, quality risks and responses are established at a business unit, function or service line level, with the outputs combined at the firm level). The firm's network may also provide the firm with quality objectives, quality risks and responses to be included in the firm's system of quality management. </div> <p>A40. The process of establishing quality objectives, identifying and assessing quality risks and designing and implementing responses is iterative, and the requirements of this ISQM are not intended to be addressed in a linear manner. For example:</p> <ul style="list-style-type: none"> • In identifying and assessing quality risks, the firm may determine that an additional quality objective(s) needs to be established. • When designing and implementing responses, the firm may determine that a quality risk was not identified and assessed. <p>A41. Information sources that enable the firm to establish quality objectives, identify and assess quality risks and design and implement responses form part of the firm's information and communication component and include:</p> <ul style="list-style-type: none"> • The results of the firm's monitoring and remediation process (see paragraphs 42 and A170). • Information from the network or service providers, including: <ul style="list-style-type: none"> ○ Information about network requirements or network services (see paragraph 48); and ○ Other information from the network, including information about the results of monitoring activities undertaken by the network across the network firms (see paragraphs 50–51). <p>Other information, both internal or external, may also be relevant to the firm's risk assessment process, such as:</p>
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	<ul style="list-style-type: none"> • Information regarding complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures. • The results of external inspections. • Information from regulators about the entities for whom the firm performs engagements which is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in the entity's financial statements or non-compliance with securities regulation). • Changes in the system of quality management that affect other aspects of the system, for example, changes in the firm's resources. • Other external sources, such as regulatory actions and litigation against the firm or other firms in the jurisdiction that may highlight areas for the firm to consider.
<p>24. The firm shall establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management. (Ref: Para. A42–A44)</p>	<p><i>Establish Quality Objectives</i> (Ref: Para. 24)</p> <p>A42. Law or regulation may establish requirements that give rise to additional quality objectives, such as when the firm is required to appoint non-executive individuals to the firm's governance structure.</p> <p>A43. The nature and circumstances of the firm and its engagements may be such that the firm may not find it necessary to establish additional quality objectives.</p> <p>A44. The firm may establish sub-objectives to enhance the firm's identification and assessment of quality risks, and design and implementation of responses.</p>
<p>25. The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm shall:</p> <p>(a) Obtain an understanding of the conditions, events, circumstances, actions or</p>	<p><i>Identify and Assess Quality Risks</i> (Ref: Para. 25)</p> <p>A45. There may be conditions, events, circumstances, actions or inactions not described in paragraph 25(a) that may adversely affect the achievement of a quality objective.</p> <p>A46. A risk arises from how, and the degree to which, a condition, event, circumstance, action or inaction may adversely affect the achievement of a quality objective. Not all risks are quality risks. The firm exercises professional judgment in determining whether a risk is a quality risk, which is based on the firm's consideration of whether there is a reasonable possibility of the risk occurring, and individually,</p>

<p>inactions that may adversely affect the achievement of the quality objectives, including: (Ref: Para. A45–A47)</p> <p>(i) With respect to the nature and circumstances of the firm, those relating to:</p> <p>a. The complexity and operating characteristics of the firm;</p> <p>b. The strategic and operational decisions and actions, business processes and business model of the firm;</p> <p>c. The characteristics and management style of leadership;</p>	<p>or in combination with other risks, adversely affecting the achievement of one or more quality objectives.</p> <table border="1"> <thead> <tr> <th data-bbox="709 285 1287 467"><i>Examples of the firm's understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives</i></th><th data-bbox="1287 285 1871 467"><i>Examples of quality risks that may arise</i></th></tr> </thead> <tbody> <tr> <td data-bbox="709 467 1287 1036">The strategic and operational decisions and actions, business processes and business model of the firm: The firm's overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this ISQM.</td><td data-bbox="1287 467 1871 1036"> <p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Resources are allocated or assigned in a manner that prioritizes the services not within the scope of this ISQM and may negatively affect the quality of engagements within the scope of this ISQM. Decisions about financial and operational priorities do not fully or adequately consider the importance of quality in performing engagements within the scope of this ISQM. </td></tr> <tr> <td data-bbox="709 1036 1287 1295">The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.</td><td data-bbox="1287 1036 1871 1295"> <p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Leadership's responsibilities and accountability for quality are not clearly defined and assigned. </td></tr> </tbody> </table>	<i>Examples of the firm's understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives</i>	<i>Examples of quality risks that may arise</i>	The strategic and operational decisions and actions, business processes and business model of the firm: The firm's overall financial goals are overly dependent on the extent of services provided by the firm not within the scope of this ISQM.	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Resources are allocated or assigned in a manner that prioritizes the services not within the scope of this ISQM and may negatively affect the quality of engagements within the scope of this ISQM. Decisions about financial and operational priorities do not fully or adequately consider the importance of quality in performing engagements within the scope of this ISQM. 	The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.	<p>In the context of governance and leadership, this may give rise to a number of quality risks such as:</p> <ul style="list-style-type: none"> Leadership's responsibilities and accountability for quality are not clearly defined and assigned.
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<p>d. The resources of the firm, including the resources provided by service providers;</p> <p>e. Law, regulation, professional standards and the environment in which the firm operates; and</p> <p>f. In the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any.</p> <p>(ii) With respect to the nature and circumstances of the engagements performed by the</p>			<ul style="list-style-type: none"> The actions and behaviors of leadership that do not promote quality are not questioned.
		<p>The complexity and operating characteristics of the firm: The firm has recently completed a merger with another firm.</p>	<p>In the context of resources, this may give rise to a number of quality risks including:</p> <ul style="list-style-type: none"> Technological resources used by the two merged firms may be incompatible. Engagement teams may use intellectual resources developed by a firm prior to the merger, which are no longer consistent with the new methodology being used by the new merged firm.
		<p>A47. Given the evolving nature of the system of quality management, the responses designed and implemented by the firm may give rise to conditions, events, circumstances, actions or inactions that result in further quality risks. For example, the firm may implement a resource (e.g., an IT resource) to address a quality risk, and quality risks may arise from the use of such resource.</p> <p>A48. The degree to which a risk, individually, or in combination with other risks may adversely affect the achievement of a quality objective(s) may vary based on the conditions, events, circumstances, actions or inactions giving rise to the risk and how they affect the quality objective(s), such as:</p> <ul style="list-style-type: none"> How frequently the condition, event, circumstance, action or inaction is expected to occur. How much time it would take for the condition, event, circumstance, action or inaction to have an effect, and whether in that time the firm would have an opportunity to respond to mitigate the effect of the condition, event, circumstance, action or inaction. How long the condition, event, circumstance, action or inaction would affect the achievement of the quality objective once it has occurred. <p>The assessment of quality risks need not comprise formal ratings or scores.</p>	

<p>firm, those relating to:</p> <ul style="list-style-type: none"> a. The types of engagements performed by the firm and the reports to be issued; and b. The types of entities for which such engagements are undertaken; <p>(b) Take into account how, and the degree to which, the conditions, events, circumstances, actions or inactions in paragraph 25(a) may adversely affect the achievement of the quality objectives. (Ref: Para. A48).</p>	
<p>26. The firm shall design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's responses shall also include the responses specified in</p>	<p><i>Design and Implement Responses to Quality Risks</i> (Ref: Para. 16(u), 26)</p> <p>A49. The nature, timing and extent of the responses are based on the reasons for the assessment given to the quality risks, which is the considered occurrence and effect on the achievement of one or more quality objectives.</p>

<p>paragraph 34. (Ref: Para. A49–A51)</p>	<p>A50. 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.</p> <div data-bbox="724 337 1890 610" style="border: 1px solid black; padding: 10px;"> <p><i>Example of a response that operates at both the firm and engagement level</i></p> <p>The firm establishes policies or procedures for consultation which include with whom consultation should be undertaken by engagement teams and the specific matters for which consultation is required. The firm appoints suitably qualified and experienced individuals to provide the consultations. The engagement team is responsible for identifying when matters for consultation occur and initiating consultation, and implementing the conclusions from consultation.</p> </div> <p>A51. 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.</p>
<p>27. The firm shall establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm shall consider the information and when appropriate: (Ref: Para. A52–A54)</p> <p>(a) Establish, or modify, additional quality objectives;</p>	<p><i>Changes in the Nature and Circumstances of the Firm or its Engagements</i> (Ref: Para. 27)</p> <div data-bbox="653 792 1871 1304" style="border: 1px solid black; padding: 10px;"> <p>A52. <i>Scalability example to demonstrate how policies or procedures for identifying information about changes in the nature and circumstances of the firm and its engagements may vary</i></p> <ul style="list-style-type: none"> • In a less complex firm, the firm may have informal policies or procedures to identify information about changes in the nature and circumstances of the firm or its engagements, particularly when the individual(s) responsible for establishing quality objectives, identifying and assessing quality risks and designing and implementing responses is able to identify such information in the normal course of their activities. • In a more complex firm, the firm may need to establish more formal policies or procedures to identify and consider information about changes in the nature and circumstances of the firm or its engagements. This may include, for example, a periodic review of information relating to the nature and circumstances of the firm and its engagements, including ongoing tracking of trends and occurrences in the firm’s internal and external environment. </div>

<p>(b) Identify and assess additional quality risks, modify the quality risks or reassess the quality risks; or</p> <p>(c) Design and implement additional responses, or modify the responses.</p>	<p>A53. Additional quality objectives may need to be established, or quality risks and responses added to or modified, as part of the remedial actions undertaken by the firm to address an identified deficiency in accordance with paragraph 42.</p> <p>A54. The firm may have established additional quality objectives in addition to those specified by this ISQM. The firm may identify information that indicates that the additional quality objectives are no longer needed, or need to be modified.</p>
<p>Governance and Leadership</p>	<p>Governance and Leadership</p>
<p>28. The firm shall establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>(a) The firm demonstrates a commitment to quality through a culture that recognizes and reinforces: (Ref: Para. A55–A56)</p> <p>(i) The firm's role in serving the public interest by consistently performing quality engagements;</p> <p>(ii) The importance of professional ethics, values and attitudes;</p>	<p><i>Commitment to Quality</i> (Ref: Para. 28(a))</p> <p>A55. The firm's culture is an important factor in influencing the behavior of personnel. Relevant ethical requirements ordinarily establish the principles of professional ethics, and are further addressed in the relevant ethical requirements component of this ISQM. Professional values and attitudes may include:</p> <ul style="list-style-type: none"> • 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 placing a focus on continual learning). • Social responsibility. <p>A56. The firm's strategic decision-making process, including the establishment of a business strategy, may include matters such as the firm's decisions about financial and operational matters, the firm's financial goals, how financial resources are managed, growth of the firm's market share, industry specialization or new service offerings. The firm's financial and operational priorities may directly or</p>

<p>(iii) The responsibility of all personnel for quality relating to performing engagements or activities within the system of quality management, and their expected behavior; and</p> <p>(iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.</p> <p>(b) Leadership is responsible and accountable for quality. (Ref: Para. A57)</p> <p>(c) Leadership demonstrates a commitment to quality through their actions and behaviors. (Ref: Para. A58)</p> <p>(d) The organizational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and</p>	<p>indirectly affect the firm's commitment to quality, for example, the firm may have incentives that are focused on financial and operational priorities that may discourage behaviors that demonstrate a commitment to quality.</p> <p><i>Leadership</i> (Ref: Para. 28(b) and 28(c))</p> <p>A57. The responses designed and implemented by the firm to hold leadership responsible and accountable for quality include the performance evaluations required by paragraph 56.</p> <p>A58. Although leadership establishes the tone at the top through their actions and behaviors, clear, consistent and frequent actions and communications at all levels within the firm collectively contribute to the firm's culture and demonstrates a commitment to quality.</p> <p><i>Organizational Structure</i> (Ref: Para. 28(d))</p> <p>A59. The organizational 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 center, and engagement teams may include personnel from the firm's service delivery center who perform specific tasks that are repetitive or specialized in nature.</p> <p><i>Resources</i> (Ref: Para. 28(e))</p> <p>A60. The individual(s) assigned ultimate responsibility and accountability or operational responsibility for the system of quality management is 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.</p> <p>A61. Resource needs may change over time, however it may not be practicable to anticipate all resource needs. The firm's resource planning may involve determining the resources currently required, forecasting the firm's future resource needs, and establishing processes to deal with unanticipated resource needs when they arise.</p>
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<p>operation of the firm's system of quality management. (Ref: Para. A32, A33, A35, A59)</p> <p>(e) Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm's commitment to quality. (Ref: Para. A60–A61)</p>	
<p>Relevant Ethical Requirements</p>	<p>Relevant Ethical Requirements (Ref: Para. 29)</p>
<p>29. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: Para. A62–A64, A66)</p> <p>(a) The firm and its personnel:</p> <p>(i) Understand the relevant ethical requirements to which the firm and the firm's engagements are subject. (Ref: Para. A23, A25)</p>	<p>A62. The IESBA Code sets out the fundamental principles of ethics that establish the standards 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, when applicable, the International Independence Standards. In addition, the IESBA Code 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, such as privacy laws affecting the confidentiality of information.</p> <p>A63. In some cases, the matters addressed by the firm in its system of quality management may be more specific than, or additional to, the provisions of relevant ethical requirements.</p>

<p>(ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.</p> <p>(b) Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject:</p> <p>(i) Understand the relevant ethical requirements that apply to them; and (Ref: Para. A23, A25, A65)</p> <p>(ii) Fulfill their responsibilities in relation to the relevant ethical requirements that apply to them.</p>	<p><i>Examples of matters that a firm may include in its system of quality management that are more specific than, or additional to, the provisions of relevant ethical requirements</i></p> <ul style="list-style-type: none"> • The firm prohibits the acceptance of gifts and hospitality from a client, even if the value is trivial and inconsequential. • The firm sets rotation periods for all engagement partners, including those performing other assurance or related services engagements, and extends the rotation periods to all senior engagement team members. <p>A64. Other components may affect or relate to the relevant ethical requirements component.</p> <p><i>Examples of relationships between the relevant ethical requirements component and other components</i></p> <ul style="list-style-type: none"> • The information and communication component may address the communication of various matters related to relevant ethical requirements, including: <ul style="list-style-type: none"> ○ The firm communicating the independence requirements to all personnel and others subject to independence requirements. ○ Engagement teams and other individuals in the firm communicating relevant information to the firm without fear of reprisals, such as situations that may create threats to independence, or breaches of relevant ethical requirements. • As part of resources, the firm may: <ul style="list-style-type: none"> ○ Assign individuals to manage and monitor compliance with relevant ethical requirements or to provide consultation on matters related to relevant ethical requirements. ○ Use IT applications to monitor compliance with relevant ethical requirements, including recording and maintaining information about independence.
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	<p>A65. The relevant ethical requirements that apply to others depend on the provisions of the relevant ethical requirements and how the firm uses others in its system of quality management, or in performing engagements.</p> <div data-bbox="709 337 1892 865" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of relevant ethical requirements that apply to others</i></p> <ul style="list-style-type: none"> • Relevant ethical requirements may include requirements for independence that apply to network firms or employees of network firms, for example, the IESBA Code includes independence requirements that apply to network firms. • Relevant ethical requirements may include a definition of engagement team or other similar concept, and the definition may include any individual who performs assurance procedures on the engagement (e.g., a component auditor or 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 as defined in the relevant ethical requirements, or other similar concept, may also be relevant to such individuals. • The principle of confidentiality may apply to the firm's network, other network firms or service providers, when they have access to client information obtained by the firm. </div> <p><i>Public Sector Considerations</i></p> <p>A66. In achieving the quality objectives in this ISQM related to independence, public sector auditors may address independence in the context of the public sector mandate and statutory measures.</p>
<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p>	<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p>
<p>30. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:</p>	<p><i>The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client</i> (Ref: Para. 30(a)(i))</p> <p>A67. The information obtained about the nature and circumstances of the engagement may include:</p> <ul style="list-style-type: none"> • The industry of the entity for which the engagement is being undertaken and relevant regulatory factors;

<p>(a) Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:</p> <p>(i) Information obtained 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) that is sufficient to support such judgments; and (Ref: Para. A67–A71)</p> <p>(ii) The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. (Ref: Para. A72)</p>	<ul style="list-style-type: none"> • The nature of the entity, for example, its operations, organizational structure, ownership and governance, its business model and how it is financed; and • The nature of the underlying subject matter and the applicable criteria, for example, in the case of integrated reporting: <ul style="list-style-type: none"> ○ The underlying subject matter may include social, environmental or health and safety information; and ○ The applicable criteria may be performance measures established by a recognized body of experts. <p>A68. The information obtained to support the firm's judgments 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.</p> <div data-bbox="724 698 1890 1347" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of factors that may affect the nature and extent of information obtained about the integrity and ethical values of the client</i></p> <ul style="list-style-type: none"> • 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. </div>
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(b) The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement. (Ref: Para. A73–A74)	<div><ul style="list-style-type: none">• The identity and business reputation of related parties.</div>
	A69. The firm may obtain the information from a variety of internal and external sources, including: <ul style="list-style-type: none">• In the case of an existing client, information from current or previous engagements, if applicable, or inquiry of other personnel who have performed other engagements for the client.• In the case of a new client, inquiry 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.
	A70. Information that is obtained during the firm’s acceptance and continuance process may often also be 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, ISA 220 (Revised) ⁹ requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement.
	A71. 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 inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ISA 300 ¹⁰ requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. The IESBA 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 statements.

⁹ Proposed ISA 220 (Revised), paragraph 23

¹⁰ ISA 300, *Planning an Audit of Financial Statements*, paragraph 13(b)

	<p><i>The Firm's Ability to Perform Engagements</i> (Ref: Para. 30(a)(ii))</p> <p>A72. The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements may be affected by:</p> <ul style="list-style-type: none"> • The availability of appropriate resources to perform the engagement; • Having access to information to perform the engagement, or to the persons who provide such information; and • Whether the firm and the engagement team are able to fulfill their responsibilities in relation to the relevant ethical requirements. <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p><i>Examples of factors the firm may consider in determining whether appropriate resources are available to perform the engagement</i></p> <ul style="list-style-type: none"> • The circumstances of the engagement and the reporting deadline. • The availability of individuals with the appropriate competence and capabilities, including sufficient time, to perform the engagement. This includes having: <ul style="list-style-type: none"> ○ Individuals to take overall responsibility to direct and supervise the engagement; and ○ Individuals 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. ○ Individuals to perform audit procedures related to a component for purposes of an audit of group financial statements. • The availability of experts, if needed. • If an engagement quality review is needed, whether there is an individual available who meets the eligibility requirements in ISQM 2. • The need for technological resources, for example, IT applications that enable the engagement team to perform procedures on the entity's data. </div>
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	<div data-bbox="724 203 1896 305" style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> The need for intellectual resources, for example, a methodology, industry or subject matter-specific guides, or access to information sources. </div> <p><i>The Firm's Financial and Operational Priorities</i> (Ref: Para. 30(b))</p> <p>A73. Financial priorities may focus on the profitability of the firm, and fees obtained for performing 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 specialization or new service offerings. There may be circumstances when the firm is satisfied with the fee quoted for an engagement but it is not appropriate for the firm to accept or continue the engagement or client relationship (e.g., when the client lacks integrity and ethical values).</p> <p>A74. 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 IESBA 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.</p>
<p>Engagement Performance</p>	<p>Engagement Performance</p>
<p>31. The firm shall establish the following quality objectives that address the performance of quality engagements:</p> <p>(a) Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for</p>	<p><i>Responsibilities of the Engagement Team and Direction, Supervision and Review</i> (Ref: Para. 31(a) and 31(b))</p> <p>A75. Professional standards or legal and regulatory requirements may include specific provisions regarding the overall responsibility of the engagement partner. For example, ISA 220 (Revised) deals with the overall responsibility of the engagement partner for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement, including responsibility for appropriate direction and supervision of the engagement team and review of their work.</p> <div data-bbox="646 1271 1858 1385" style="border: 1px solid black; padding: 5px;"> <p>A76. <i>Examples of direction, supervision and review</i></p> <ul style="list-style-type: none"> Examples of direction and supervision of the engagement team include: </div>

<p>managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: Para. A75)</p> <p>(b) The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members. (Ref: Para. A76–A77)</p> <p>(c) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism. (Ref: Para. A78)</p> <p>(d) Consultation on difficult or contentious matters is undertaken and the</p>	<ul style="list-style-type: none"> ○ Tracking the progress of the engagement; ○ Considering the following with respect to members of the engagement team: <ul style="list-style-type: none"> ● 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. ● Examples of a review of work performed include considering whether: <ul style="list-style-type: none"> ○ 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 been undertaken and the resulting conclusions have been documented and implemented; ○ There is a need to revise the nature, timing and extent of planned work; ○ 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. 	
	<p>A77. In some circumstances, the firm may use personnel from the firm's service delivery center in performing the engagement, i.e., the personnel may be included in the engagement team. In such cases, the firm's policies or procedures may specifically address the direction and supervision of personnel and review of their work, such as:</p>	

<p>conclusions agreed are implemented. (Ref: Para. A79–A81)</p> <p>(e) Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm’s system of quality management are brought to the attention of the firm and resolved. (Ref: Para. A82)</p> <p>(f) Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or other professional standards. (Ref: Para. A83–A85)</p>	<ul style="list-style-type: none"> • What aspects of the engagement may be assigned to personnel in the service delivery center; • How the engagement partner, or their designee, is expected to direct, supervise and review the work undertaken by personnel in the service delivery center; and • The protocols for communication between the engagement team and personnel in the service delivery center. <p><i>Professional Judgment and Professional Skepticism</i> (Ref: Para. 31(c))</p> <p>A78. Professional skepticism supports the quality of judgments made on the engagement and, through these judgments, the overall effectiveness of the engagement team in performing the engagement. Other pronouncements of the IAASB may address the exercise of professional judgment or professional skepticism at the engagement level. For example, ISA 220 (Revised)¹¹ provides examples of impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional skepticism, and possible actions that the engagement team may take to mitigate such impediments.</p> <p><i>Consultation</i> (Ref: Para. 31(d))</p> <p>A79. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, on difficult or contentious matters. An environment that reinforces the importance and benefit of consultation and encourages engagement teams to consult may contribute to supporting a culture that demonstrates a commitment to quality.</p> <p>A80. Difficult or contentious matters on which consultation is needed may either be specified by the firm, or the engagement team may identify matters that require consultation. The firm may also specify how conclusions should be agreed and implemented.</p> <p>A81. ISA 220 (Revised)¹² includes requirements for the engagement partner related to consultation.</p>
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¹¹ Proposed ISA 220 (Revised), paragraphs A33–A35

¹² Proposed ISA 220 (Revised), paragraph 35

	<p><i>Differences of Opinion</i> (Ref: Para. 31(e))</p> <p>A82. The firm may encourage that differences of opinion are identified at an early stage, and may specify the steps to be taken in raising and dealing with them, including how the matter should be resolved and how the related conclusions should be implemented and documented. In some circumstances, resolving differences of opinion may be achieved through consulting with another practitioner or firm, or a professional or regulatory body.</p> <p><i>Engagement Documentation</i> (Ref: Para. 31(f))</p> <p>A83. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. Where no such time limits are prescribed in law or regulation, the time limit may be determined by the firm. In the case of an audit of financial statements or an other assurance engagement, an appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the auditor's report.</p> <p>A84. The retention and maintenance of engagement documentation may include managing the safe custody, integrity, accessibility or retrievability of the underlying data and the related technology. 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 authorization to do so, or if it is permanently lost or damaged.</p> <p>A85. Law, regulation or other professional standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of an audit of financial statements or an other assurance engagement, the retention period is ordinarily no shorter than five years from the date of the engagement report, or, if later, the date of the auditor's report on the group financial statements, when applicable.</p>
Resources	Resources (Ref: Para. 32)

<p>32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management: (Ref: Para. A86–A87)</p> <p>(a) Personnel are hired, developed and retained and have the competence and capabilities to: (Ref: Para. A88–A90)</p> <p>(i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or</p> <p>(ii) Perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management.</p>	<p>A86. Resources for the purposes of the resources component include:</p> <ul style="list-style-type: none"> Human resources. Technological resources, for example, IT applications. Intellectual resources, for example, written policies or procedures, a methodology or guides. <p>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. Given that the management and allocation of financial resources is strongly influenced by leadership, the quality objectives in governance and leadership, such as those that address financial and operational priorities, address financial resources.</p> <p>A87. Resources may be internal to the firm, or may be obtained externally from the firm's network, another network firm or service provider. Resources may be used in performing activities within the firm's system of quality management, or in performing engagements as part of operating the system of quality management. In circumstances when a resource is obtained from the firm's network or another network firm, paragraphs 48–52 form part of the responses designed and implemented by the firm in achieving the objectives in this component.</p> <p><i>Human Resources</i> (Ref: Para. 32(a))</p> <p>A88. Competence is the ability of the individual to perform a role 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.</p> <p>A89. Law or regulation may establish requirements addressing competence and capabilities, such as requirements for the professional licensing of engagement partners, including requirements regarding their professional education and continuing professional development.</p> <div style="border: 1px solid black; padding: 5px;"> <p>A90. <i>Examples of responses to address hiring, developing and retaining personnel</i></p> <ul style="list-style-type: none"> The firm may develop a recruitment strategy focused on selecting individuals who have, or </div>
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<p>(b) Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives. (Ref: Para. A91–A93)</p> <p>(c) Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm's system of quality management or performance of engagements. (Ref: Para. A94)</p> <p>(d) Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence</p>	<p>are able to develop, appropriate competence.</p> <ul style="list-style-type: none"> • The firm's training programs may focus on developing the competence of personnel and continuing professional development. • The firm may establish evaluation mechanisms that are undertaken at appropriate intervals and include competency areas and other performance measures. • The firm may set compensation, promotion and other incentives, for all personnel, including engagement partners and individuals assigned roles and responsibilities related to the firm's system of quality management. <p>Personnel's Commitment to Quality and Accountability and Recognition for Quality (Ref: Para. 32(b))</p> <p>A91. 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, such as in the case of firms with fewer personnel.</p> <p>A92. Positive actions or behaviors demonstrated by personnel may be recognized through various means, such as through compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.</p> <p>A93. The manner in which the firm holds personnel accountable for actions or behaviors that negatively affect quality, such as failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role or implement the firm's responses as designed, may depend on the nature of the action or behavior, including its severity and frequency of occurrence. Actions the firm may take when personnel demonstrate actions or behaviors that negatively affect quality may include:</p> <ul style="list-style-type: none"> • Training or other professional development. • Considering the effect of the matter on the evaluation, compensation, promotion or other incentives of those involved. • Disciplinary action, if appropriate. <p>Individuals Obtained from External Sources (Ref: Para. 32(c))</p>
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<p>and capabilities, including being given sufficient time, to consistently perform quality engagements. (Ref: Para. A88–A89, A95–A97)</p> <p>(e) Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities.</p> <p>(f) Appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements. (Ref: Para. A98–A101, A104)</p> <p>(g) Appropriate intellectual resources are obtained or developed, implemented,</p>	<p>A94. Professional standards may include responsibilities for the engagement partner regarding the appropriateness of resources. For example, proposed ISA 220 (Revised)¹³ addresses the responsibility of the engagement partner for determining that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner in accordance with the firm's policies or procedures.</p> <p>Engagement Team Members Assigned to Each Engagement (Ref: Para. 32(d))</p> <p>A95. Engagement team members may be assigned to engagements in a number of ways, for example:</p> <ul style="list-style-type: none"> • The firm ordinarily assigns personnel, including personnel from a service delivery center of the firm. • If the firm uses the firm's network or another network firm to perform procedures on the engagement (e.g., a component auditor or a service delivery center of the network or another network firm), the engagement team members are ordinarily assigned by the network or other network firm. • If the firm uses a service provider to perform procedures on the engagement (e.g., a component auditor from a firm that is not within the firm's network), the engagement team members are ordinarily assigned by the service provider. <p>A96. Proposed ISA 220 (Revised)¹⁴ addresses the responsibility of the engagement partner to determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement. ISA 600¹⁵ expands on how ISA 220 (Revised) is to be applied in relation to an audit of group financial statements. The responses designed and implemented by the firm to address the competence and capabilities of engagement team members assigned to the engagement may include policies or procedures that address:</p>
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¹³ Proposed ISA 220 (Revised), paragraph 25

¹⁴ Proposed ISA 220 (Revised), paragraph 26

¹⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 19

<p>maintained, and used, to enable the operation of the firm's system of quality management and 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. A102–A104)</p> <p>(h) Human, technological or intellectual resources from service providers are appropriate for use in the firm's system of quality management and in performing engagements, taking into account the quality objectives in paragraph 32 (d),(e),(f) and (g). (Ref: Para. A105–A108)</p>	<ul style="list-style-type: none"> • How the engagement partner determines that the engagement team members assigned to the engagement, including those assigned by the firm's network, another network firm or service provider, have the competence and capabilities to perform the engagement. • How concerns about the competence and capabilities of engagement team members, in particular those assigned by the firm's network, another network firm or service provider, may be resolved. For example, the firm's policies or procedures may specify that: <ul style="list-style-type: none"> ○ The group engagement team first discuss concerns with the component auditor and request that they address them. ○ The group engagement team is required to consult within the firm if the group engagement team is unable to resolve the concerns with the component auditor. <p>A97. The requirements in paragraphs 48–52 are also applicable when using individuals from the firm's network or another network firm on an engagement, including component auditors (see, for example, paragraph A178).</p> <p><i>Technological Resources</i> (Ref: Para. 32(f))</p> <p>A98. 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:</p> <ul style="list-style-type: none"> • 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. • The IT infrastructure is comprised of the IT network, operating systems, and databases 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. <p>A99. A technological resource may serve multiple purposes within the firm and some of the purposes may be unrelated to the system of quality management. Technological resources that are relevant for the purposes of this ISQM are:</p>
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	<ul style="list-style-type: none"> • Technological resources that are directly used in designing, implementing or operating the firm's system of quality management; • Technological resources that are used directly by engagement teams in performing engagements; and • Technological resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application. <div data-bbox="724 516 1890 1336" style="border: 1px solid black; padding: 10px;"> <p><i>Scalability examples to demonstrate how the technological resources that are relevant for the purposes of this ISQM may differ</i></p> <ul style="list-style-type: none"> • In a less complex firm, the technological resources may comprise a commercial IT application used by engagement teams, which has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (e.g., processes for authorizing access to the IT application and processing updates to the IT application). • In a more complex firm, the technological resources may be more complex and may comprise: <ul style="list-style-type: none"> ○ Multiple IT applications, including custom developed applications or applications developed by the firm's network, such as: <ul style="list-style-type: none"> • IT applications used by engagement teams (e.g., engagement software and automated audit tools). • IT applications developed and used by the firm to manage aspects of the system of quality management (e.g., IT applications to monitor independence or assign personnel to engagements). ○ The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and IT processes and the firm's processes for managing program changes to the IT applications. </div>
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	<p>A100. The firm may consider the following matters in obtaining, developing, implementing and maintaining an IT application:</p> <ul style="list-style-type: none"> • The data inputs are complete and appropriate; • 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; • The general IT controls necessary to support the IT application's continued operation as designed are appropriate; • The need for specialized skills to utilize the IT application effectively, including the training of individuals who will use the IT application; and • The need to develop procedures that set out how the IT application operates. <p>A101. 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. Alternatively, the firm may establish policies or procedures to address circumstances when the engagement team uses an IT application that is not approved by the firm. Such policies or procedures may require the engagement team to determine that the IT application is appropriate for use prior to using it on the engagement, through considering the matters in paragraph A100. ISA 220 (Revised)¹⁶ addresses the engagement partner's responsibilities for engagement resources.</p> <p><i>Intellectual Resources</i> (Ref: Para. 32(g))</p> <p>A102. Intellectual resources include the information the firm uses to promote consistency in performing engagements.</p>
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¹⁶ Proposed ISA 220 (Revised), paragraphs 25–28

	<div data-bbox="722 201 1896 431" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of intellectual resources</i></p> <p>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 performing engagements).</p> </div> <p>A103. Intellectual resources may be made available through technological resources, for example, the firm's methodology may be embedded in the IT application that facilitates the planning and performance of the engagement.</p> <p><i>Use of Technological and Intellectual Resources (Ref: Para. 32(f)–32(g))</i></p> <p>A104. The firm may establish policies or procedures regarding the use of the firm's technological and intellectual resources. Such policies or procedures may:</p> <ul style="list-style-type: none"> • Require the use of certain IT applications or intellectual resources in performing engagements, or relating to other aspects of the engagement, such as in archiving the engagement file. • Specify the qualifications or experience that individuals need to use the resource, including the need for an expert or training, for example, the firm may specify the qualifications or expertise needed to use an IT application that analyzes data, given that specialized skills may be needed to interpret the results. • Specify the responsibilities of the engagement partner regarding the use of technological and intellectual resources. • Set out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be applied, and the availability of support or assistance in using the technological or intellectual resource. <p><i>Service Providers (Ref: Para. 16(v), 32(h))</i></p> <p>A105. In some circumstances, the firm may use resources that are provided by a service provider, particularly in circumstances when the firm does not have access to the appropriate resources</p>
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	<p>internally. Notwithstanding that a firm may use resources from a service provider, the firm remains responsible for its system of quality management.</p> <div data-bbox="724 284 1890 717" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of resources from a service provider</i></p> <ul style="list-style-type: none"> • Individuals engaged 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. • Individuals performing procedures on the firm's engagements, for example, component auditors from other firms not within the firm's network or individuals engaged to attend a physical inventory count at a remote location. • An auditor's external expert engaged by the firm to assist the engagement team in obtaining audit evidence. </div> <p>A106. In identifying and assessing quality risks, the firm is required to obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, which includes those relating to service providers. In doing so, the firm may consider the nature of the resources provided by service providers, how and the extent to which they will be used by the firm, and the general characteristics of the service providers used by the firm (e.g., the varying types of other professional services firms that are used), in order to identify and assess quality risks related to the use of such resources.</p> <p>A107. In determining whether a resource from a service provider is appropriate for use in the firm's system of quality management or performing engagements, the firm may obtain information about the service provider and the resource they provide from a number of sources. Matters the firm may consider include:</p> <ul style="list-style-type: none"> • The related quality objective and quality risks. For example, in the case of a methodology from a service provider, there may be quality risks related to the quality objective in paragraph 32(g), such as a quality risk that the service provider does not update the methodology to reflect changes in professional standards and applicable legal and regulatory requirements.
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	<ul style="list-style-type: none"> • The nature and scope of the resources, and the conditions of the service (e.g., in relation to an IT application, how often updates will be provided, limitations on the use of the IT application and how the service provider addresses confidentiality of data). • The extent to which the resource is used across the firm, how the resource will be used by the firm and whether it is suitable for that purpose. • The extent of customization of the resource for the firm. • The firm's previous use of the service provider. • The service provider's experience in the industry and reputation in the market. <p>A108. The firm may have a responsibility to take further actions in using the resource from a service provider so that the resource functions effectively. For example, the firm may need to communicate information to the service provider in order for the resource to function effectively, or, in relation to an IT application, the firm may need to have supporting IT infrastructure and IT processes in place.</p>
Information and Communication	Information and Communication (Ref: Para. 33)
<p>33. 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. A109)</p> <p>(a) The information system identifies, captures, processes and maintains relevant and reliable</p>	<p>A109. 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.</p> <p><i>The Firm's Information System</i> (Ref: Para. 33(a))</p> <p>A110. Reliable and relevant 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.</p> <p>A111. 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. In addition, digital records may replace or supplement physical records.</p>

<p>information that supports the system of quality management, whether from internal or external sources. (Ref: Para. A110–A111)</p> <p>(b) The culture of the firm recognizes and reinforces the responsibility of personnel to exchange information with the firm and with one another. (Ref: Para. A112)</p> <p>(c) Relevant and reliable information is exchanged throughout the firm and with engagement teams, including: (Ref: Para. A113)</p> <p>(i) Information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing</p>	<div data-bbox="722 201 1856 431" style="border: 1px solid black; padding: 10px; margin-bottom: 10px;"> <p><i>Scalability example to demonstrate how the information system may be designed in a less complex firm</i></p> <p>Less complex firms with fewer personnel and direct involvement of leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed and maintained.</p> </div> <p><i>Communication Within the Firm</i> (Ref: Para. 33(b), 33(c))</p> <p>A112. The firm may recognize and reinforce the responsibility of personnel and engagement teams to exchange information with the firm and with one another by establishing communication channels to facilitate communication across the firm.</p> <div data-bbox="722 646 1856 1302" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of communication among the firm, personnel and engagement teams</i></p> <ul style="list-style-type: none"> • The firm communicates the responsibility for implementing the firm's responses to personnel and engagement teams. • The firm communicates changes to the system of quality management to personnel and engagement teams, to the extent that the changes are relevant to their responsibilities and enables personnel and the engagement teams to take prompt and appropriate action in accordance with their responsibilities. • The firm communicates 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 to the firm information about: <ul style="list-style-type: none"> ○ The client that is 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. </div>
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<p>activities within the system of quality management or engagements.</p> <p>(ii) Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.</p> <p>(d) Relevant and reliable information is communicated to external parties, including:</p> <p>(i) Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfill their responsibilities relating to the network requirements or network services or resources provided</p>	<div data-bbox="722 193 1856 721"> <ul style="list-style-type: none"> ○ The operation of the firm's responses (e.g., concerns about the firm's processes for assigning personnel to engagements), which in some cases, may indicate a deficiency in the firm's system of quality management. • Engagement teams communicate information to the engagement quality reviewer or individuals providing consultation. • Group engagement teams communicate matters to component auditors in accordance with the firm's policies or procedures, including matters related to quality management at the engagement level. • The individual(s) assigned operational responsibility for compliance with independence requirements communicates to relevant personnel and engagement teams changes in the independence requirements and the firm's policies or procedures to address such changes. </div> <p><i>Communication with External Parties</i></p> <p>Communication to or within the Firm's Network and to Service Providers (Ref: Para. 33(d)(i))</p> <p>A113. In addition to the firm communicating information to or within the firm's network or to a service provider, the firm may need to obtain information from the network or a service provider that supports the firm in the design, implementation and operation of its system of quality management.</p> <div data-bbox="722 989 1887 1151"> <p><i>Example of information obtained by the firm from within the firm's network</i></p> <p>The firm obtains information from the network or other network firms about clients of other firms within the network, where there are independence requirements that affect the firm.</p> </div> <p>Communication with Others External to the Firm (Ref: Para. 33(d)(ii))</p> <div data-bbox="651 1240 1887 1338"> <p>A114. <i>Examples of when law, regulation or professional standards may require the firm to communicate information to external parties</i></p> </div>
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<p>by them. (Ref: Para. A113)</p> <p>(ii) Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality management. (Ref: Para. A114–A115)</p>	<ul style="list-style-type: none"> • The firm becomes aware of non-compliance with laws and regulations by a client, and relevant ethical requirements 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 or regulation requires the firm to publish a transparency report and specifies the nature of the information that is required to be included in the transparency report. • Securities law or regulation requires the firm to communicate certain matters to those charged with governance. <p>A115. In some cases, law or regulation may preclude the firm from communicating information related to its system of quality management externally.</p> <div data-bbox="722 667 1896 883"> <p><i>Examples of when the firm may be precluded from communicating information externally</i></p> <ul style="list-style-type: none"> • Privacy or secrecy law or regulation prohibits disclosure of certain information. • Law, regulation or relevant ethical requirements include provisions addressing the duty of confidentiality. </div>
<p>Specified Responses</p>	<p>Specified Responses (Ref: Para. 34)</p>
<p>34. In designing and implementing responses in accordance with paragraph 26 and in order to achieve the quality objectives, the firm shall include the following responses: (Ref: Para. A116)</p> <p>(a) The firm establishes policies or procedures for:</p> <p>(i) Identifying, evaluating and</p>	<p>A116. The specified responses may address multiple quality risks related to more than one quality objective across different components. For example, policies or procedures for complaints and allegations may address quality risks related to quality objectives in resources (e.g., personnel's commitment to quality), relevant ethical requirements and governance and leadership. The specified responses alone are not sufficient to achieve the objectives of the system of quality management.</p> <p><i>Relevant Ethical Requirements</i> (Ref: Para. 34(a)–34(b))</p> <p>A117. 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.</p>

<p>addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A117)</p> <p>(ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: Para. A118–A119)</p> <p>(b) The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.</p> <p>(c) The firm establishes policies or procedures for receiving, investigating and</p>	<p>A118. Relevant ethical requirements may specify how the firm is required to respond to a breach. For example, 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.</p> <p>A119. Matters the firm may address relating to breaches of the relevant ethical requirements include:</p> <ul style="list-style-type: none"> • The communication of breaches of the relevant ethical requirements to appropriate personnel 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, such as those charged with governance of the entity to which the breach relates or an external oversight authority; and • Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach. <p><i>Complaints and Allegations</i> (Ref: Para. 34(c))</p> <p>A120. Establishing policies or procedures for dealing with complaints and allegations may assist the firm in preventing engagement reports from being issued that are inappropriate. It also may assist the firm in:</p> <ul style="list-style-type: none"> • Identifying and dealing with individuals, including leadership, who do not act or behave in a manner that demonstrates a commitment to quality and supports the firm's commitment to quality; or • Identifying deficiencies in the system of quality management. <p>A121. Complaints and allegations may originate from within or outside the firm and they may be made by personnel, or others external to the firm (e.g., clients, component auditors or individuals within the firm's network).</p>
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<p>resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures. (Ref: Para. A120–A121)</p> <p>(d) The firm establishes policies or procedures that address circumstances when:</p> <p>(i) 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</p>	<p><i>Information That Becomes Known Subsequent to Accepting or Continuing a Client Relationship or Specific Engagement</i> (Ref: Para. 34(d))</p> <p>A122. Information that becomes known subsequent to accepting or continuing a client relationship or specific engagement may:</p> <ul style="list-style-type: none"> • 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. <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p><i>Examples of matters addressed in the firm's policies or procedures for 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</i></p> <ul style="list-style-type: none"> • Undertaking 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 action that the firm might take based on the relevant facts and circumstances. • When it is determined that withdrawal is an appropriate action: <ul style="list-style-type: none"> ○ Informing the client's management and those charged with governance or the engaging party of this decision and the reasons for the withdrawal. ○ 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. </div>
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<p>relationship or specific engagement; or (Ref: Para. A122–A123)</p> <p>(ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: Para. A123)</p> <p>(e) The firm establishes policies or procedures that: (Ref: Para. A124–A126)</p> <p>(i) Require communication with those charged with governance when performing an audit of financial statements of listed entities about how the system of quality management supports the consistent performance of quality engagements; (Ref: Para. A127–A128, A132)</p>	<p>A123. In some circumstances, 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.</p> <div data-bbox="722 321 1864 776" style="border: 1px solid black; padding: 10px;"> <p><i>Example of matters addressed in the firm's policies or procedures in circumstances when the firm is obligated to accept or continue an engagement or the firm is unable to withdraw from an engagement, and the firm is aware of information that would have caused the firm to decline or discontinue the engagement</i></p> <ul style="list-style-type: none"> • The firm considers the effect of the information on the performance of the engagement. • The firm communicates the information to the engagement partner, and requests the engagement partner to increase the extent and frequency of the direction and supervision of the engagement team members and review of their work. • The firm assigns more experienced personnel to the engagement. • The firm determines that an engagement quality review should be performed. </div> <p><i>Communication with External Parties</i> (Ref. Para: 34(e))</p> <p>A124. The firm's ability to maintain stakeholder confidence in the quality of its engagements may be enhanced through relevant, reliable and transparent communication by the firm about the activities that it has undertaken to address quality, and the effectiveness of those activities.</p> <p>A125. External parties who may use information about the firm's system of quality management, and the extent of their interest in the firm's system of quality management, may vary based on the nature and circumstances of the firm and its engagements.</p> <div data-bbox="722 1117 1885 1388" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of external parties who may use information about the firm's system of quality management</i></p> <ul style="list-style-type: none"> • Management or those charged with governance of the firm's clients may use the information to determine whether to appoint the firm to perform an engagement. • External oversight authorities may have indicated a desire for the information to support their responsibilities in monitoring the quality of engagements across a jurisdiction. </div>
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<p>(ii) Address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management; and (Ref: Para. A129)</p> <p>(iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (Ref: Para. A130–A131)</p> <p>(f) The firm establishes policies or procedures that address engagement quality reviews in accordance with proposed ISQM 2, and require an engagement quality review for:</p>	<div data-bbox="722 201 1896 396" style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • Other firms who use the work of the firm in performing engagements (e.g., in relation to a group audit) may have requested such information. • Other users of the firm's engagement reports, such as investors who use engagement reports in their decision making, may have indicated a desire for the information. </div> <p>A126. The information provided to those charged with governance about how the system of quality management supports the consistent performance of quality engagements, or communications with external parties about the system of quality management may include:</p> <ul style="list-style-type: none"> • The nature and circumstances of the firm, such as the organizational structure, business model, strategy and operating environment. • The firm's governance and leadership, such as its culture, how it demonstrates a commitment to quality, and assigned roles, responsibilities and authority with respect to the system of quality management. • How the firm fulfills its responsibilities in accordance with relevant ethical requirements, including those related to independence. • Factors that contribute to quality engagements, for example, such information may be presented in the form of engagement quality indicators with 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 paragraphs 53–54 of whether the system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved, including the basis for the judgments 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. • The relationship between the firm and the network, the overall structure of the network, a description of network requirements and network services, the responsibilities of the firm and
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<p>(i) Audits of financial statements of listed entities;</p> <p>(ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A133)</p> <p>(iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s). (Ref: Para. A134-A137)</p>	<p>the network (including that the firm is ultimately responsible for the system of quality management), and information about the overall scope and results of network monitoring activities across the network firms.</p> <p>A127. How the communication with those charged with governance is undertaken (i.e., by the firm or the engagement team) may depend on the firm's policies or procedures and the circumstances of the engagement.</p> <p>A128. ISA 260 (Revised) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements, and addresses the auditor's determination of the appropriate person(s) within the entity's governance structure with whom to communicate¹⁷ and the communication process.¹⁸ In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than listed entities (or when performing other engagements), for example, entities which may have public interest considerations or public accountability characteristics, such as:</p> <ul style="list-style-type: none"> • Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds. • Entities with a high public profile, or whose management or owners have a high public profile. • Entities with a large number or diverse range of shareholders. <p>A129. The firm's determination of when it is appropriate to communicate with external parties about the firm's system of quality management is a matter of professional judgment and may be influenced by matters such as:</p> <ul style="list-style-type: none"> • The types of engagements performed by the firm, and the types of entities for which such engagements are undertaken. • The nature and circumstances of the firm.
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¹⁷ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraphs 11–13

¹⁸ ISA 260 (Revised), paragraphs 18–22

	<ul style="list-style-type: none"> • The nature of the firm's operating environment, such as customary business practice in the firm's jurisdiction and the characteristics of the financial markets in which the firm operates. • The extent to which the firm has already communicated with external parties in accordance with law or regulation (i.e., whether further communication is needed, and if so, the matters to be communicated). • The expectations of stakeholders in the firm's jurisdiction, including 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. • Jurisdictional trends. • The information that is already available to external parties. • How external parties may use the information, and their general understanding of matters related to firms' system of quality management and audits or reviews of financial statements, or other assurance or related services engagements. • The cost of external communication (monetary or otherwise) and whether it would reasonably be expected to outweigh the public interest benefits of such communication. <p>The above matters may also affect the information provided by the firm in the communication, and the nature, timing and extent and appropriate form of communication.</p> <p>A130. The firm may consider the following attributes in preparing information that is communicated to external parties:</p> <ul style="list-style-type: none"> • The information is specific to the circumstances of the firm. 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, and the manner of presentation is neither misleading nor would inappropriately influence the users of the communication (e.g., the information is presented in a manner that is appropriately balanced towards positive and negative aspects of the matter being communicated).
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	<ul style="list-style-type: none"> • 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 (e.g., the firm's website). <p>A131. The firm uses professional judgment in determining, in the circumstances, the appropriate form of communication with the external party, including communication with those charged with governance when performing an audit of financial statements of listed entities, which may be made orally or in writing. Accordingly, the form of communication may vary.</p> <div data-bbox="722 630 1890 987" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of form of communication to external parties</i></p> <ul style="list-style-type: none"> • A webpage, videos or interviews. • A publication such as a transparency report or audit quality report. • Targeted communication to specific stakeholders (e.g., information about the results of the firm's monitoring and remediation process). • Direct conversations and interactions with the external party, including through social media (e.g., discussions between the engagement team and those charged with governance). </div> <p><i>Public Sector Considerations</i> (Ref: Para. 34(e)(ii))</p> <p>A132. The firm may determine it is appropriate to communicate to those charged with governance of a public sector entity about how the firm's system of quality management supports the consistent performance of quality engagements, taking into account the size and complexity of the public sector entity, the range of their stakeholders and the nature of the services they provide.</p> <p><i>Engagements Subject to an Engagement Quality Review</i></p> <p>Engagement Quality Review Required by Law or Regulation (Ref: Para. 34(f)(ii))</p> <p>A133. Law or regulation may require an engagement quality review to be performed, for example, for audit</p>
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	<p>engagements for entities that:</p> <ul style="list-style-type: none"> • Are public interest entities as defined in a particular jurisdiction; • Operate in the public sector or which are recipients of government funding, or entities with public accountability; • Operate in certain industries (e.g., financial institutions such as banks, insurance companies and pension funds); • Meet a specified asset threshold; or • Are under the management of a court or judicial process (e.g., liquidation). <p>Engagement Quality Review as a Response to Address One or More Quality Risk(s) (Ref: Para. 34(f)(iii))</p> <p>A134. The conditions, events, circumstances, actions or inactions understood by the firm in accordance with paragraph 25(a)(ii) relate to the nature and circumstances of the engagements performed by the firm. In designing and implementing responses, the firm may determine that an engagement quality review is an appropriate response that is based on, and responsive to, the reasons for the assessments given to the quality risks arising from certain conditions, events, circumstances, actions or inactions.</p> <div data-bbox="730 894 1892 1383" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of conditions, events, circumstances, actions or inactions giving rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response</i></p> <p>Those relating to the types of engagements performed by the firm and reports to be issued:</p> <ul style="list-style-type: none"> • Engagements that involve a high level of complexity or judgment, such as: <ul style="list-style-type: none"> ○ Audits of financial statements for entities 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 entities for which uncertainties exist related to events or conditions that may cast significant doubt on their ability to continue as a going concern. ○ Assurance engagements that require specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (e.g., a </div>
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	<p>greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).</p> <ul style="list-style-type: none"> Engagements on which issues have been encountered, such as audit engagements with recurring internal or external inspection findings, unremediated deficiencies in internal control, or a material restatement of comparative information in the financial statements. Engagements for which unusual circumstances have been identified during the firm's acceptance and continuance process (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner). Engagements 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 judgment, such as pro forma financial information to be included in a prospectus. <p>Those relating to the types of entities for which engagements are undertaken:</p> <ul style="list-style-type: none"> Entities in emerging industries, or for which the firm has no previous experience. Entities for which concerns were expressed in communications from securities or prudential regulators. Entities other than listed entities, which may have public interest considerations or public accountability characteristics, for example: <ul style="list-style-type: none"> Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation. Entities with a high public profile, or whose management or owners have a high public profile. Entities with a large number or diverse range of shareholders. <p>A135. The firm's responses to address quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, for audits of financial statements, the firm's responses may include reviews of the engagement team's procedures relating to significant risks, or reviews of certain significant judgments, by individuals within the firm who have specialized technical</p>
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	<p>expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.</p> <p>A136. In some cases, the firm may determine that there are no audits or other engagements for which an engagement quality review or another form of engagement review is an appropriate response to address the quality risk(s).</p> <p>Public sector considerations</p> <p>A137. The firm may identify and assess quality risks specific to public sector entities due to their size and complexity, the range of their stakeholders or the nature of the services they provide. In these circumstances, the firm may determine that an engagement quality review is an appropriate response to address such quality risk(s). Law or regulation may establish additional reporting requirements for a public sector entity (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 statements). In such cases, the firm may also consider the importance to users of that reporting in identifying and assessing quality risks and determining whether an engagement quality review is an appropriate response.</p>
Monitoring and Remediation Process	Monitoring and Remediation Process (Ref: Para. 35–47)
<p>35. The firm shall establish a monitoring and remediation process to: (Ref: Para. A138)</p> <p>(a) Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management.</p> <p>(b) Take appropriate actions to respond to identified deficiencies such that deficiencies are</p>	<p>A138. In addition to enabling the evaluation of the system of quality management, the monitoring and remediation process facilitates the proactive and continual improvement of engagement quality and the system of quality management. For example:</p> <ul style="list-style-type: none"> Given the inherent limitations of a system of quality management, the identification of deficiencies is not unusual and it is an important aspect of the system of quality management, because prompt identification of deficiencies enables the firm to remediate them in a timely and effective manner, and contributes to a culture of continual improvement. The monitoring activities may provide information that enables the firm to prevent a deficiency through responding to a finding that could, over a period of time, lead to a deficiency.

remediated on a timely basis.	
<p><i>Designing and Performing Monitoring Activities</i></p> <p>36. The firm shall design and perform monitoring activities to provide a basis for the identification of deficiencies.</p>	<p><i>Designing and Performing Monitoring Activities</i> (Ref: Para. 36–39)</p>
<p>37. In determining the nature, timing and extent of the monitoring activities, the firm shall take into account: (Ref: Para. A139–A142)</p> <p>(a) The reasons for the assessments given to the quality risks;</p> <p>(b) The design of the responses;</p> <p>(c) The design of the firm's risk assessment process and monitoring and remediation process; (Ref: Para. A143–A144)</p> <p>(d) Changes in the system of quality management; (Ref: Para. A145)</p> <p>(e) The results of previous monitoring activities, whether previous</p>	<p>A139. The firm's monitoring activities may comprise a combination of ongoing monitoring activities and periodic monitoring activities. Ongoing monitoring activities are generally routine activities, built into the firm's processes and performed on a real-time basis, reacting to changing conditions. Periodic monitoring activities are conducted at certain intervals by the firm. In most cases, ongoing monitoring activities provide information about the system of quality management in a timelier manner.</p> <p>A140. Monitoring activities may include the inspection of in-process engagements. Inspections of engagements are designed to monitor that an aspect of the system of quality management is designed, implemented and operating in the manner intended. In some circumstances, the system of quality management may include responses that are designed to review engagements while in process that appear similar in nature to an inspection of in-process engagements (e.g., reviews that are designed to detect failures or shortcomings in the system of quality management so that they can prevent a quality risk from occurring). The purpose of the activity will guide its design and implementation, and where it fits within the system of quality management (i.e., whether it is an inspection of an in-process engagement that is a monitoring activity or a review of an engagement that is a response to address a quality risk).</p> <p>A141. The nature, timing and extent of the monitoring activities may also be affected by other matters, including:</p> <ul style="list-style-type: none"> • The size, structure and organization of the firm. • The involvement of the firm's network in monitoring activities.

<p>monitoring activities continue to be relevant in evaluating the firm's system of quality management and whether remedial actions to address previously identified deficiencies were effective; and (Ref: Para. A146–A147)</p> <p>(f) Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or non-compliance with the firm's policies or procedures, information from external inspections and information from service providers. (Ref: Para. A148–A150)</p>	<ul style="list-style-type: none"> The resources that the firm intends to use to enable monitoring activities, such as the use of IT applications. <p>A142. When performing monitoring activities, the firm may determine that changes to the nature, timing and extent of the monitoring activities are needed, such as when findings indicate the need for more extensive monitoring activities.</p> <p>The Design of the Firm's Risk Assessment Process and Monitoring and Remediation Process (Ref: Para. 37(c))</p> <p>A143. How the firm's risk assessment process is designed (e.g., a centralized or decentralized process, or the frequency of review) may affect the nature, timing and extent of the monitoring activities, including monitoring activities over the firm's risk assessment process.</p> <p>A144. The monitoring activities that are undertaken to obtain information about the monitoring and remediation process may be affected by the design of the monitoring and remediation process, and the nature and circumstances of the firm.</p> <div data-bbox="722 789 1892 1211" style="border: 1px solid black; padding: 10px;"> <p><i>Scalability example to demonstrate the monitoring activities for the monitoring and remediation process</i></p> <ul style="list-style-type: none"> In a less complex firm, the monitoring activities for the monitoring and remediation process may comprise a consideration by leadership, based on their frequent interaction with the system of quality management, of the nature, timing and extent of the monitoring activities undertaken, the results of the monitoring activities, and the firm's actions to address the results. In a more complex firm, the monitoring activities for the monitoring and remediation process may be specifically designed to determine that the monitoring and remediation process is providing relevant, reliable and timely information about the system of quality management, and responding appropriately to identified deficiencies. </div> <p>Changes in the System of Quality Management (Ref: Para. 37(d))</p> <p>A145. Changes in the system of quality management may include:</p> <ul style="list-style-type: none"> Changes to address an identified deficiency in the system of quality management.
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	<ul style="list-style-type: none"> • Changes to the quality objectives, quality risks or responses as a result of changes in the nature and circumstances of the firm and its engagements. <p>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.</p> <p>Previous Monitoring Activities (Ref: Para. 37(e), 43(b))</p> <p>A146. The results of the firm's previous monitoring activities may indicate areas of the system where a deficiency may arise, particularly areas where there is a history of identified deficiencies.</p> <p>A147. Previous monitoring activities undertaken by the firm may no longer provide the firm with information to support the evaluation of the system, including on areas of the system of quality management that have not changed, particularly when time has elapsed since the monitoring activities were undertaken.</p> <p>Other Relevant Information (Ref: Para. 16(h), 37(f))</p> <p>A148. In addition to the sources of information indicated in paragraph 37(f), other relevant information may include:</p> <ul style="list-style-type: none"> • Information communicated by the firm's network in accordance with paragraphs 50(c) and 51(b) 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. • Information from regulators about the entities for whom the firm performs engagements, which is made available to the firm, such as information from a securities regulator about an entity for whom the firm performs engagements (e.g., irregularities in the entity's financial statements). <p>A149. The results of external inspections or other relevant information, both internal and external, may indicate that previous monitoring activities undertaken by the firm failed to identify a deficiency in the system of quality management. This information may affect the firm's consideration of the nature, timing and extent of the monitoring activities.</p>
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	A150. External inspections are not a substitute for the firm's internal monitoring activities. Nevertheless, the results of external inspections inform the nature, timing and extent of the monitoring activities.
<p>38. The firm shall include the inspection of completed engagements in its monitoring activities and shall determine which engagements and engagement partners to select. In doing so, the firm shall: (Ref: Para. A141, A151–A154)</p> <p>(a) Take into account the matters in paragraph 37;</p> <p>(b) Consider the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; and</p> <p>(c) Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.</p>	<p><i>Engagement Inspections (Ref: Para. 38)</i></p> <p>A151. <i>Examples of matters in paragraph 37 that may be considered by the firm in selecting completed engagements for inspection</i></p> <ul style="list-style-type: none"> • In relation to the conditions, events, circumstances, actions or inactions giving rise to the quality risks: <ul style="list-style-type: none"> ○ The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement. ○ The types of entities for which engagements are undertaken, for example: <ul style="list-style-type: none"> • Entities that are listed, • Entities operating in emerging industries. • Entities operating in industries associated with a high level of complexity or judgment. • Entities operating in an industry that is new to the firm. ○ The tenure and experience of engagement partners. • The results of previous inspections of completed engagements, including for each engagement partner. • In relation to other relevant information: <ul style="list-style-type: none"> ○ Complaints or allegations about an engagement partner. ○ The results of external inspections, including for each engagement partner. ○ The results of the firm's evaluation of each engagement partner's commitment to quality.

	<p>A152. The firm may undertake multiple monitoring activities, other than inspection of completed engagements, that focus on determining whether engagements have complied with policies or procedures. These monitoring activities may be undertaken on certain engagements or engagement partners. The nature and extent of these monitoring activities, and the results, may be used by the firm in determining:</p> <ul style="list-style-type: none"> • Which completed engagements to select for inspection; • Which engagement partners to select for inspection; • How frequently to select an engagement partner for inspection; or • Which aspects of the engagement to consider when performing the inspection of completed engagements. <p>A153. The inspection of completed engagements for engagement partners on a cyclical basis may assist the firm in monitoring whether engagement partners have fulfilled their overall responsibility for managing and achieving quality on the engagements they are assigned to.</p> <div data-bbox="714 787 1852 1367" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of how the firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner</i></p> <p>The firm may establish policies or procedures that require the inspection of a completed engagement for each engagement partner performing audits of financial statements once every three years, and for all other engagement partners, once every five years. The firm may include in the policies or procedures:</p> <ul style="list-style-type: none"> • The criteria for selecting completed engagements; • The selection of engagement partners in a manner that is unpredictable; and • The selection of engagement partners more, or less, frequently than the standard period set out in the policy. For example, the firm's policies or procedures may: <ul style="list-style-type: none"> ○ Address the selection of engagement partners more frequently than the standard period set out in the policy if certain conditions or circumstances exist, such as when: </div>
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	<div data-bbox="711 191 1852 1122"> <ul style="list-style-type: none"> • Multiple deficiencies have been identified by the firm that have been evaluated as severe, and the firm determines that a more frequent cyclical inspection is needed across all engagement partners. • The engagement partner performs engagements for entities operating in a certain industry where there are high levels of complexity or judgment. • An engagement performed by the engagement partner has been subject to other monitoring activities, and the results of the other monitoring activities were unsatisfactory. • The engagement partner has performed an engagement for an entity operating in an industry in which the engagement partner has limited experience. • The engagement partner is a newly appointed engagement partner, or has recently joined the firm from another firm or another jurisdiction. ○ Allow the selection of an engagement partner to be deferred (e.g., for a year) if certain conditions or circumstances exist, such as when: <ul style="list-style-type: none"> • Engagements performed by the engagement partner have been subject to other monitoring activities in the last three years; and • The results of the other monitoring activities provide sufficient information about the engagement partner, i.e., performing the inspection of completed engagements would unlikely provide the firm with further information about the engagement partner. </div> <p data-bbox="648 1143 1892 1328">A154. The matters considered in an inspection of an engagement depend on how the inspection will be used to monitor the system of quality management. Ordinarily, the inspection of an engagement includes determining that responses that are implemented at the engagement level (e.g., the firm's policies and procedures in respect of engagement performance), have been implemented as designed and are operating effectively.</p>
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<p>39. The firm shall establish policies or procedures that:</p> <p>(a) Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and</p> <p>(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. A155–A156)</p>	<p>Individuals Performing the Monitoring Activities (Ref: Para. 39(b))</p> <p>A155. The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs:</p> <ul style="list-style-type: none"> • An inspection of an engagement was: <ul style="list-style-type: none"> ○ In the case of an audit of financial statements, 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. <p>A156. In some circumstances, for example, in the case of a smaller firm, there may not be personnel within the firm who have the competence, capabilities, time or objectivity to perform the monitoring activities. In these circumstances, the firm may use network services or a service provider to perform the monitoring activities.</p>
<p><i>Evaluating Findings and Identifying Deficiencies</i></p> <p>40. The firm shall evaluate findings to determine whether deficiencies exist, including in the monitoring and remediation process. (Ref: Para. A157–A161)</p>	<p><i>Evaluating Findings and Identifying Deficiencies</i> (Ref: Para. 16(a), 40–41)</p> <p>A157. The firm accumulates findings from the performance of monitoring activities, external inspections and other relevant sources. The information accumulated from the monitoring activities, external inspections and other relevant sources may reveal other observations about the firm's system of quality management, such as:</p>

	<ul style="list-style-type: none"> • Actions, behaviors or conditions that have given rise to positive outcomes in the context of quality or the effectiveness of the system of quality management; or • Similar circumstances where no findings were noted (e.g., engagements, where no findings were noted, and the engagements have a similar nature to the engagements where findings were noted). <p>Other observations may be useful to the firm as they may assist the firm in investigating the root cause(s) of identified deficiencies, indicate practices that the firm can support or apply more extensively (e.g., across all engagements) or highlight opportunities for the firm to enhance the system of quality management.</p> <p>A158. The firm exercises professional judgment in determining whether findings, individually or in combination with other findings give rise to a deficiency in the system of quality management. The judgment is made by the firm, taking into consideration the relative importance of the findings in the context of the quality objectives, quality risks, responses or other aspects of the system of quality management to which they relate. The firm's judgments may be affected by quantitative and qualitative factors relevant to the findings. In some circumstances, the firm may determine it appropriate to obtain more information about the findings in order to determine whether a deficiency exists. Not all findings, including engagement findings, will be a deficiency.</p> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p>A159. <i>Examples of quantitative and qualitative factors that a firm may consider in determining whether findings give rise to a deficiency</i></p> <p><i>Quality risks and responses</i></p> <ul style="list-style-type: none"> • If the findings relate to a response: <ul style="list-style-type: none"> ○ How the response is designed, for example, the nature of the response, the frequency of its occurrence (if applicable), and the relative importance of the response to addressing the quality risk(s) and achieving the quality objective(s) to which it relates. ○ The nature of the quality risk to which the response relates, and the extent to which the findings indicate that the quality risk has not been addressed. </div>
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	<ul style="list-style-type: none"> ○ Whether there are other responses that address the same quality risk and whether there are findings for those responses. <p><i>Nature of the findings and their pervasiveness</i></p> <ul style="list-style-type: none"> • The nature of the findings. For example, findings related to leadership actions and behaviors may be qualitatively significant, given the pervasive effect this could have on the system of quality management as a whole. • Whether the findings, in combination with other findings, indicate a trend or systemic issue. For example, similar engagement findings that appear on multiple engagements may indicate a systemic issue. <p><i>Error rates and population size</i></p> <ul style="list-style-type: none"> • The design of the monitoring activity from which the findings 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 findings arose, including the number of selections relative to the size of the entire population. • The extent of the findings in relation to the selection covered by the monitoring activity, and in relation to the tolerable error rate. For example, in the case of inspection of engagements, the number of engagements selected where the findings were identified, relative to the total number of engagements selected, and the tolerable error rate set by the firm. <p>A160. Evaluating findings and identifying deficiencies and evaluating the severity and pervasiveness of an identified deficiency, including investigating the root cause(s) of an identified deficiency, are part of an iterative and non-linear process.</p>
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	<p><i>Examples of how the process of evaluating findings and identifying deficiencies, evaluating identified deficiencies, including investigating the root cause(s) of identified deficiencies, is iterative and non-linear</i></p> <ul style="list-style-type: none"> • In investigating the root cause(s) of an identified deficiency, the firm may identify a circumstance that has similarities to other circumstances where there were findings that were not considered a deficiency. As a result, the firm adjusts its evaluation of the other findings and classifies them as a deficiency. • In evaluating the severity and pervasiveness of an identified deficiency, the firm may identify a trend or systemic issue that correlates with other findings that are not considered deficiencies. As a result, the firm adjusts its evaluation of the other findings and also classifies them as deficiencies. <p>A161. The results of monitoring activities, results of external inspections and other relevant information (e.g., network monitoring activities or complaints and allegations) may reveal information about the effectiveness of the monitoring and remediation process. For example, the results of external inspections may provide information about the system of quality management that has not been identified by the firm's monitoring and remediation process, which may highlight a deficiency in that process.</p>
<p><i>Evaluating Identified Deficiencies</i></p> <p>41. The firm shall evaluate the severity and pervasiveness of identified deficiencies by: (Ref: Para. A160, A162–A163)</p> <p>(a) Investigating the root cause(s) of the identified deficiencies. In determining the nature, timing and extent of the procedures to investigate the root</p>	<p><i>Evaluating Identified Deficiencies</i> (Ref: Para. 41)</p> <p>A162. Factors the firm may consider in evaluating the severity and pervasiveness of an identified deficiency include:</p> <ul style="list-style-type: none"> • The nature of the identified deficiency, including the aspect of the firm's system of quality management to which the deficiency relates, and whether the deficiency is in the design, implementation or operation of the system of quality management; • In the case of identified deficiencies related to responses, whether there are compensating responses to address the quality risk to which the response relates; • The root cause(s) of the identified deficiency; • The frequency with which the matter giving rise to the identified deficiency occurred; and

<p>cause(s), the firm shall take into account the nature of the identified deficiencies and their possible severity. (Ref: Para. A164–A168)</p> <p>(b) Evaluating the effect of the identified deficiencies, individually and in aggregate, on the system of quality management.</p>	<ul style="list-style-type: none"> • The magnitude of the identified deficiency, how quickly it occurred and the duration of time that it existed and had an effect on the system of quality management. <p>A163. The severity and pervasiveness of identified deficiencies affects the evaluation of the system of quality management that is undertaken by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p> <p><i>Root Cause of the Identified Deficiencies</i> (Ref: Para. 41(a))</p> <p>A164. The objective of investigating the root cause(s) of identified deficiencies is to understand the underlying circumstances that caused the deficiencies to enable the firm to:</p> <ul style="list-style-type: none"> • Evaluate the severity and pervasiveness of the identified deficiency; and • Appropriately remediate the identified deficiency. <p>Performing a root cause analysis involves those performing the assessment exercising professional judgment based on the evidence available.</p> <p>A165. The nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency may also be affected by the nature and circumstances of the firm, such as:</p> <ul style="list-style-type: none"> • The complexity and operating characteristics of the firm. • The size of the firm. • The geographical dispersion of the firm. • How the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities. <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p><i>Examples of how the nature of identified deficiencies and their possible severity and the nature and circumstances of the firm may affect the nature, timing and extent of the procedures to understand the root cause(s) of the identified deficiencies</i></p> <ul style="list-style-type: none"> • The nature of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when an engagement report related to an audit of financial statements of a listed entity was issued that was </div>
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	<div data-bbox="722 201 1894 873" data-label="List-Group"> <p>inappropriate or the identified deficiency relates to leadership's actions and behaviors regarding quality.</p> <ul style="list-style-type: none"> • The possible severity of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when the deficiency has been identified across multiple engagements or there is an indication that policies or procedures have high rates of non-compliance. • Nature and circumstances of the firm: <ul style="list-style-type: none"> • In the case of a less complex firm with a single location, the firm's procedures to understand the root cause(s) of an identified deficiency may be simple, since the information to inform the understanding may be readily available and concentrated, and the root cause(s) may be more apparent. • In the case of a more complex firm with multiple locations, the procedures to understand the root cause(s) of an identified deficiency may include using individuals specifically trained on investigating the root cause(s) of identified deficiencies, and developing a methodology with more formalized procedures for identifying root cause(s). </div> <p data-bbox="646 894 1894 1036">A166. In investigating the root cause(s) of identified deficiencies, the firm may consider why deficiencies did not arise in other circumstances that are of a similar nature to the matter to which the identified deficiency relates. Such information may also be useful in determining how to remediate an identified deficiency.</p> <div data-bbox="722 1057 1894 1354" data-label="Text"> <p><i>Example of when a deficiency did not arise in other circumstances of a similar nature, and how this information assists the firm in investigating the root cause(s) of identified deficiencies</i></p> <p>The firm may determine that a deficiency exists because similar findings have occurred across multiple engagements. However, the findings have not occurred in several other engagements within the same population being tested. By contrasting the engagements, the firm concludes that the root cause of the identified deficiency is a lack of appropriate involvement by the engagement partners at key stages of the engagements.</p> </div>
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	<p>A167. Identifying a root cause(s) that is appropriately specific may support the firm's process for remediating identified deficiencies.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p><i>Example of identifying a root cause(s) that is appropriately specific</i></p> <p>The firm may identify that engagement teams performing audits of financial statements are failing to obtain sufficient appropriate audit evidence on accounting estimates where management's assumptions have a high degree of subjectivity. While the firm notes that these engagement teams are not exercising appropriate professional skepticism, 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 question individuals with greater authority or insufficient direction, supervision and review of the work performed on the engagements.</p> </div> <p>A168. In addition to investigating the root cause(s) of identified deficiencies, the firm may also investigate the root cause(s) of positive outcomes as doing so may reveal opportunities for the firm to improve, or further enhance, the system of quality management.</p>
<p><i>Responding to Identified Deficiencies</i></p> <p>42. The firm shall design and implement remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis. (Ref: Para. A169–A171)</p>	<p><i>Responding to Identified Deficiencies (Ref: Para. 42)</i></p> <p>A169. The nature, timing and extent of remedial actions may depend on a variety of other factors, including:</p> <ul style="list-style-type: none"> • The root cause(s). • The severity and pervasiveness of the identified deficiency and therefore the urgency with which it needs to be addressed. • The effectiveness of the remedial actions in addressing the root cause(s), such as whether the firm needs to implement more than one remedial action in order to effectively address the root cause(s), or needs to implement remedial actions as interim measures until the firm is able to implement more effective remedial actions. <p>A170. In some circumstances, the remedial action may include establishing additional quality objectives, or quality risks or responses may be added or modified, because it is determined that they are not appropriate.</p> <p>A171. In circumstances when the firm determines that the root cause of an identified deficiency relates to a resource provided by a service provider, the firm may also:</p>

	<ul style="list-style-type: none"> Consider whether to continue using the resource provided by the service provider. Communicate the matter to the service provider. <p>The firm is responsible for addressing the effect of the identified deficiency related to a resource provided by a service provider on the system of quality management and taking action to prevent the deficiency from reoccurring with respect to the firm's system of quality management. However, the firm is not ordinarily responsible for remediating the identified deficiency on behalf of the service provider or further investigating the root cause of the identified deficiency at the service provider.</p>
<p>43. The individual(s) assigned operational responsibility for the monitoring and remediation process shall evaluate whether the remedial actions:</p> <p>(a) Are appropriately designed to address the identified deficiencies and their related root cause(s) and determine that they have been implemented; and</p> <p>(b) Implemented to address previously identified deficiencies are effective.</p>	
<p>44. If the evaluation indicates that the remedial actions are not appropriately designed and implemented or are not effective, the individual(s) assigned operational responsibility for the monitoring and remediation process shall take appropriate</p>	

<p>action to determine that the remedial actions are appropriately modified such that they are effective.</p>	
<p>Findings About a Particular Engagement</p> <p>45. The firm shall respond to circumstances when findings indicate that there is an engagement(s) for which procedures required were omitted during the performance of the engagement(s) or the report issued may be inappropriate. The firm's response shall include: (Ref: Para. A172)</p> <p>(a) Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements; and</p> <p>(b) When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.</p>	<p>Findings About a Particular Engagement (Ref: Para. 45)</p> <p>A172. In circumstances when procedures were omitted or the report issued is inappropriate, the action taken by the firm may include:</p> <ul style="list-style-type: none"> • Consulting with appropriate individuals regarding the appropriate action. • Discussing the matter with management of the entity or those charged with governance. • Performing the omitted procedures. <p>The actions taken by the firm do not relieve the firm of the responsibility to take further actions relating to the finding in the context of the system of quality management, including evaluating the findings to identify deficiencies and when a deficiency exists, investigating the root cause(s) of the identified deficiency.</p>

<p><i>Ongoing Communication Related to Monitoring and Remediation</i></p> <p>46. 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. A173)</p> <ul style="list-style-type: none"> (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. 	<p><i>Ongoing Communication Related to the Monitoring and Remediation (Ref: Para. 46)</i></p> <p>A173. The information communicated about the monitoring and remediation to the individual(s) assigned ultimate responsibility and accountability for the system of quality management may be communicated on an ongoing basis or periodically. The individual(s) may use the information in multiple ways, for example:</p> <ul style="list-style-type: none"> • As a basis for further communications to personnel about the importance of quality. • To hold individuals accountable for their roles assigned to them. • To identify key concerns about the system of quality management in a timely manner. <p>The information also provides the basis for the evaluation of the system of quality management, as required by paragraphs 53–54.</p>
<p>47. The firm shall communicate the matters described in paragraph 46 to engagement teams and other individuals assigned activities within the system of</p>	

<p>quality management to enable them to take prompt and appropriate action in accordance with their responsibilities.</p>	
<p>Network Requirements or Network Services</p>	<p>Network Requirements or Network Services (Ref: Para. 48)</p>
<p>48. When the firm belongs to a network, the firm shall understand, when applicable: (Ref: Para. A19, A174)</p> <p>(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);</p> <p>(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</p>	<p>A174. In some circumstances, the firm may belong to a network. 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. Such requirements or services may be intended to promote the consistent performance of quality engagements across the firms that belong to the network. The extent to which the network will provide the firm with quality objectives, quality risks and responses that are common across the network will depend on the firm's arrangements with the network.</p> <div data-bbox="724 760 1890 1380" style="border: 1px solid black; padding: 10px;"> <p><i>Examples of network requirements</i></p> <ul style="list-style-type: none"> • Requirements for the firm to include additional quality objectives or quality risks in the firm's system of quality management that are common across the network firms. • Requirements for the firm to include responses 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, or resources, such as network developed methodologies for performing 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. <p><i>Examples of network services</i></p> </div>

<p>(c) The firm's responsibilities for any actions that are necessary to implement the network requirements or use network services. (Ref: Para. A175)</p> <p>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. The firm shall not allow compliance with the network requirements or use of network services to contravene the requirements of this ISQM. (Ref: Para. A19, A176)</p>	<div data-bbox="724 196 1896 378"> <ul style="list-style-type: none"> Services or resources that are optional for the firm to use in its system of quality management or in performing engagements, such as voluntary training programs, use of component auditors or experts from within the network, or use of a service delivery center established at the network level, or by another firm or group of firms within the same network. </div> <p>A175. The network may establish responsibilities for the firm in implementing the network requirements or network services.</p> <div data-bbox="724 472 1896 797"> <p><i>Examples of responsibilities for the firm in implementing network requirements or network services</i></p> <ul style="list-style-type: none"> The firm is required to have certain IT infrastructure and IT processes in place to support an IT application provided by the network that the firm uses in the system of quality management. The firm is required to provide firm-wide training on the methodology provided by the network, including when updates are made to the methodology. </div> <p>A176. 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 inquiries of, or documentation provided by, the network about matters such as:</p> <ul style="list-style-type: none"> 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, such as 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.
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<p>49. Based on the understanding obtained in paragraph 48, the firm shall:</p> <p>(a) Determine how the network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management, including how they are to be implemented; and (Ref: Para. A177)</p> <p>(b) Evaluate whether and, if so, how the network requirements or network services need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management. (Ref: Para. A178–A179)</p>	<p><i>Network Requirements or Network Services in the Firm's System of Quality Management (Ref: Para. 49)</i></p> <p>A177. The characteristics of the network requirements or network services are a condition, event, circumstance, action or inaction in identifying and assessing quality risks.</p> <div data-bbox="722 337 1890 597"> <p><i>Example of a network requirement or network service that gives rise to a quality risk</i></p> <p>The network may require the firm to use an IT application for the acceptance and continuance of client relationships and specific engagements that is standardized across the network. This may give rise to a quality risk that the IT application does not address matters in local law or regulation that need to be considered by the firm in accepting and continuing client relationships and specific engagements.</p> </div> <p>A178. The purpose of the network requirements may include the promotion of consistent performance of quality engagements across the firms that belong to the network. The firm may be expected by the network to implement the network requirements, however, the firm may need to adapt or supplement the network requirements such that they are appropriate for the nature and circumstances of the firm and its engagements.</p> <div data-bbox="722 815 1843 1359"> <table> <tr> <th colspan="2"><i>Examples of how the network requirements or networks services may need to be adapted or supplemented</i></th></tr> <tr> <th><i>Network requirement or network service</i></th><th><i>How the firm adapts or supplements the network requirement or network service</i></th></tr> <tr> <td>The network requires the firm to include certain quality risks in the system of quality management, so that all firms in the network address the quality risks.</td><td>As part of identifying and assessing quality risks, the firm includes the quality risks that are required by the network. The firm also designs and implements responses to address the quality risks that are required by the network.</td></tr> <tr> <td>The network requires that the firm design and implement certain responses.</td><td>As part of designing and implementing responses, the firm determines:</td></tr> </table> </div>	<i>Examples of how the network requirements or networks services may need to be adapted or supplemented</i>		<i>Network requirement or network service</i>	<i>How the firm adapts or supplements the network requirement or network service</i>	The network requires the firm to include certain quality risks in the system of quality management, so that all firms in the network address the quality risks.	As part of identifying and assessing quality risks, the firm includes the quality risks that are required by the network. The firm also designs and implements responses to address the quality risks that are required by the network.	The network requires that the firm design and implement certain responses.	As part of designing and implementing responses, the firm determines:
<i>Examples of how the network requirements or networks services may need to be adapted or supplemented</i>									
<i>Network requirement or network service</i>	<i>How the firm adapts or supplements the network requirement or network service</i>								
The network requires the firm to include certain quality risks in the system of quality management, so that all firms in the network address the quality risks.	As part of identifying and assessing quality risks, the firm includes the quality risks that are required by the network. The firm also designs and implements responses to address the quality risks that are required by the network.								
The network requires that the firm design and implement certain responses.	As part of designing and implementing responses, the firm determines:								

	<table border="1"> <tr> <td data-bbox="720 193 1234 618"></td><td data-bbox="1234 193 1845 618"> <ul style="list-style-type: none"> How the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and its engagements (e.g., tailoring a methodology to include matters related to law or regulation). Which quality risks the responses address. </td></tr> <tr> <td data-bbox="720 618 1234 971"> <p>The firm uses individuals from other network firms as component auditors. Network requirements are in place that drive a high degree of commonality across the network firms' systems of quality management. The network requirements include specific criteria that apply to individuals assigned to work on a component for a group audit.</p> </td><td data-bbox="1234 618 1845 971"> <p>The firm establishes policies or procedures that require the engagement team to confirm with the component auditor (i.e., the other network firm) that the individuals assigned to the component meet the specific criteria set out in the network requirements.</p> </td></tr> </table> <p>A179. In some circumstances, in adapting or supplementing the network requirements or network services, the firm may identify possible improvements to the network requirements or network services and may communicate these improvements to the network.</p>		<ul style="list-style-type: none"> How the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and its engagements (e.g., tailoring a methodology to include matters related to law or regulation). Which quality risks the responses address. 	<p>The firm uses individuals from other network firms as component auditors. Network requirements are in place that drive a high degree of commonality across the network firms' systems of quality management. The network requirements include specific criteria that apply to individuals assigned to work on a component for a group audit.</p>	<p>The firm establishes policies or procedures that require the engagement team to confirm with the component auditor (i.e., the other network firm) that the individuals assigned to the component meet the specific criteria set out in the network requirements.</p>
	<ul style="list-style-type: none"> How the responses required by the network will be incorporated into the firm's system of quality management, given the nature and circumstances of the firm. This may include tailoring the response to reflect the nature and circumstances of the firm and its engagements (e.g., tailoring a methodology to include matters related to law or regulation). Which quality risks the responses address. 				
<p>The firm uses individuals from other network firms as component auditors. Network requirements are in place that drive a high degree of commonality across the network firms' systems of quality management. The network requirements include specific criteria that apply to individuals assigned to work on a component for a group audit.</p>	<p>The firm establishes policies or procedures that require the engagement team to confirm with the component auditor (i.e., the other network firm) that the individuals assigned to the component meet the specific criteria set out in the network requirements.</p>				
<p><i>Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management</i></p> <p>50. In circumstances when the network performs monitoring activities relating to the firm's</p>	<p><i>Monitoring Activities Undertaken by the Network on the Firm's System of Quality Management</i> (Ref: Para. 50(c))</p> <p>A180. The results of the network's monitoring activities of the firm's system of quality management may include information such as:</p> <ul style="list-style-type: none"> A description of the monitoring activities, including their nature, timing and extent; 				

<p>system of quality management, the firm shall:</p> <p>(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 36–38;</p> <p>(b) Determine the firm's responsibilities in relation to the monitoring activities, including any related actions by the firm; and</p> <p>(c) As part of evaluating findings and identifying deficiencies in paragraph 40, obtain the results of the monitoring activities from the network in a timely manner. (Ref: Para. A180)</p>	<ul style="list-style-type: none"> Findings, identified deficiencies, and other observations about the firm's system of quality management (e.g., positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management); and The network's evaluation of the root cause(s) of the identified deficiencies, the assessed effect of the identified deficiencies and recommended remedial actions.
<p><i>Monitoring Activities Undertaken by the Network Across the Network Firms</i></p> <p>51. The firm shall:</p> <p>(a) Understand the overall scope of the monitoring activities undertaken by the network across the network</p>	<p><i>Monitoring Activities Undertaken by the Network Across the Network Firms</i> (Ref: Para. 51(b))</p> <p>A181. The information from the network about the overall results of the network's monitoring activities undertaken across the network firms' systems of quality management may be an aggregation or summary of the information described in paragraph A180, including trends and common areas of identified deficiencies across the network, or positive outcomes that may be replicated across the network. Such information may:</p> <ul style="list-style-type: none"> Be used by the firm:

<p>firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm;</p> <p>(b) At least annually, obtain information from the network about the overall results of the network's monitoring activities across the network firms, if applicable, and: (Ref: Para. A181–A183)</p> <p>(i) Communicate the information to engagement teams and other individuals assigned activities within the system of quality management, as appropriate, to enable them to take prompt and appropriate action in accordance with their responsibilities; and</p>	<ul style="list-style-type: none"> ○ In identifying and assessing quality risks. ○ As part of other relevant information considered by the firm in determining whether deficiencies exist in the network requirements or network services used by the firm in its system of quality management. • Be communicated to group engagement partners, in the context of considering the competence and capabilities of component auditors from a network firm who are subject to common network requirements (e.g., common quality objectives, quality risks and responses). <p>A182. 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. The network may also gather information from network firms regarding the results of external inspections over 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.</p> <p>A183. In circumstances when the network does not provide the information about the overall results of the network's monitoring activities across the network firms, the firm may take further actions, such as:</p> <ul style="list-style-type: none"> • Discussing the matter with the network; and • Determining the effect on the firm's engagements, and communicating the effect to engagement teams.
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<p>(ii) Consider the effect of the information on the firm's system of quality management.</p>	
<p><i>Deficiencies in Network Requirements or Network Services Identified by the Firm</i></p> <p>52. If the firm identifies a deficiency in the network requirements or network services, the firm shall: (Ref: Para. A184)</p> <p>(a) Communicate to the network relevant information about the identified deficiency; and</p> <p>(b) In accordance with paragraph 42, design and implement remedial actions to address the effect of the identified deficiency in the network requirements or network services. (Ref: Para. A185)</p>	<p><i>Deficiencies in Network Requirements or Network Services Identified by the Firm</i> (Ref: Para. 52)</p> <p>A184. As network requirements or network services used by the firm form part of the firm's system of quality management, they are also subject to the requirements of this ISQM regarding monitoring and remediation. The network requirements or network services may be monitored by the network, the firm, or a combination of both.</p> <div data-bbox="724 594 1890 794" style="border: 1px solid black; padding: 10px;"> <p><i>Example of when a network requirement or network service is monitored by both the network and the firm</i></p> <p>A network may undertake monitoring activities at a network level for a common methodology. The firm may also monitor the methodology through performing engagement inspections.</p> </div> <p>A185. In designing and implementing the remedial actions to address the effect of the identified deficiency in the network requirements or network services, the firm may:</p> <ul style="list-style-type: none"> • Understand the planned remedial actions by the network, including whether the firm has any responsibilities for implementing the remedial actions; and • Consider whether supplementary remedial actions need to be taken by the firm to address the identified deficiency and the related root cause(s), such as when: <ul style="list-style-type: none"> ○ The network has not taken appropriate remedial actions; or ○ The network's remedial actions will take time to effectively address the identified deficiency.
<p>Evaluating the System of Quality Management</p>	<p>Evaluating the System of Quality Management (Ref: Para. 53)</p>

<p>53. The individual(s) assigned ultimate responsibility and accountability for the system of quality management shall evaluate the system of quality management. The evaluation shall be undertaken as of a point in time, and performed at least annually. (Ref: Para. A186–A188)</p>	<p>A186. The individual(s) assigned ultimate responsibility and accountability for the system of quality management may assign aspects of the evaluation to other individuals to assist in performing the evaluation. Nevertheless, the individual(s) assigned ultimate responsibility and accountability for the system of quality management remains responsible and accountable for performing the evaluation.</p> <p>A187. The point in time at which the evaluation is undertaken may depend on the circumstances of the firm, and may coincide with the fiscal year end of the firm or the completion of an annual monitoring cycle.</p> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p>A188. <i>Scalability examples to demonstrate how the information that provides the basis for the evaluation of the system of quality management may be obtained</i></p> <ul style="list-style-type: none"> • In a less complex 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. • In a more complex firm, the firm may need to establish processes to collate, summarize and communicate the information needed to evaluate the system of quality management. </div>
<p>54. Based on the evaluation performed by the individual(s) assigned ultimate responsibility and accountability for the system of quality management, the firm shall conclude one of the following: (Ref: Para. A189, A194)</p> <p>(a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are</p>	<p><i>Concluding on the System of Quality Management</i> (Ref: Para. 54)</p> <p>A189. In the context of this ISQM, it is intended that the operation of the system as a whole provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved. In concluding on the system of quality management, the firm may use the results of the monitoring and remediation process to consider the following:</p> <ul style="list-style-type: none"> • The severity and pervasiveness of identified deficiencies, and the effect on the achievement of the objectives of the system of quality management; • The actions taken thus far by the firm to remediate the identified deficiencies, and whether these are appropriate, and have been designed and implemented; and • Whether the effect of identified deficiencies on the system of quality management have been appropriately corrected, such as whether further actions have been taken in accordance with paragraph 45.

<p>being achieved; (Ref: Para. A190)</p> <p>(b) Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved; or (Ref: Para. A191)</p> <p>(c) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved. (Ref: Para. A191–A193)</p>	<p>A190. There may be circumstances when identified deficiencies that are severe (including identified deficiencies that are severe and pervasive) have been appropriately remediated and the effect of them corrected at the point in time of the evaluation. In such cases, the firm may conclude that the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.</p> <p>A191. An identified deficiency may have a pervasive effect on the design, implementation and operation of the system of quality management when, for example:</p> <ul style="list-style-type: none"> • The deficiency affects several components or aspects of the system of quality management. • The deficiency is confined to a specific component or aspect of the system of quality management, but is fundamental to the system of quality management. • The deficiency affects several business units or geographical locations of the firm. • The deficiency is confined to a business unit or geographical location but the business unit or location affected is fundamental to the firm overall. • The deficiency affects a substantial portion of engagements that are of a certain type or nature. <div data-bbox="722 824 1852 1243" style="border: 1px solid black; padding: 10px;"> <p><i>Example of an identified deficiency that may be considered severe but not pervasive</i></p> <p>The firm identifies a deficiency in a smaller regional office of the firm. The identified deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behavior of leadership in the regional office which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is:</p> <ul style="list-style-type: none"> • Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and • Not pervasive, because it is limited to the smaller regional office. </div> <p>A192. The firm may conclude that the system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved in circumstances when identified deficiencies are severe and pervasive, actions taken to remediate</p>
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	<p>the identified deficiencies are not appropriate, and the effect of the identified deficiencies have not been appropriately corrected.</p> <div data-bbox="720 285 1858 813"> <p><i>Example of an identified deficiency that may be considered severe and pervasive</i></p> <p>The firm identifies a deficiency in a regional office, which is the largest office of the firm and provides financial, operational and technical support for the entire region. The identified deficiency relates to non-compliance with many firm policies or procedures. The firm determines that the culture in the regional office, particularly the actions and behavior of leadership in the regional office which were overly focused on financial priorities, has contributed to the root cause of the identified deficiency. The firm determines that the effect of the identified deficiency is:</p> <ul style="list-style-type: none"> • Severe, because it relates to the culture of the regional office and overall compliance with firm policies or procedures; and • Pervasive, because the regional office is the largest office and provides support to many other offices, and the non-compliance with firm policies or procedures may have had a broader effect on the other offices. </div> <p>A193. It may take time for the firm to remediate identified deficiencies that are severe and pervasive. As the firm continues to take action to remediate the identified deficiencies, the pervasiveness of the identified deficiencies may be diminished and it may be determined that the identified deficiencies are still severe, but no longer severe and pervasive. In such cases, the firm may conclude that, except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.</p> <p>A194. This ISQM does not require the firm to obtain an independent assurance report on its system of quality management.</p>
<p>55. If the firm concludes either paragraph 54(b) or 54(c), the firm shall: (Ref: Para. A195)</p>	<p><i>Circumstances When Prompt and Appropriate Action is Taken and Further Communication</i> (Ref: Para. 55)</p>

<p>(a) Take prompt and appropriate action; and</p> <p>(b) Communicate to:</p> <p>(i) Engagement teams and other individuals assigned activities within the system of quality management to the extent that it is relevant to their responsibilities; and (Ref: Para. A196)</p> <p>(ii) External parties in accordance with the firm's policies or procedures required by paragraph 34(e). (Ref: Para. A197)</p>	<p>A195. In circumstances when the firm concludes either paragraph 54(b) or 54(c), the prompt and appropriate action taken by the firm may include:</p> <ul style="list-style-type: none"> • Taking measures to support performing engagements through assigning more resources or developing more guidance and to confirm that reports issued by the firm are appropriate in the circumstances, until such time as the identified deficiencies are remediated, and communicating such measures to engagement teams. • Obtaining legal advice. <p>A196. In some circumstances the firm may have an independent governing body that has non-executive oversight of the firm. In such circumstances, communications may include informing the independent governing body.</p> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p>A197. <i>Examples of circumstances when it may be appropriate for the firm to communicate to external parties about the evaluation of the system of quality management</i></p> <ul style="list-style-type: none"> • When the firm belongs to a network. • When other firms in the network 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 by the firm 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. • When law or regulation requires the firm to communicate to an oversight authority or a regulatory body. </div>
<p>56. The firm shall undertake periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, and the individual(s) assigned operational</p>	<p><i>Performance Evaluations</i> (Ref: Para. 56)</p> <p>A198. Periodic performance evaluations promote accountability. In considering the performance of an individual, the firm may take into account:</p> <ul style="list-style-type: none"> • The results of the firm's monitoring activities for aspects of the system of quality management that relate to the responsibility of the individual. In some circumstances, the firm may set targets

<p>responsibility for the system of quality management. In doing so, the firm shall take into consideration the evaluation of the system of quality management. (Ref: Para. A198–A200)</p>	<p>for the individual and measure the results of the firm’s monitoring activities against those targets.</p> <ul style="list-style-type: none"> • The actions taken by the individual in response to identified deficiencies that relate to the responsibility of that individual, including the timeliness and effectiveness of such actions. <div data-bbox="722 375 1890 701" style="border: 1px solid black; padding: 10px;"> <p><i>Scalability examples to demonstrate how the firm may undertake the performance evaluations</i></p> <ul style="list-style-type: none"> • In a less complex firm, the firm may engage a service provider to perform the evaluation, or the results of the firm’s monitoring activities may provide an indication of the performance of the individual. • In a more complex firm, 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. </div> <p>A199. 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.</p> <p>Public Sector Considerations</p> <p>A200. In the case of the public sector, it may not be practicable to perform a performance evaluation of the individual(s) 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 undertaken for other individuals in the firm who are assigned operational responsibility for aspects of the system of quality management.</p>
<p>Documentation</p>	<p>Documentation (Ref: Para. 57–59)</p>
<p>57. The firm shall prepare documentation of its system of quality management that is</p>	<p>A201. Documentation provides evidence that the firm complies with this ISQM, as well as law, regulation or relevant ethical requirements. It may also be useful for training personnel and engagement teams, ensuring the retention of organizational knowledge and providing a history of the basis for decisions</p>

<p>sufficient to: (Ref: Para. A201–A203)</p> <p>(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 system of quality management and performing engagements;</p> <p>(b) Support the consistent implementation and operation of the responses; and</p> <p>(c) Provide evidence of the design, implementation and operation of the responses, to support the evaluation of the system of quality management by the individual(s) assigned ultimate responsibility and accountability for the system of quality management.</p>	<p>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 judgment made, about its system of quality management. Furthermore, compliance with this ISQM 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.</p> <p>A202. 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 judgments about the form, content and extent of documentation, including how often documentation is updated, may include:</p> <ul style="list-style-type: none"> • The complexity of the firm and the number of offices; • The nature and complexity of the firm's practice and organization; • The nature of engagements the firm performs and the nature of the entities for whom engagements are performed; • The nature and complexity of the matter being documented, such as whether it relates to an aspect of the system of quality management that has changed or an area of greater quality risk, and the complexity of the judgments relating to the matter; and • The frequency and extent of changes in the system of quality management. <p>In a less complex 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.</p> <p>A203. 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 IESBA Code requires documentation of particular matters, including certain situations related to conflicts of interest, non-compliance with laws and regulations and independence.</p>
<p>58. In preparing documentation, the firm shall include:</p>	<p>A204. The firm is not required to document the consideration of every condition, event, circumstance, action or inaction for each quality objective, or each risk that may give rise to a quality risk. However, in</p>

<ul style="list-style-type: none"> (a) The identification of the individual(s) assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management; (b) The firm's quality objectives and quality risks; (Ref: Para. A204) (c) A description of the responses and how the firm's responses address the quality risks; (d) Regarding the monitoring and remediation process: <ul style="list-style-type: none"> (i) Evidence of the monitoring activities performed; (ii) The evaluation of findings, and identified deficiencies and their related root cause(s); (iii) Remedial actions to address identified deficiencies and the 	<p>documenting the quality risks and how the firm's responses address the quality risks, the firm may document the reasons for the assessment given to the quality risks (i.e., the considered occurrence and effect on the achievement of one or more quality objectives), in order to support the consistent implementation and operation of the responses.</p>
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<p>evaluation of the design and implementation of such remedial actions; and</p> <p>(iv) Communications about monitoring and remediation; and</p> <p>(e) The basis for the conclusion in paragraph 54.</p>	
<p>59. The firm shall document the matters in paragraph 58 as they relate to network requirements or network services and the evaluation of the network requirements or network services in accordance with paragraph 49(b). (Ref: Para. A205)</p>	<p>A205. The documentation may be provided by the network or other firms, structures or organizations within the network.</p>
<p>60. The firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer</p>	

Proposed ISQM 1 (Clean)
IAASB Main Agenda (September 2020)

period if required by law or regulation.	
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AUASB Agenda Paper

Project:	Quality Management Standards	Meeting:	9 September 2020
Topic:	ISQM 2	Agenda Item:	9.2
Strategic Objective:	International Influence	Decision-Making:	For Discussion and AUASB input
ATG Staff:	Marina Michaelides	Project Status:	In Progress
AUASB Sponsor:	Gareth Bird		

Action Required and Decisions to be Made

- 1 The purpose of this Agenda Item is to update the AUASB on any significant amendments to ISQM 2 since the June 2020 AUASB meeting (refer Section A of this paper); as well as to summarise the actions taken by the IAASB in relation to AUASB matters raised throughout the development of ISQM 2 (refer Section B of this paper).
- 2 **The IAASB intends to vote to issue ISQM 2 at the September 2020 IAASB meeting. Accordingly, and in line with the AUASB International Strategy, AUASB members are encouraged to comment on any areas of the standard to inform the AUASB Chair of their views. AUASB members are reminded that this standard is drawing close to finalisation and that the IAASB will largely discuss fatal flaw type issues as well as any amendments made to the proposed standard subsequent to the March 2020 IAASB meeting.**
- 3 A link to the 'final' clean proposed ISQM 2 is provided [[here](#)] and attached at **agenda Item 9.2.1**.

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	The AUASB is requested to provide any feedback / input to the AUASB Chair in line with the AUASB International Influencing Strategy.	N/A

Background

- 4 The IAASB issued ED-ISQM 2 in February 2019, with a comment period ending 1 July 2019.
- 5 The AUASB did extensive outreach on this Exposure Draft and [submitted a response to the IAASB](#).
- 6 The ATG considers that the ISQM 2 taskforce has addressed the substantive matters raised by the AUASB. A summary of all AUASB matters raised matters and where the IAASB task force has gotten to on these is summarised in section B of this paper.

Previous Discussions on Topic

- 7 Over the past year, the AUASB has been tracking the progress of the updates to ED-ISQM 2 against the key matters raised in the AUASB's submission to the IAASB and throughout the updated progress of the standard. This tracking is reflected in the following AUASB meeting papers:
- (a) 11 September 2019 (Agenda Item 4.5)
 - (b) 3 December 2019 (Agenda Item 16.4)
 - (c) 10 March 2020 (Agenda Item 4)

Matters for Discussion and ATG Recommendations

A. Significant amendments made to ISQM 2 since March 2020:

- 8 No significant amendments have been made to ISQM 2 since March 2020.

B. Tracking of AUASB matters raised and how the IAASB has dealt with these matters in the final proposed ISQM 2 being presented to the IAASB at the September 2020 IAASB meeting.

- 9 The table below reflects a summary of AUASB issues raised at the time of the ED and throughout the progress of the standard and how the final ISQM 2 has addressed these matters:

	<i>AUASB Issue</i>	<i>Changes made to ISQM 2</i>
1	<p>Scope of Engagements subject to an EQR:</p> <p>Requirement in ISQM 1</p> <p>Para 34. In designing and implementing responses in accordance with paragraph 26 and in order to achieve the quality objectives, the firm shall include the following responses: (Ref: Para. A116)</p> <p>...</p> <p>(f) The firm establishes policies or procedures that address engagement quality reviews in accordance with [proposed] ISQM 2, and require an engagement quality review for:</p> <p>(i) Audits of financial statements of listed entities;</p> <p>(ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A133)</p> <p>(iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to</p>	<p>There have only been minor wording changes to ISQM 1 – para 34 since March 2020 arising from the cross-review of drafts of the three quality management standards.</p>

	address one or more quality risk(s). (Ref: Para. A134-A137)	
2	<p>Objectivity and Cooling-Off Period</p> <p>At the March 2020 AUASB meeting, the only matter that the AUASB still had ‘open’ was the inclusion of a mandatory cooling off period of two years being required under ISQM 2. The AUASB considered that the requirements regarding the EQR cooling off period should be dealt with by IESBA under the Code, noting this had been raised previously by the AUASB in their submission to the IAASB and reiterated by the AUASB Chair at subsequent meetings of the IAASB. While the ATG have not seen a turn around ISQM 2, we understand that the IESBA Code will not be incorporating the cooling off period of 2 years within the Code but will add an appropriate cross-reference to proposed ISQM 2 at the end of the new Section 325 in the IESBA Code to highlight the specification of a cooling-off period with respect to the matter of an individual being considered for appointment to the EQR role after having served as the engagement partner. While this may not be the preferred AUASB approach, this is where ISQM 2 is expected to land. The IAASB in their deliberations also had a preference that the period should be included within the IESBA Code, however failing this, the IAASB agreed that it is in the public interest to have a period specified within ISQM 2 and not leave this open.</p>	No changes to this position since June 2020. A mandatory 2 year cooling off period or a longer period if required by relevant ethical requirements, before an engagement partner can assume the role of engagement quality reviewer is required under paragraph 19 of ISQM 2.
3	Group Audit Considerations	These have been considered in paragraphs A32 and A33 of ISQM 2 and have remained consistent with those presented at March 2020.

C. Other matters for noting

10 No other matters to note.

Collaboration with NZAuASB and other standard setters

11 Through the AUASB Chair.

Next steps/Way Forward

12 While the IAASB is expected to vote to issue ISQM 2 at the September 2020 IAASB meeting, the standards are still subject to PIOB approval, with the PIOB expected to meet in December 2020. The ATG expect that the IAASB will issue the final QM standards in late December 2020.

AUASB Agenda Paper

- 13 The ATG will work with the AUASB at the December 2020 AUASB meeting to obtain AUASB input into any proposals for compelling reasons to amend ISQM 2.
- 14 The ATG to bring a proposed ASQM 2 along with compelling reason finalisation to the March 2021 AUASB meeting for AUASB discussion and input with a view to issue the final Australian standard soon thereafter.

Agenda Item 3-B

This paper is a complete, clean, final draft of proposed ISQM 2.¹

PROPOSED INTERNATIONAL STANDARD ON QUALITY MANAGEMENT 2 ENGAGEMENT QUALITY REVIEWS

(CLEAN)

CONTENTS

[Content Page to be Inserted]

[Proposed] International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*, should be read in conjunction with [Proposed] ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

Introduction

Scope of this ISQM

1. This International Standard on Quality Management (ISQM) deals with:
 - (a) The appointment and eligibility of the engagement quality reviewer; and
 - (b) The engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review.
2. This ISQM applies to all engagements for which an engagement quality review is required to be performed in accordance with [proposed] ISQM 1.² This ISQM is premised on the basis that the firm is subject to [proposed] ISQM 1 or to national requirements that are at least as demanding. This ISQM is to be read in conjunction with relevant ethical requirements.
3. An engagement quality review performed in accordance with this ISQM is a specified response that is designed and implemented by the firm in accordance with [proposed] ISQM 1.³ The performance of an engagement quality review is undertaken at the engagement level by the engagement quality reviewer on behalf of the firm.

Scalability

4. The nature, timing and extent of the engagement quality reviewer's procedures required by this ISQM vary depending on the nature and circumstances of the engagement or the entity. For example, the engagement quality reviewer's procedures would likely be less extensive for engagements involving fewer significant judgments made by the engagement team.

¹ Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*

² [Proposed] International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 34(f)

³ [Proposed] ISQM 1, paragraph 34(f)

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

5. [Proposed] ISQM 1 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks.⁴ The specified responses in [proposed] ISQM 1⁵ include establishing policies or procedures addressing engagement quality reviews in accordance with this ISQM.
6. The firm is responsible for designing, implementing and operating the system of quality management. Under [proposed] ISQM 1, the objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, 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.⁶
7. Under proposed ISQM 1, 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 judgment and, when applicable to the type of engagement, exercising professional skepticism.
8. An engagement quality review is an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. The engagement quality reviewer's evaluation of significant judgments 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.
9. The engagement quality reviewer is not a member of the engagement team. The performance of an engagement quality review does not change the responsibilities of the engagement partner for managing and achieving quality on the engagement, or for the direction and supervision of the members of the engagement team and the review of their work. 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 in responding to matters raised during the engagement quality review.

Authority of this ISQM

10. This ISQM contains the objective for the firm in following this ISQM, and requirements designed to enable the firm and the engagement quality reviewer to meet that stated objective. In addition, this ISQM 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 ISQM, and

⁴ [Proposed] ISQM 1, paragraph 26

⁵ [Proposed] ISQM 1, paragraph 34(f)

⁶ [Proposed] ISQM 1, paragraph 14

definitions. [Proposed] ISQM 1⁷ explains the terms objective, requirements, application and other explanatory material, introductory material, and definitions.

Effective Date

11. This ISQM is effective for:
- (a) Audits or reviews of financial statements for periods beginning on or after December 15, 2022; and
 - (b) Other assurance or related services engagements beginning on or after December 15, 2022.

Objective

12. The objective of the firm, through appointing an eligible engagement quality reviewer, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.

Definitions

13. For purposes of this ISQM, the following terms have the meanings attributed below:
- (a) Engagement quality review – An objective evaluation of the significant judgments 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 the engagement quality review. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (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. (Ref: Para. A12–A15)

Requirements

Applying, and Complying with, Relevant Requirements

14. The firm and the engagement quality reviewer shall have an understanding of this ISQM, including the application and other explanatory material, to understand the objective of this ISQM and to properly apply the requirements relevant to them.
15. The firm or the engagement quality reviewer, as applicable, shall comply with each requirement of this ISQM, unless the requirement is not relevant in the circumstances of the engagement.
16. 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

⁷ [Proposed] ISQM 1, paragraphs 12 and A6–A9

applicable, shall take further actions to achieve the objective.

Appointment and Eligibility of Engagement Quality Reviewers

17. 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)
18. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4)
 - (a) Has the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A5–A11)
 - (b) Complies with relevant ethical requirements, including in relation to threats to objectivity and independence of the engagement quality reviewer; and (Ref: Para. A12–A15)
 - (c) Complies with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A16)
19. The firm's policies or procedures established in accordance with paragraph 18(b) shall also address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner. Such policies or procedures shall specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before an engagement partner can assume the role of engagement quality reviewer. (Ref: Para. A17–A18)
20. 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 (Ref: Para. A19)
 - (b) Comply with relevant ethical requirements, including in relation to threats to their objectivity and independence and, if applicable, the provisions of law and regulation. (Ref: Para. A20–A21)
21. The firm shall establish policies or procedures that:
 - (a) Require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review; and
 - (b) Address the engagement quality reviewer's responsibility for determining the nature, timing and extent of the direction and supervision of the individuals assisting in the review, and the review of their work. (Ref: Para. A22)

Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review

22. 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. A23)

23. 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. A24)
- (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

24. 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 25–26 at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgments 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 that the engagement partner is precluded from dating the engagement report until notification has been received from the engagement quality reviewer in accordance with paragraph 27 that the engagement quality review is complete; and (Ref: Para. A25–A26)
 - (c) Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the objectivity of the engagement quality reviewer, and appropriate actions to take in these circumstances. (Ref: Para. A27)
25. In performing the engagement quality review, the engagement quality reviewer shall: (Ref: Para. A28–A33)
- (a) Read, and obtain an understanding of, information communicated by: (Ref: Para. A34)
 - (i) The engagement team regarding the nature and circumstances of the engagement and the entity; and
 - (ii) The firm related to the firm's monitoring and remediation process, in particular identified deficiencies that may relate to, or affect, the areas involving significant judgments made by the engagement team.
 - (b) Discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing and reporting on the engagement. (Ref: Para. A35–A38)
 - (c) Based on the information obtained in (a) and (b), review selected engagement documentation relating to the significant judgments made by the engagement team and evaluate: (Ref: Para. A39–A43)
 - (i) The basis for making those significant judgments, including, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team;
 - (ii) Whether the engagement documentation supports the conclusions reached; and

- (iii) Whether the conclusions reached are appropriate.
 - (d) For audits of financial statements, evaluate the basis for the engagement partner's determination that relevant ethical requirements relating to independence have been fulfilled. (Ref: Para. A44)
 - (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. A45)
 - (f) For audits of financial statements, evaluate the basis for the engagement partner's determination 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 judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: Para. A46)
 - (g) Review:
 - (i) For an audit of financial statements, the financial statements and the auditor's report thereon, including, if applicable, the description of the key audit matters; or (Ref: Para. A47)
 - (ii) For an assurance or related services engagement, the engagement report, and when applicable, the subject matter information. (Ref: Para. A48)
26. The engagement quality reviewer shall notify the engagement partner if the engagement quality reviewer has concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate. 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. A49)

Completion of the Engagement Quality Review

27. The engagement quality reviewer shall determine whether the requirements in this ISQM 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

28. 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. A50)
29. The firm shall establish policies or procedures that require documentation of the engagement quality review in accordance with paragraph 30, and that such documentation be included with the engagement documentation.
30. 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: (Ref: Para. A51–A53)

- (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 basis for the engagement quality reviewer's determination in accordance with paragraph 27;
- (d) The notifications required in accordance with paragraphs 26 and 27; and
- (e) The date of completion of the engagement quality review.

Application and Other Explanatory Material

Appointment and Eligibility of Engagement Quality Reviewers

Assignment of Responsibility for the Appointment of Engagement Quality Reviewers (Ref: Para. 17)

- 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 paragraphs 18 and 19 regarding the eligibility of engagement quality reviewers; and
 - The nature and circumstances of the engagement or the entity subject to an engagement quality review, including the composition of the engagement team.
- A2. The firm's policies or procedures may specify that the individual responsible for the appointment of engagement quality reviewers not be a member of the engagement team for which an engagement quality review is to be performed. However, in certain circumstances (e.g., in the case of a smaller firm or a sole practitioner), it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.
- A3. 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, with different individuals responsible for each process.

Eligibility of the Engagement Quality Reviewer (Ref: Para. 18)

- A4. In some circumstances, for example, in the case of a smaller firm or a sole practitioner, there may not be a partner or other individual within the firm who is eligible to perform the engagement quality review. In these circumstances, the firm may contract with, or obtain the services of, individuals external to the firm to perform the engagement quality review. An individual external to the firm may be a partner or an employee of another firm, structure or organization within the firm's network or a service provider. When using such an individual external to the firm, the provisions in [proposed] ISQM 1 addressing network requirements or network services or service providers apply.

Eligibility Criteria for the Engagement Quality Reviewer

Competence and Capabilities, Including Sufficient Time (Ref: Para. 18(a))

- A5. [Proposed] ISQM 1 describes characteristics related to competence, including the integration and application of technical competence, professional skills, and professional ethics, values and attitudes.⁸ Matters that the firm may consider in determining that an individual has the necessary competence to perform an engagement quality review include, for example, the following:
- 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;

⁸ [Proposed] ISQM 1, paragraph A88

- 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.
- A6. The conditions, events, circumstances, actions or inactions considered by the firm in determining that an engagement quality review is an appropriate response to address one or more quality risk(s)⁹ 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 considerations that the firm may take into account in determining whether the engagement quality reviewer has the competence and capabilities, including sufficient time, needed to evaluate the significant judgments made by the engagement team and the conclusions reached thereon include, for example:
- The nature of the entity.
 - The specialization and complexity of the industry or regulatory environment in which the entity operates.
 - The extent to which the engagement relates to matters requiring specialized expertise (e.g., with respect to information technology or specialized areas of accounting or auditing), or scientific and engineering expertise, such as may be needed for certain assurance engagements. Also see paragraph A19.
- A7. In evaluating the competence and capabilities of an individual who may be appointed as an engagement quality reviewer, the engagement-level findings arising from the firm's monitoring activities (e.g., engagement-level findings from the inspection of 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.
- A8. A lack of appropriate competence or capabilities affects the ability of the engagement quality reviewer to exercise appropriate professional judgment 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 judgments made, and the exercise of professional skepticism, by the engagement team on a complex, industry-specific accounting or auditing matter.

Appropriate Authority (Ref: Para. 18(a))

- A9. 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 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.
- A10. The authority of the engagement quality reviewer may be diminished when:

⁹ [Proposed] ISQM 1, paragraph A134

- 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

A11. 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, 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. 13(c), 18(b))

- A12. The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of the engagement or the entity 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 itself.
- A13. Relevant ethical requirements may include specific independence requirements that would apply to individual professional accountants, such as an engagement quality reviewer. Relevant ethical requirements may also include provisions that address threats to independence created by the long association of personnel with an audit or assurance client. The application of any such provisions dealing with long association is distinct from, but may need to be taken into consideration in applying, the required cooling-off period in accordance with paragraph 19.

Threats to the objectivity of the engagement quality reviewer

- A14. Threats to the engagement quality reviewer's objectivity may be created by a broad range of facts and circumstances. For example:
- A self-review threat may be created when the engagement quality reviewer previously was involved with significant judgments made by the engagement team, in particular as the engagement partner or other engagement team member.
 - 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 may be created when actual or perceived 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).
- A15. Relevant ethical requirements may include requirements and guidance to identify, evaluate and address threats to objectivity. For example, the IESBA Code provides specific guidance, including examples of:
- Circumstances where threats to objectivity may be created when a professional accountant is appointed as an appropriate reviewer (e.g., an engagement quality reviewer);
 - Factors that are relevant in evaluating the level of such threats; and

- Actions, including safeguards, that might address such threats.

Law or Regulation Relevant to the Eligibility of the Engagement Quality Reviewer (Ref: Para. 18(c))

A16. 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 engagement quality review.

Cooling-Off Period for an Individual After Previously Serving as the Engagement Partner (Ref: Para. 19)

A17. In recurring engagements, the matters on which significant judgments are made often do not vary and therefore significant judgments made in prior periods may continue to affect judgments of the engagement team in subsequent periods. The ability of an engagement quality reviewer to perform an objective evaluation of significant judgments is therefore affected when the individual was previously involved with those judgments as the engagement partner. In such circumstances, it is important that appropriate safeguards are put in place to reduce threats to objectivity, in particular the self-review threat, to an acceptable level. Accordingly, this ISQM requires the firm to establish policies or procedures that specify a cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer.

A18. The firm's policies or procedures also may address whether a cooling-off period is appropriate for an individual other than the engagement partner before becoming eligible to be appointed as the engagement quality reviewer on that engagement. In this regard, the firm may consider the nature of that individual's role and previous involvement with the significant judgments made on the engagement. For example, the firm may determine that an engagement partner responsible for the performance of audit procedures on the financial information of a component in a group audit engagement may not be eligible to be appointed as the group engagement quality reviewer because of that audit partner's involvement in the significant judgments affecting the group audit engagement.

Circumstances When the Engagement Quality Reviewer Is Assisted by Other Individuals (Ref: Para. 20–21)

A19. In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals with the relevant expertise. For example, highly specialized knowledge, skills or expertise may be useful for understanding certain transactions undertaken by the entity to help the engagement quality reviewer evaluate the significant judgments made by the engagement team related to those transactions.

A20. The guidance in paragraph A14 may be helpful to the firm when establishing policies or procedures that address threats to objectivity of individuals who assist the engagement quality reviewer.

A21. When the engagement quality reviewer is assisted by an individual external to the firm, 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.

A22. The firm's policies or procedures may include responsibilities of the engagement quality reviewer to:

- Consider whether assistants understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement quality review; and
- Address matters raised by assistants, considering their significance and modifying the planned approach appropriately.

Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review (Ref: Para. 22–23)

A23. 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 23.

A24. 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. The firm's policies or procedures may also address the responsibility of the individual appointed to replace the engagement quality reviewer to perform procedures sufficient to fulfill the requirements of this ISQM with respect to the performance of the engagement quality review. Such policies or procedures may further address the need for consultation in such circumstances.

Performance of the Engagement Quality Review (Ref: Para. 24–27)

Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: Para. 24(b))

A25. [Proposed] ISA 220 (Revised)¹⁰ establishes the requirements for the engagement partner in audit engagements for which an engagement quality review is required, including:

- Determining that an engagement quality reviewer has been appointed;
- Cooperating with the engagement quality reviewer and informing other members of the engagement team of their responsibility to do so;
- Discussing significant matters and significant judgments 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.

A26. ISAE 3000 (Revised)¹¹ 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. 24(c))

A27. 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 judgment. The firm's policies or procedures may set out the actions to be taken by the engagement quality reviewer or the engagement

¹⁰ [Proposed] International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 36

¹¹ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph 36

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 judgments with other relevant personnel in accordance with the firm's consultation policies or procedures.

Procedures Performed by the Engagement Quality Reviewer (Ref: Para. 25–27)

- A28. 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 emphasize the importance of the engagement quality reviewer exercising professional judgment in performing the review.
- A29. The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement or the entity, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer throughout all stages of the engagement (e.g., planning, performing and 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. Timely performance of the engagement quality review also may reinforce the exercise of professional judgment and, as applicable, professional skepticism, by the engagement team in planning and performing the engagement.
- A30. 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,¹² for example, engagements performed for entities in emerging industries or with complex transactions.
 - Identified deficiencies, and the remedial actions to address the identified deficiencies, related to the firm's monitoring and remediation process, and any related guidance issued by the firm, 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.
 - Findings 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.
 - Information obtained from the firm's acceptance and continuance of client relationships and specific engagements.
 - For assurance engagements, the engagement team's identification and assessment of, and responses to, risks of material misstatement in the 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.

¹² [Proposed] ISQM 1, paragraph A49

- A31. 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.

Group Audit Considerations

- A32. The performance of an engagement quality review for an audit of group financial statements may involve additional considerations for the individual appointed as the engagement quality reviewer for the group audit, depending on the size and complexity of the group. Paragraph 21(a) requires the firm's policies or procedures to require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review. In doing so, for larger and more complex group audits, the group engagement quality reviewer may need to discuss significant matters and significant judgments with key members of the engagement team other than the group engagement team (e.g., the partners or other individuals responsible for performing audit procedures on the financial information of a component). In these circumstances, the engagement quality reviewer may be assisted by individuals in accordance with paragraph 20. The guidance in paragraph A22 may be helpful when the engagement quality reviewer for the group audit is using assistants.
- A33. In some cases, an engagement quality reviewer may be appointed for an audit of an entity or business unit that is part of a group, for example, when such an audit is required by law, regulation or other reasons. In these circumstances, communication between the engagement quality reviewer for the group audit and the engagement quality reviewer for the audit of that entity or business unit may help the group engagement quality reviewer in fulfilling the responsibilities in accordance with paragraph 21(a). For example, this may be the case when the entity or business unit has been identified as a component for purposes of the group audit and significant judgments related to the group audit have been made at the component level.

Information Communicated by the Engagement Team and the Firm (Ref: Para. 25(a))

- A34. Obtaining an understanding of information communicated by the engagement team and the firm in accordance with paragraph 25(a) may assist the engagement quality reviewer in understanding the significant judgments that may be expected for the engagement. Such an understanding may also provide the engagement quality reviewer with a basis for discussions with the engagement team about the significant matters and significant judgments made in planning, performing and reporting on the engagement. For example, a deficiency identified by the firm may relate to significant judgments made by engagement teams for certain accounting estimates for a particular industry. When such information is expected to be relevant to the significant judgments made on the engagement, it may provide the engagement quality reviewer with a basis for discussions with the engagement team in accordance with paragraph 25(b).

Significant Matters and Significant Judgments (Ref: Para. 25(b)–25(c))

- A35. For audits of financial statements, [proposed] ISA 220 (Revised)¹³ requires the engagement partner to review audit documentation relating to significant matters¹⁴ and significant judgments, including

¹³ [Proposed] ISA 220 (Revised), paragraph 31

¹⁴ ISA 230, *Audit Documentation*, paragraph 8(c)

those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached.

- A36. For audits of financial statements, [proposed] ISA 220 (Revised)¹⁵ provides examples of significant judgments 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.
- A37. For engagements other than audits of financial statements, the significant judgments made by the engagement team may depend on the nature and circumstances of the engagement or the entity. For example, in an assurance engagement performed in accordance with ISAE 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 judgment.
- A38. In performing the engagement quality review, the engagement quality reviewer may become aware of other areas where significant judgments would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures performed or the basis for conclusions reached. In those circumstances, discussions with the engagement quality reviewer may result in the engagement team concluding that additional procedures need to be performed.
- A39. The evaluation of the engagement team's basis for making significant judgments, including, when applicable to the type of engagement, the exercise of professional skepticism, includes, for example:
- Remaining alert to changes in the nature and circumstances of the engagement or the entity that may result in changes in the significant judgments made by the engagement team;
 - Applying an unbiased view in evaluating responses from the engagement team; and
 - Following up on inconsistencies identified in reviewing engagement documentation, or inconsistent responses by the engagement team to questions relating to the significant judgments made.
- A40. The firm's policies or procedures may specify engagement documentation to be reviewed by the engagement quality reviewer. In addition, such policies or procedures may indicate that the engagement quality reviewer exercises professional judgment in selecting additional engagement documentation to be reviewed relating to significant judgments made by the engagement team.
- A41. Discussions about significant judgments with the engagement partner, and if applicable, other members of the engagement team, supported by the engagement team's documentation, may assist the engagement quality reviewer in evaluating the exercise of professional skepticism, when applicable to the engagement, by the engagement team in relation to those significant judgments.
- A42. For audits of financial statements, [proposed] ISA 220 (Revised)¹⁶ provides examples of the impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional skepticism, and possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level.

¹⁵ [Proposed] ISA 220 (Revised), paragraph A92

¹⁶ [Proposed] ISA 220 (Revised), paragraphs A33-A35

- A43. For audits of financial statements, the requirements and relevant application material in ISA 315 (Revised 2019),¹⁷ ISA 540 (Revised)¹⁸ and other ISAs also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism. Such guidance may also assist the engagement quality reviewer in evaluating the exercise of professional skepticism by the engagement team.

Whether Relevant Ethical Requirements Relating to Independence Have Been Fulfilled (Ref: Para. 25(d))

- A44. [Proposed] ISA 220 (Revised)¹⁹ requires that, prior to dating the auditor's report, the engagement partner shall take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled.

Whether Consultation Has Taken Place on Difficult or Contentious Matters or Matters Involving Differences of Opinion (Ref: Para. 25(e))

- A45. [Proposed] ISQM 1²⁰ addresses consultation on difficult or contentious matters and differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management.

Sufficient and Appropriate Involvement of the Engagement Partner on the Engagement (Ref: Para. 25(f))

- A46. [Proposed] ISA 220 (Revised)²¹ 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 judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. [Proposed] ISA 220 (Revised)²² also indicates that the documentation of the involvement of the engagement partner may be accomplished in different ways. Discussions with the engagement team, and review of such engagement documentation, may assist the engagement quality reviewer's evaluation of the basis for the engagement partner's determination that the engagement partner's involvement has been sufficient and appropriate.

Review of Financial Statements and Engagement Reports (Ref: Para. 25(g))

- A47. For audits of financial statements, the engagement quality reviewer's review of the financial statements and auditor's report thereon may include consideration of whether the presentation and disclosure of matters relating to the significant judgments made by the engagement team are consistent with the engagement quality reviewer's understanding of those matters based on the review of selected engagement documentation, and discussions with the engagement team. In reviewing the financial statements, the engagement quality reviewer may also become aware of other areas where significant judgments would have been expected to be made by the engagement team for which further information may be needed about the engagement team's procedures or

¹⁷ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph A238

¹⁸ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A11

¹⁹ [Proposed] ISA 220 (Revised), paragraph 21

²⁰ [Proposed] ISQM 1, paragraphs 31(d), 31(e) and A79-A82

²¹ [Proposed] ISA 220 (Revised), paragraph 40(a)

²² [Proposed] ISA 220 (Revised), paragraph A118

conclusions.

- A48. For assurance or related services engagements, the engagement quality reviewer's review of the engagement report and, when applicable, the subject matter information may include considerations similar to those described in paragraph A47 (e.g., whether the presentation or description of matters relating to the significant judgments made by the engagement team are consistent with the engagement quality reviewer's understanding based on the procedures performed in connection with the review).

Unresolved Concerns of the Engagement Quality Reviewer (Ref: Para. 26)

- A49. 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 judgments 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. With respect to such unresolved concerns, the firm's policies or procedures may also require consultation within or outside the firm (e.g., a professional or regulatory body).

Documentation (Ref: Para. 28–30)

- A50. Paragraphs 57 to 60 of [proposed] ISQM 1 address the firm's documentation of its system of quality management. An engagement quality review performed in accordance with this ISQM is therefore subject to the documentation requirements in [proposed] ISQM 1.
- A51. 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.
- A52. The performance and notification of the completion of 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 the engagement documentation, for example, minutes of the engagement team's discussions where the engagement quality reviewer was present.
- A53. Paragraph 24(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. Provided that all requirements with respect to the performance of the engagement quality review have been fulfilled, the documentation of the review may be finalized after the date of the engagement report, but before the assembly of the final engagement file. However, firm policies or procedures may specify that the documentation of the engagement quality review needs to be finalized on or before the date of the engagement report.



AUASB Agenda Paper

Project:	Quality Management Standards	Meeting:	9 & 11 September 2020
Topic:	ISA 220	Agenda Item:	9.3
Strategic Objective:	International Influence	Decision-Making:	For Discussion
ATG Staff:	Tim Austin	Project Status:	In Progress
AUASB Sponsor:	Julie Crisp		

Action Required and Decisions to be Made

- The purpose of this Agenda Item is to update the AUASB on significant amendments to proposed ISA 220 since the 10 March 2020 AUASB Meeting (refer Section A of this paper); as well as to summarise the AUASB Matters raised throughout the development of ISA 220 and IAASB actions in response to these matters (refer Sections B and C of this paper).
- At the September 2020 IAASB Meeting, the IAASB is being asked to:**
 - Provide their views on amendments made to ISA 220 since it was last presented in full at the March 2020 IAASB Meeting;**
 - Raise any fatal flaw issues that IAASB Members have; and**
 - Approve ISA 220 for issue.**
- In line with the AUASB International Strategy, AUASB members are being asked to respond to questions 1 and 2 to inform the AUASB Chair in their role as an IAASB Member.**
- A link to the 'final' clean proposed ISA 220 is provided [\[here\]](#) and has also been included as **Agenda Item 9.1.3** in the AUASB September 2020 Meeting papers.

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Does the AUASB have any concern with the amendments made since the standard was last presented at the 10 March 2020 AUASB Meeting?	N/A
Question 2	Does proposed ISA 220 contain any fatal flaws that should be raised by the AUASB Chair, in their capacity as an IAASB Member, at the September 2020 IAASB meeting?	N/A

Background

- 5 The IAASB issued ED-ISA 220 for public exposure in February 2019, with a comment period ending 1 July 2019. The AUASB undertook extensive outreach to obtain stakeholder feedback on the Exposure Draft and [submitted a response to the IAASB](#).
- 6 At the September and December 2019 IAASB Meetings, the ISA 220 Task Force completed their review of comments received, presented their recommendations to respond to comments and proposed redrafting of the standard. Further discussions occurred at the March 2020 IAASB Meeting covering:
- (a) Additional amendments to improve the Engagement Team definition;
 - (b) The IAASB's proposed approach to indicate paragraphs that must be performed by the engagement partner and those that can be delegated to other members of the engagement team;
 - (c) Proposed changes to the paragraph on assigning requirements; and
 - (d) The ability to rely on the firm's systems.
- 7 These matters were discussed at the AUASB 10 March 2020 Meeting. A summary of all AUASB matters raised matters and the related IAASB action has been summarised in sections B and C of this paper.

Previous Discussions on Topic

- 8 Over the past year, the AUASB has been tracking the progress of the updates to ED-ISQM 1 against the key matters raised in the AUASB's submission to the IAASB and throughout the updated progress of the standard. This tracking is reflected in the following AUASB meeting papers:
- (a) 6 March 2019 (Agenda Item 4.4) – Discussion of approach to issuing ED in Australia.
 - (b) 20 March 2019 (Agenda Item 4.1) – Approval of ED for issue in Australia.
 - (c) 26 June 2019 (Agenda Item 2) – Approval of AUASB Comment Letter.
 - (d) 11 September 2019 (Agenda Item 4.6) – Consideration of ED feedback.
 - (e) 3 December 2019 (Agenda Item 16.5) – Consideration of ED feedback.
 - (f) 10 March 2020 (Agenda Item 3) – Consideration of IAASB feedback.
 - (g) 9 June 2020 (Agenda Item 8.1 as part of ISQM 1 discussions on Engagement Resources)

Matters for Discussion and ATG Recommendations

A. Matters raised since March 2020 AUASB Meeting:

Engagement Resources

- 9 At the March 2020 IAASB Meeting, the ISA 220 Task Force was asked to consider clarifying the meaning of "made available by the firm" as used in the Engagement Resources section of proposed ISA 220. Members asked the ISA 220 Task Force to work with the ISQM 1 Task Force to clarify whether component auditors are service providers when the component auditor is engaged by the component entity directly.
- 10 Alongside ISQM 1, several changes have been made to the Engagement Resources section of proposed ISA 220 (para. 25-28) to respond to the IAASB feedback. No requirements have been inserted or deleted to address this matter. The changes have included:
- (a) Amending "made available by the Firm" to be "made available to the engagement team";
 - (b) Reorganising paragraph 25 to clarify that the engagement partner takes into account the nature and circumstances of the engagement, the firm's policies and procedures, and any changes that may arise, and not any individual aspect of that determination;
 - (c) An example has been added to paragraph A59 of how actions may differ when dealing with component auditors.

Due Process Considerations

- 11 The IAASB Staff have not recommend that proposed ISA 220 to be re-exposed. Their rationale is:
- (a) There have been no substantial changes to key elements of the standard as presented in the ED;
 - (b) No new concepts have been introduced;
 - (c) The changes in text post exposure are in response to feedback to the ED or to align with other QM standards.

B. Matters discussed at the 10 March 2020 AUASB Meeting:

Assigning Procedures

- 12 Members raised that whilst they were supportive of the changes made to paragraph 15 (assignment of procedures to other members of the engagement team) of proposed ISA 220, there was a concern about the interaction between proposed ISA 600 and proposed ISA 220, in particular that there may be a misalignment between paragraphs that were able to be assigned in proposed ISA 220 but unable to be assigned in proposed ISA 600 and vice-verse.
- 13 The ATG undertook a comparison of related paragraphs in proposed ISA 220 and proposed ISA 600 and raised that there was a potential misalignment as proposed ISA 600 paragraph 21 combined concepts in paragraphs 29 and 30 of proposed ISA 220 and only one of those paragraphs could be assigned. The ISA 220 Task Force's view was that only paragraph 29 of proposed ISA 220 aligned with paragraph 21 of proposed ISA 600 and no misalignment was occurring.

Reliance on Firm Systems

- 14 At the March 2020 AUASB Meeting, the ATG considered that clarification of the engagement partner's ability to rely on the firm's systems, raised in the AUASB's submission, had still not been addressed. The ISA 220 Taskforce asked the ATG for a proposed redrafting of related introduction paragraphs and application and explanatory material to address this concern.
- 15 The ATG proposed reordering the application material so that paragraph A11 would be inserted as paragraph A6 and linked to paragraph 4(a) rather than 4(c). In the proposed ISA 220, the Taskforce has linked the application material to paragraph 4 as a whole rather than individual sub-paragraphs.

Linkage with other QM Standards

- 16 Members raised that there appeared to still be a lot of duplication rather than cross-reference of concepts between proposed ISQM 1 and proposed ISA 220. For example, ISQM 1 para. 38 requires the firm to have a system, including risk and response for resource allocation which is then repeated as para. 25 in ISA 220.
- 17 As outlined above in paragraph 9-10, paragraph 25 of proposed ISA 220 has been redrafted and has addressed this. Additionally, each of the QM Task Forces provided Members to evaluate the consistency of the drafting of the three quality management standards and to propose changes where necessary. The changes made to proposed ISA 220 have been outlined in [IAASB Agenda 4C](#).
- 18 The ATG again raised with the ISA 220 Task Force the proportionality between the engagement partner responsibilities and the engagement quality reviewer responsibilities. The ISA 220 Task Force view is that proposed ISQM 2 and proposed ISA 220 cannot be aligned paragraph by paragraph as the responsibilities of the engagement partner are throughout the engagement as well as throughout standards other than proposed ISA 220.

Questions

1. Does the AUASB have any concern with the amendments made since the standard was last presented at the 10 March 2020 AUASB Meeting?
2. Does proposed ISA 220 contain any fatal flaws that should be raised by the AUASB Chair, in their capacity as an IAASB Member, at the September 2020 IAASB meeting?



C. Tracking of AUASB matters raised

- 19 The table below reflects a summary of AUASB issues raised at the time of the ED and throughout the development of the standard and how the final proposed ISA 220 has addressed or not addressed these matters:

Matter #	Point raised by AUASB	Has this been and addressed considered by the IAASB?
1	Monitoring and reviewing work of assignees The AUASB considers that it may be difficult to practically meet the requirements in paragraphs 11-13 on a larger audit engagement (such as a multinational or group audit), particularly allowing for the broader Engagement Team definition now contained in the proposed standard. The AUASB specifically draws attention to the requirement in paragraph 13(b) outlining the engagement partner's responsibility to monitor and review the work of assignees, which we consider may be difficult to achieve with this expanded engagement team definition in place.	Yes – Points raised have been considered by the IAASB and addressed by the Task Force has through changes such as: <ul style="list-style-type: none">- clarify who is in and out of the engagement team;- changes to paragraph 15 to outline that the engagement partner takes overall responsibility for direction, supervision and review but directs, supervises and reviews the work of team members who they assigned work to;- clarifying the nature, timing and extent of direction, supervision and review in more complex engagements, including differences between what is required for individuals outside of the firm's network;- planned implementation guidance to address "upwards" scalability.
2	Guidance Direction and Supervision The AUASB considers that whilst the direction, supervision and review requirements on their own do not appear overly onerous, they may not be practically achievable as a result of the broader engagement team definition. The AUASB is concerned that the broad definition of engagement team may draw in unintended personnel into the engagement team.	Yes – Points raised have been considered by the IAASB and addressed by the Task Force has through changes such as: <ul style="list-style-type: none">- clarify who is in and out of the engagement team;- changes to paragraph 15 to outline that the engagement partner takes overall responsibility for direction, supervision and review but directs, supervises and reviews the work of team members who they assigned work to; and- more clearly identify requirements which must be performed by the engagement partner and those that can be assigned.

AUASB Agenda Paper

Matter #	Point raised by AUASB	Has this been and addressed considered by the IAASB?
3	<p>Ambiguity of definitions across the QM suite in relation to Engagement Team</p> <p>... the AUASB raises a significant concern that the definition of engagement team may be interpreted differently under ISA 220 and ISQM 1 due to the different application and explanatory material that applies to this definition in ISA 220 (paragraphs A16-A19) not being replicated in ISQM 1.</p>	<p>Yes –Points raised have been considered by the IAASB and addressed by the Task Force has through Members of the Taskforces since the June 2020 IAASB Meeting working to ensure alignment between the QM standards. Engagement Team definitions are consistent with the exception of application material which in the case of ISQM 1 links to ISA 220 for additional guidance in applying the definition in the context of an audit.</p>
4	<p>Engagement Partner's role</p> <p>With regard to the roles of other senior members, including other partners, the AUASB would like the IAASB to provide further guidance dealing with situation where there are multiple partners on an engagement. Whilst Australian stakeholders did not view this as a significant issue with the proposed standard, the AUASB considers that with global actions in response to audit quality, such as proposals for more than one audit firm to perform an engagement, the need for clarification will arise in the future and should be addressed now to avoid reopening the standard.</p> <p>The AUASB recommends that the IAASB considers the impact of new and emerging technology on all aspects of the engagement partner's responsibilities and is not limited to engagement resources. In the absence of appropriate technology considerations within the standard, additional implementation and guidance materials may be required to support practitioners to understand how an engagement partner can meet the requirements of the standards in a modern environment.</p>	<p>No – The Task Force has not included the signing partner project as part of proposed ISA 220.</p> <p>Yes – The Task Force considers that the standard appropriately deals with technology and that the Task Force will work with the AEWG and TWG to develop implementation guidance.</p>
5	<p>Definitions</p> <p>The AUASB considers that whilst the direction, supervision and review requirements on their own do not appear overly onerous, they may not be practically achievable as a result of the broader engagement team definition. The AUASB is concerned that the broad definition of engagement team may draw in unintended personnel into the engagement team.</p>	<p>Yes – Points raised have been considered by the IAASB and addressed by the Task Force has through changes such as:</p> <ul style="list-style-type: none"> - clarify who is in and out of the engagement team; - changes to paragraph 15 to outline that the engagement partner takes overall responsibility for direction, supervision and review but directs, supervises and reviews the work of team members who they assigned work to;

AUASB Agenda Paper

Matter #	Point raised by AUASB	Has this been and addressed considered by the IAASB?
		<ul style="list-style-type: none"> - clarifying the nature, timing and extent of direction, supervision and review in more complex engagements, including differences between what is required for individuals outside of the firm's network; - planned implementation guidance to address "upwards" scalability.
6	<p>How do the changes improve audit quality?</p> <p>The AUASB recommends that the IAASB considers the impact of new and emerging technology on all aspects of the engagement partner's responsibilities and is not limited to engagement resources. In the absence of appropriate technology considerations within the standard, additional implementation and guidance materials may be required to support practitioners to understand how an engagement partner can meet the requirements of the standards in a modern environment.</p>	<p>Yes – The Task Force considers that the standard appropriately deals with technology and that the Task Force will work with the AEWG and TWG to develop implementation guidance.</p>
7 & 8	<p>Requirements and Reliance on Firm's System</p> <p>Overall, the ability to practically meet the direction, supervision and review requirements of the proposed standard is further impacted by removal of paragraph 4 from the extant ISA 220 which stated "Engagement teams are entitled to rely on the firm's system of quality control process, unless information provided by the firm or other parties suggests otherwise". The IAASB's proposed approach of using the terms "shall be satisfied" and "shall determine" to differentiate between actions that can occur at a firm level and actions that must occur at an engagement level is not clearly articulated in the body of ISA 220 and is not commonly used throughout the suite of auditing standards which may result in diverse interpretation.</p>	<p>Yes – The Task force has considered feedback regarding providing more context regarding how they determined what requirements can and cannot be assigned. The task force has proposed outlining as part of the first-time adoption documentation alongside the standard.</p> <p>Yes – IAASB considers that they have addressed the feedback regarding the ability to rely on the firm's systems. For a more detailed discussion on this see paragraphs 14-15 above.</p>
9	<p>Roles of EP and EQR</p> <p>The AUASB also raises for consideration whether an appropriate balance has been achieved between the role of the engagement partner under ISA 220 and the role of the EQR under ISQM 2. In particular, the AUASB draws attention to paragraph 22(c) of ISQM 2 where the EQR is required to "identify" areas involving significant judgments rather than "evaluate" the areas identified by the engagement team; and paragraph 22(f) where the EQR is required to evaluate the Engagement Partner's (EP) stand-back requirement. The level of work expected of the EQR in some areas appears to be at the</p>	<p>Yes – The Task Force has considered this and does not agree with the AUASB concern raised. For a more detailed discussion on this see paragraph 18.</p>

AUASB Agenda Paper

Matter #	Point raised by AUASB	Has this been and addressed considered by the IAASB?
	same level as an EP and, in the view of the AUASB, is not in line with the objectives and proportionate responsibilities of an EQR.	
10	Documentation The AUASB generally views that the documentation requirements in conjunction with the requirements of ISA 230 provide sufficient guidance on documentation although this can be enhanced by a link between the review requirements of the engagement partner and the documentation requirements to evidence this review.	Yes – The Task Force has made amendments to clarify documentation requirements including the addition of a conforming amendment to ISA 300 to outline that documentation of the audit plan can include description of the nature, timing and extent of the direction and supervision of the engagement team members and the review of their work.
11	Review of Technology The AUASB considers that the standard does not adequately deal with advances in technology and potential changes in the auditing environment. For example, as the use of Artificial Intelligence/machine learning becomes more common, it is unclear how the review requirements of the standard will be met, particularly where specialist knowledge is required to review such tools.	Yes – The Task Force considers that the standard appropriately deals with technology and that the Task Force will work with the AEWG and TWG to develop implementation guidance.
12	Scalability – Network Reliance Australian stakeholders raised that the removal of paragraph 4 from the extant ISA 220 which stated “Engagement teams are entitled to rely on the firm’s system of quality control process, unless information provided by the firm or other parties suggests otherwise” and changes to the standard to explicitly state that the firm’s system of quality control cannot be relied upon in certain situations may impact on scalability. Stakeholders viewed that the benefits of being part of a network may be lost, therefore placing more onus on individual firms and partners impacting scalability.	Yes – IAASB agreed with the respondents who asked for clarity regarding what the engagement partner needs to do to depend on the firm’s system of quality management. Task Force has amended relevant application material to consider this.
13	Professional Skepticism The AUASB views that the objective of paragraph 7 is unclear. Presently, the requirement may appear to lead engagement team members to question or ‘second guess’ their colleagues and/or the firm in meeting the requirements of this standard. The AUASB questions whether this was the intention of this revision to the proposed standard and considers that paragraph 7, and other	Yes – The Task Force has reconsidered the application material to paragraph 7. This has resulted in: <ul style="list-style-type: none"> - no substantial changes to paragraph 7; - significant redrafting of paragraph A27, although no new impediments to skepticism included; and - future consideration by the Task Force of examples to be included as part of implementation material for the standard.

AUASB Agenda Paper

Matter #	Point raised by AUASB	Has this been and addressed considered by the IAASB?
	appropriate areas of ISA 220, should more clearly emphasise how the engagement partner is responsible for establishing an environment that supports the exercise of professional scepticism and setting an appropriate 'tone from the top' across the engagement team.	

Next steps/Way Forward

- 20 Whilst the IAASB is expected to vote to issue proposed ISA 220 at the September 2020 IAASB meeting, in accordance with IAASB due process the standards will be subject to PIOB approval. The PIOB is expected to meet and consider the proposed standard in December 2020 and the ATG expects that the IAASB will issue the final suite of QM standards in late December 2020.
- 21 The effective date of the proposed standard is expected to be **“for financial reporting periods beginning on or after 15 December 2022”**. Early adoption is not explicitly stated in the proposed standard.
- 22 The ATG will work with the AUASB at the December 2020 AUASB meeting to identify matters to undertake a compelling reasons assessment.
- 23 The ATG anticipates that ISA 220 will be brought to the March 2021 AUASB Meeting, including a compelling reasons assessment, for AUASB discussion with a view to issue the final Australian standard soon thereafter.

Agenda Item

4-A

Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*

Note for IAASB

- Words highlighted in grey are subject to change from proposed ISQM 1,¹ proposed ISQM 2² or ED-600.³
- While most paragraphs are marked from the April 1, 2020 meeting papers, certain paragraphs are marked from the June 2020 meeting and have been labelled accordingly.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with 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. This ISA is to be read in conjunction with relevant ethical requirements. (Ref: Para. A1, A37)

The Firm's System of Quality Management and Role of Engagement Teams

2. The firm is responsible for designing, implementing, and operating the system of quality management. Under proposed ISQM 1, the objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that: (Ref: Para. A13–A14)
 - (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.⁴
3. This ISA is premised on the basis that the firm is subject to the ISQMs or to national requirements that are at least as demanding. (Ref: Para. A2–A3)
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 ISA, for: (Ref: Para. A4–A12)

¹ Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

² Proposed ISQM 2, *Engagement Quality Reviews*

³ Exposure draft (ED) of proposed ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁴ Proposed ISQM 1, paragraph 14

- (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;
 - (b) Given the nature and circumstances of the audit engagement, determining whether to design and implement responses at the engagement level beyond those in the firm's policies or procedures; and
 - (c) Communicating to the firm information from the audit engagement that is required to be communicated by the firm's policies or procedures to support the design, implementation and operation of the firm's system of quality management.
5. Complying with the requirements in other ISAs may provide information that is relevant to quality management at the engagement level. (Ref: Para. A12)
- [Former paragraph 6 relocated to paragraph 11]
6. In accordance with ISA 200,⁵ the engagement team is required to plan and perform an audit with professional skepticism and to exercise professional judgment. Professional judgment is exercised 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 skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. The appropriate exercise of professional skepticism may be demonstrated through the actions and communications of the engagement team. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism, such as unconscious bias or resource constraints. (Ref: Para. A32–A35)

Scalability

7. The requirements of this ISA are intended to be applied in the context of the nature and circumstances of each audit. For example:
- (a) When an audit is carried out entirely by the engagement partner, which may be the case for an audit of a less complex entity, some requirements in this ISA are not relevant because they are conditional on the involvement of other members of the engagement team. (Ref: Para. A13–A14)
 - (b) When an audit is not carried out entirely by the engagement partner or in an audit of an entity whose nature and circumstances are more complex, the engagement partner may assign the design or performance of some procedures, tasks or actions to other members of the engagement team.

The Engagement Partner's Responsibilities

8. The engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA. For those requirements that the engagement partner is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably

⁵ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs 15–16 and A20–A24

experienced members of the engagement team, the term “the engagement partner shall take responsibility for...” is used. In all other circumstances, this ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner. To fulfill the requirement, the engagement partner may obtain information from the firm or other members of the engagement team. For example, the firm or other members of the engagement team may provide information about the competence and capabilities of the engagement team, auditor’s external experts, and internal auditors to the engagement partner in relation to the determination required by paragraph 26. (Ref: Para. A22–A24)

Effective Date

9. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2022].

Objective

10. 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.
11. [Relocated from former paragraph 6] The public interest is served by the consistent performance of quality audit engagements through achieving the objective of this standard and other ISAs for each engagement. A quality audit engagement is achieved through planning and performing the engagement and reporting on it 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 judgment and exercising professional skepticism.

Definitions

12. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Engagement partner⁶ – 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 judgments 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.
 - (c) Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

⁶ “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

- (d) Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external expert engaged by the firm or a network firm⁷ and internal auditors who provide direct assistance on an engagement.⁸ (Ref: Para. A15–A24)
- (e) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent. (Ref: Para. A25)
- (f) Network firm – A firm or entity that belongs to a network. (Ref: Para. A26)
- (g) Network – A larger structure: (Ref: Para. A26)
 - (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 – International Standards on Auditing (ISAs) and relevant ethical requirements.
- (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 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.
- (l) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address one or more quality risk(s):
 - (i) Policies are statements of what should, or should not, be done to address a quality risk(s). 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.

⁷ ISA 620, *Using the Work of an Auditor's Expert*, paragraph 6(a), defines the term "auditor's expert."

⁸ 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.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

13. 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 emphasizes the firm's culture and expected behavior of engagement team members. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: Para. A27–A36)
14. In creating the environment described in paragraph 13, the engagement partner shall take responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality and establish and communicate the expected behavior of engagement team members, including emphasizing: (Ref: Para. A30–A35)
 - (a) The responsibility of the members of the engagement team to act in the public interest;
 - (b) That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
 - (c) The importance of professional ethics, values and attitudes to the members of the engagement team;
 - (d) The importance of open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and
 - (e) The importance of each engagement team member exercising professional skepticism throughout the audit engagement.
15. If the engagement partner assigns the design or performance of procedures, tasks or actions related to a requirement of this ISA to other members of the engagement team to assist the engagement partner in complying with the requirements of this ISA, the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team, and review of their work. (Ref: Para. 8, A36)

Relevant Ethical Requirements, Including Those Related to Independence

16. 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. A37–A41, A47)
17. The engagement partner shall take responsibility for other members of the engagement team having 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 address: (Ref: Para. A22–A24, A39–A43)
 - (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 the responsibilities of members of the engagement team when they become aware of breaches; and
 - (c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations.⁹
18. 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 the 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. A42–A43)
 19. The engagement partner shall remain alert throughout the audit engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: Para. A44)
 20. 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. A45)
 21. Prior to dating the auditor's report, the engagement partner shall take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A37 and A46)

Acceptance and Continuance of Client Relationships and Audit Engagements

22. The engagement partner shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate. (Ref: Para. A48–A51, A57)
23. 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 ISAs and complying with the requirements of this ISA. (Ref: Para. A52–A55)
24. If the engagement team becomes aware of 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. A56)

Engagement Resources

25. The engagement partner shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A58–A69, A73–A74, A79)
26. The engagement partner shall determine that members of the engagement team, and any auditor's

⁹ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

external experts and internal auditors who provide direct assistance 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. A61, A70–A74)

27. If, as a result of complying with the requirements in paragraphs 25 and 26, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: Para. A75–A78)
28. 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. A62–A66, A68)

Engagement Performance

Direction, Supervision and Review

29. The engagement partner shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: Para. A80)
30. The engagement partner shall determine that the nature, timing and extent of direction, supervision and review is: (Ref: Para. A81–A89, A94–A97)
 - (a) Planned¹⁰ and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements; and
 - (b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.
31. The engagement partner shall review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to: (Ref: Para. A90–A93)
 - (a) Significant matters;¹¹
 - (b) Significant judgments, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and
 - (c) Other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.
32. On or before the date of the auditor's report, the engagement partner shall determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A90–A94)

¹⁰ ISA 300, *Planning an Audit of Financial Statements*, paragraph 11

¹¹ ISA 230, *Audit Documentation*, paragraph 8(c)

33. Prior to dating the auditor's report, the engagement partner shall review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters¹² and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.¹³
34. The engagement partner shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities. (Ref: Para. A98)

Consultation

35. The engagement partner shall: (Ref: Para. A99–A102)
 - (a) Take responsibility for the engagement team undertaking consultation on:
 - (i) Difficult or contentious matters and matters on which the firm's policies or procedures require consultation; and
 - (ii) Other matters that, in the engagement partner's professional judgment, require consultation;
 - (b) Determine that members of the engagement team have undertaken appropriate consultation during 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 agreed have been implemented.

Engagement Quality Review

36. For audit engagements for which an engagement quality review is required, the engagement partner shall: (Ref: Para. A103)
 - (a) Determine 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 and significant judgments arising during the audit 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. A104–A106)

Differences of Opinion

37. If differences of opinion arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality

¹² ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

¹³ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* or ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

management, including those who provide consultation, the engagement team shall follow the firm's policies or procedures for dealing with and resolving such differences of opinion. (Ref: Para. A107–A108)

38. The engagement partner shall:

- (a) Take responsibility for differences of opinion being addressed 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

39. The engagement partner shall take responsibility for: (Ref: Para. A109–A112)

- (a) Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the information from the monitoring and remediation process of the network and across the network firms;
- (b) Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39(a) and take appropriate action; and
- (c) Remaining 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

40. 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. A113–A116)

- (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 judgments 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 ISA.

Documentation

41. In applying ISA 230,¹⁴ the auditor shall include in the audit documentation: (Ref: Para. A117–A120)

- (a) Matters identified, relevant discussions with personnel, and conclusions reached with respect to:
 - (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.

¹⁴ ISA 230, paragraphs 8–11 and A6

- (b) The nature and scope of, and conclusions resulting from, consultations undertaken during 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.

* * *

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1)

- A1. This ISA applies to all audits of financial statements, including audits of group financial statements. ISA 600¹⁵ deals with special considerations that apply to an audit of group financial statements, including in those circumstances when component auditors are involved. ISA 600, adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm. For example, ISA 600 may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service center at a location remote to the engagement team.

The Firm's System of Quality Management and Role of Engagement Teams (Ref: Para. 2–8)

- A2. Proposed ISQM 1 deals with a firm's responsibilities for designing, implementing and operating its system of quality management.
- A3. Firms or national requirements may use different terminology or frameworks to describe the 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 ISQM 1 when they address the requirements of ISQM 1 and impose obligations on the firm to achieve the objective of proposed ISQM 1.

The Engagement Team's Responsibilities Relating to the Firm's System of Quality Management (Ref: Para. 4)

- A4. 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 ISQM 1, the firm is responsible for communicating information to the engagement team that enables them to understand and carry out their responsibilities relating to performing engagements. For example, such communications may cover policies or procedures to undertake consultations with designated individuals in certain situations involving complex technical or ethical matters, or to involve firm-designated experts in specific engagements to perform audit procedures related to particular matters (e.g., the firm may specify that firm-designated credit experts are to be involved in auditing expected credit loss allowances in audits of financial institutions).
- A5. Firm-level responses may include policies or procedures established by a network, or by other firms, structures or organizations within the same network (network requirements or network services are described further in proposed ISQM 1 within the "Network Requirements or Network Services" section).¹⁶

¹⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹⁶ ISQM 1, paragraph 49(b)

The requirements of this ISA are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to implement or use network requirements or network services on the audit engagement (for example, a requirement to use audit methodology developed by a network firm). Under ISQM 1, the firm is responsible for determining how network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management.¹⁷

- A6. 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 ISA. For example, firm-level responses that the engagement team may be able to depend on when complying with the requirements of this ISA include:
- Personnel recruitment and professional training processes;
 - The information technology (IT) applications that support the firm's monitoring of independence;
 - The IT applications that support the acceptance and continuance of client relationships and audit engagements; and
 - Audit methodologies and related implementation tools and guidance.
- A7. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the audit 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 team exercises professional judgment in determining whether to design and implement responses, beyond those set forth in the firm's policies or procedures, at the engagement level to meet the objective of this ISA.¹⁸
- A8. The engagement team's determination of whether engagement level responses are necessary (and if so, what those responses are) is influenced by the requirements of this ISA, the engagement team's understanding of the nature and circumstances of the engagement and any changes during the audit engagement. For example, unanticipated circumstances may arise during 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 in accordance with paragraph 27.
- A9. The relative balance of the engagement team's efforts to comply with the requirements of this ISA (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 team's actions in complying with the engagement performance requirements of this ISA 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).

¹⁷ ISQM 1, paragraph 49(a)

¹⁸ ISA 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.

A10. Ordinarily, the engagement team may depend on the firm's policies or procedures in complying with the requirements of this ISA, unless:

- The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or
- Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise (e.g., information provided by the firm's monitoring activities, external inspections and other relevant sources, indicates that the firm's policies or procedures are not operating effectively).

A11. If the engagement partner becomes aware (including through being informed by other members of the engagement team) that the firm's responses to quality risks are ineffective in the context of the specific engagement or the engagement partner is unable to depend on the firm's policies or procedures, the engagement partner may communicate such information promptly to the firm in accordance with paragraph 39(c) as such information is relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit software program has a security weakness, 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. See also paragraph A69 in respect of sufficient and appropriate resources.

Information Relevant to Quality Management at the Engagement Level (Ref: Para. 5)

A12. Complying with the requirements in other ISAs 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 ISA 315 (Revised 2019)¹⁹ provides information that may be relevant to complying with the requirements of this ISA. 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 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.

Scalability (Ref: Para. 2, 7)

A13. In a smaller firm, many responses to the firm's quality risks may be most effectively addressed by the engagement partner at the engagement level (i.e., given the nature and circumstances of the firm and its engagements, the firm's responses may be designed by the engagement partner and may operate at the engagement level). 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

¹⁹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

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.

- A14. 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

Engagement Team (Ref: Para. 12(d))

- A15. The engagement team may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures²⁰ on the audit engagement is a member of the engagement team.
- A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the audit.²¹ Audit procedures comprise risk assessment procedures²² and further audit procedures.²³ As explained in ISA 500, audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.²⁴ Other ISAs may also include specific procedures to obtain audit evidence, for example, ISA 520.²⁵
- A17. Engagement teams include individuals from the firm and may also include individuals who perform audit procedures from:
- (a) A network firm.
 - (b) A firm that is not a network firm.
 - (c) A service provider.²⁶

For example, an individual from another firm may perform audit procedures on the financial information of a component in a group audit engagement, attend a physical inventory count or inspect physical fixed assets at a remote location.

- A18. Engagement teams may also include individuals from service delivery centers who perform audit procedures. For example, the firm may determine that specific tasks that are repetitive or specialized in nature will be performed by a group of appropriately skilled personnel and the engagement team therefore includes such individuals. Service delivery centers may be established by a network, or by

²⁰ ISA 500, *Audit Evidence*, paragraph A10

²¹ ISA 200, paragraph A30

²² ISA 315 (Revised 2019) provides requirements related to risk assessment procedures.

²³ ISA 330, *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

²⁴ ISA 500, paragraphs A14–A25

²⁵ ISA 520, *Analytical Procedures*

²⁶ ISQM 1, paragraph A105

other firms, structures or organizations within the same network. For example, a centralized function may be used to facilitate external confirmation procedures.

- A19. Engagement teams may include individuals with expertise in a specialized area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes, or in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships. An individual is not a member of the engagement team if that individual's involvement with the engagement is limited to consultation. Consultations are addressed in paragraphs 35 and A99–A102.
- A20. If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.
- A21. An internal auditor providing direct assistance and an auditor's external expert whose work is used in the engagement are not members of the engagement team.²⁷ ISA 610 (Revised) 2013 and ISA 620 provide requirements and guidance for the auditor when using the work of internal auditors in a direct assistance capacity or when using the work of an external expert. Compliance with these ISAs requires the auditor to perform audit procedures on the work of an auditor's expert and obtain sufficient appropriate audit evidence on the work performed by an internal auditor providing direct assistance.

The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: Para. 8, 17)

- A22. Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the audit engagement. As engagement team members from another firm are neither partners nor staff of the engagement partner's firm, they are not subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies and procedures of another firm may not be similar to that of the engagement partner's firm. For example, policies or procedures regarding direction, supervision and review may be different in another firm. These differences may be exacerbated when the other firm is in a jurisdiction with a different legal system, language or culture than that of the engagement partner's firm. Accordingly, if the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures relevant to the engagement.
- A23. In particular, the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm:
- Has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm's recruitment and training processes and therefore the firm's policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or registration body. Paragraphs 19 and A38 of ISA 600 contain guidance on obtaining an understanding of the competence and capabilities of component auditors.

²⁷ See ISA 620, paragraphs 12–13 and ISA 610 (Revised 2013), paragraphs 21–25.

- Understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm’s training in respect of the firm’s policies or procedures for relevant ethical requirements. The firm’s policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual.
- Will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm’s independence systems. The firm’s policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as written confirmation.

A24. When firm policies or procedures require specific activities to be undertaken in certain circumstances (e.g., in relation to an audit engagement where the firm’s policies or procedures require consultation on a matter), it may be necessary for the firm’s policies or procedures to be communicated to individuals who are not personnel so that such individuals are able to alert the engagement partner about the circumstance if it arises, and the engagement partner is able to comply with the firm’s policies or procedures. For example, in a group audit engagement, if a component auditor is performing audit procedures on the financial information of a component and identifies a difficult or contentious matter that is relevant to the group financial statements and subject to consultation²⁸ under the group auditor’s policies or procedures, the component auditor is able to alert the group engagement team about the matter.

Firm (Ref: Para. 12(e))

A25. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this ISA.

“Network” and “Network Firm” (Ref: Para. 12(f)–12(g))

A26. The definitions of “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISA. The IESBA 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 ISA in relation to networks also apply to any structures or organizations 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. 13–15)

Taking Overall Responsibility for Managing and Achieving Quality

A27. Proposed ISQM 1 requires the firm to establish quality objectives that address the firm’s governance and leadership that supports the design, implementation and operation of the system of quality management. The engagement partner’s responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality. In addressing the requirements in paragraphs 13 and 14 of this ISA, the engagement partner may communicate directly to other members of the engagement team and reinforce this communication through personal conduct and actions (e.g., leading by example). A culture that demonstrates a commitment to quality

²⁸ See paragraph 35.

is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement.

Scalability

A28. The nature and extent of the actions of the engagement partner to demonstrate 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 engagement team, 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

A29. 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 the members of the engagement team, and the review of their work in complying with the requirements of this ISA; and
- Varying the nature, timing and extent of such direction, supervision and review in the context of the nature and circumstances of the engagement.

Communication

A30. Communication is the means through which the engagement team shares relevant information on a timely basis to comply with the requirements of this ISA, thereby contributing to the achievement of quality on the audit engagement. Communication may be between or among members of the engagement team, or with:

- (a) The firm, (e.g., 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 expert²⁹ or internal auditors who provide direct assistance³⁰); and
- (c) Parties that are external to the firm (e.g., management, those charged with governance or regulatory authorities).

A31. 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 members of the engagement team. For example, to support appropriate direction, supervision and review, the firm may use IT applications to facilitate the communication between the members of the engagement team when they are performing work across different geographical locations.

²⁹ See ISA 620, paragraphs 11(c) and A30.

³⁰ See ISA 610 (Revised 2013), paragraph A41.

Professional Skepticism (Ref: Para. 6)

A32. The engagement partner is responsible for emphasizing the importance of each engagement team member exercising professional skepticism throughout the audit engagement. Conditions inherent in some audit engagements can create pressures on the engagement team that may impede the appropriate exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence. Accordingly, when developing the overall audit strategy in accordance with ISA 300, the engagement team may need to consider whether such conditions exist in the audit engagement and, if so, what actions the firm or the engagement team may need to undertake to mitigate such impediments.

A33. Impediments to the exercise of professional skepticism at the engagement level may include, but are not limited to:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, necessary for audits of entities where technical expertise or specialized skills are needed for effective understanding, assessment of and responses to risks and informed questioning of management.
- Tight deadlines, which may negatively affect the behavior of those who perform the work as well as those who direct, supervise and review. For example, external time pressures may create restrictions to analyzing complex information effectively.
- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
- Insufficient understanding of the entity and its environment, its system of internal control and the applicable financial reporting framework, which may constrain the ability of the engagement team to make appropriate judgments and an informed questioning of management's assertions.
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which 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.
- Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing audit evidence.

A34. Unconscious or conscious auditor biases may affect the engagement team's professional judgments, including for example, in the design and performance of audit procedures, or the evaluation of audit evidence. Examples of unconscious auditor biases that may impede the exercise of professional skepticism, and therefore the reasonableness of the professional judgments made by the engagement team in complying with the requirements of this ISA, may include:

- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility.

- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.

A35. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may 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 judgment) and emphasizing the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures.
- Changing the composition of the engagement team, for example, requesting that more experienced individuals are assigned to the engagement 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 specialized skills and knowledge or an auditor's expert to assist the engagement team with complex or subjective areas of the audit.
- Modifying the nature, timing and extent of direction, supervision or review by involving more experienced engagement team members, more in-person oversight on a more frequent basis or more in-depth reviews of certain working papers for:
 - Complex or subjective areas of the audit;
 - Areas that pose risks to achieving quality on the audit engagement; and
 - Areas with a fraud risk or a risk of non-compliance with laws or regulations.
- Setting expectations for:
 - Less experienced members of the engagement team to seek advice frequently and in a timely manner from more experienced engagement team members or the engagement partner; and
 - More experienced members of the engagement team to be available to less experienced members of the engagement team throughout the audit engagement and to respond positively and in a timely manner to their insights, requests for advice or assistance.

- 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. 15)

A36. Being sufficiently and appropriately involved throughout the audit engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including:

- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information.
- Direction and supervision of the assignees.
- Review of the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs 29–34.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 16–21)

Relevant Ethical Requirements

A37. ISA 200³¹ 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, certain requirements related to independence may be applicable only when performing audits of listed entities. ISA 600 includes additional requirements and guidance to those in this ISA regarding communications about relevant ethical requirements with component auditors.

A38. Based on the nature and circumstances of the audit engagement, certain law, regulation or aspects of relevant ethical requirements, such as those pertaining to non-compliance with laws or regulations, may be significant to the engagement, for example laws or regulations dealing with money laundering, corruption, or bribery.

A39. The firm's information system and the resources provided by the firm may assist the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement. For example, the firm may:

- Communicate the independence requirements to engagement teams subject to independence requirements, as applicable.
- Provide training for engagement teams on relevant ethical requirements.
- Establish manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the nature and circumstances of the firm its engagements.

³¹ ISA 200, paragraphs 14 and A16–A19

- Assign personnel to manage and monitor compliance with relevant ethical requirements (e.g., ISQM 1 requires that the firm obtains, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or provide consultation on matters related to relevant ethical requirements.
- Establish policies or procedures for engagement team members to communicate relevant and reliable information to appropriate parties within the firm or to the engagement partner, such as policies or procedures for engagement teams 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 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.

A40. The engagement partner may take into account the information, communication, and resources described in paragraph A39 when determining whether the engagement partner may depend on the firm's policies or procedures in complying with relevant ethical requirements.

A41. Open and robust communication between 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. 17–18)

A42. In accordance with proposed ISQM 1, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating and addressing threats to compliance with the relevant ethical requirements.

A43. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they should be dealt with. For example, the IESBA 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.³²

³² IESBA Code, paragraph 330.3, A2

Breaches of Relevant Ethical Requirements (Ref: Para. 19)

A44. In accordance with proposed ISQM 1, the firm is required to establish policies or procedures for identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner.

Taking Appropriate Action (Ref: Para. 20)

A45. 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 individuals so that appropriate action can be taken, including as applicable, disciplinary action(s).
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Prior to Dating the Auditor's Report (Ref: Para. 21)

A46. ISA 700 (Revised) 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.³³ Performing the procedures required by paragraphs 16–21 of this ISA provides the basis for these statements in the auditor's report.

Considerations Specific to Public Sector Entities

A47. 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 to promote compliance with paragraph 16. 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. 22–24)

A48. Proposed ISQM 1 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements.

³³ ISA 700 (Revised), paragraph 28(c)

- A49. Information such as the following may assist 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 sufficient and appropriate resources are available 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; and
 - Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement.
- A50. Under proposed ISQM 1, for acceptance and continuance decisions, the firm is required to make judgments about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. 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 appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.
- A51. 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's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.
- A52. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this ISA and making informed decisions about appropriate courses of action. Such information may include:
- 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 that 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.
- A53. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ISAs, as well as this ISA, for example with respect to:

- Establishing an understanding of the terms of the audit engagement, as required by ISA 210;³⁴
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ISA 315 (Revised 2019) and ISA 240;³⁵
- Understanding the group, its components and their environments, in the case of an audit of group financial statements in accordance with ISA 600, and directing, supervising and reviewing the work of component auditors;
- Determining whether, and how, to involve an auditor's expert in accordance with ISA 620; and
- The entity's governance structure in accordance with ISA 260 (Revised)³⁶ and ISA 265.³⁷

A54. Law, regulation, or relevant ethical requirements may require the successor 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 judgment, the successor 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 IESBA Code requires that the predecessor auditor, on request by a proposed successor auditor, provide all relevant facts and other information concerning such non-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.

A55. 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.

A56. In deciding on the necessary action, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement and, if so, determine what additional steps are necessary at the engagement level (e.g., the assignment of more staff or staff with specific expertise). If the engagement partner has further concerns or 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. 22–24)

A57. 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 22–24 and A48–A56 may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

³⁴ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 9

³⁵ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

³⁶ ISA 260 (Revised), *Communication with Those Charged with Governance*

³⁷ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Engagement Resources (Ref: Para. 25–28)

A58. Under proposed ISQM 1, the resources assigned or made available by the firm to support the performance of audit engagements include:

- Human resources;
- Technological resources; and
- Intellectual resources.

A59. Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances when the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group engagement team.³⁸ In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

A60. A relevant consideration for the engagement partner, in complying with the requirements in paragraphs 25 and 26, may be 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

A61. Human resources include members of the engagement team (see also paragraphs A5, A15–A21) and, where applicable, an auditor's external expert and individuals from within the entity's internal audit function who provide direct assistance on the audit.

Technological Resources

A62. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological tools may allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily 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 skepticism. Technological tools may also be used to conduct meetings and provide communication tools to the engagement team. Inappropriate use of such technological resources may, however, increase the risk of overreliance on the information produced for decision making purposes, or may create threats to complying with relevant ethical requirements, for example, requirements related to confidentiality.

A63. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm approved technological tools to perform audit procedures and may require the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output.

³⁸ ISA 600, paragraph 3

- A64. When the engagement partner requires individuals from another firm to use specific automated tools and techniques when performing audit procedures, the engagement partner may include in communications with those individuals that the use of such automated tools and techniques needs to comply with the engagement team's instructions.
- A65. The firm's policies or procedures may specifically prohibit the use of certain IT applications or features of IT applications (e.g., software that has not yet been specifically approved for use by the firm). Alternatively, the firm's policies or procedures may require the engagement team to take certain actions before using an IT application that is not firm-approved to determine it is appropriate for use, for example by requiring:
- The engagement team to have appropriate competence and capabilities to use the technological resource.
 - Specific documentation to be included in the audit file.
 - Testing the operation and security of the technological resource.
- A66. The engagement partner may exercise professional judgment 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. Factors that may be considered in determining whether a particular technological resource, that has not been specifically approved for use by the firm, is appropriate for use in the audit engagement include whether:
- Use and security of the technological resource complies with the firm's policies or procedures.
 - The technological resource operates as intended.
 - Personnel have the competence and capabilities required to use the technological resource.

Intellectual Resources

- A67. Intellectual resources include, for example, audit methodologies, implementation tools, auditing guides, model programs, templates, checklists or forms.
- A68. The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, law and regulation, 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, an industry specific methodology or related guides and performance aids.

Sufficient and Appropriate Resources to Perform the Engagement (Ref: Para. 25)

- A69. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team by the firm, ordinarily the engagement partner may depend on the firm's related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation and maintenance programs when using firm-approved technology to perform audit procedures.

Competence and Capabilities of the Engagement Team (Ref: Para. 26)

A70. 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 specialized areas of accounting or auditing.
- Expertise in IT 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 skepticism and professional judgment.
- Understanding of the firm's policies or procedures.

A71. 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. Personnel or members of the engagement team, including component auditors, may provide information to the engagement partner to enable the engagement partner to make the determination required by paragraph 26 about members of the engagement team from another firm. For example, personnel may obtain information about the competence and capabilities of the members of the engagement team and provide the information to the engagement partner.

A72. Internal auditors and an auditor's external expert are not members of the engagement team. ISA 610 (Revised 2013)³⁹ and ISA 620⁴⁰ include requirements and guidance relating to the assessment of the competence and capabilities of internal auditors and an auditor's external expert, respectively.

Project Management

A73. In situations where there are many engagement team members, for example in an audit of a larger or more complex entity, the engagement partner may involve an individual who has specialized skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, in an audit of a less complex entity with few engagement team members, project management may be achieved by a member of the engagement team through less formal means.

A74. Project management techniques and tools may support the engagement team in managing the quality of the audit engagement by, for example:

- Increasing the engagement team's ability to exercise professional skepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional skepticism;

³⁹ ISA 610 (Revised 2013), paragraph 15

⁴⁰ ISA 620, paragraph 9

- Facilitating timely performance of audit work to 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,⁴¹ 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; or
- Facilitating communication among members of the engagement team, for example, coordinating arrangements with component auditors and auditor's experts.

Insufficient or Inappropriate Resources (Ref: Para. 27)

- A75. Proposed ISQM 1 addresses the firm's commitment to quality through its culture that recognizes and reinforces the firm's role in serving the public interest by consistently performing quality engagements, and the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities. Proposed ISQM 1 also addresses the firm's responsibilities for planning for resource needs, and obtaining, allocating or assigning resources in a manner that is consistent with the firm's commitment to quality. 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 (see also paragraph A45). In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for determining that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.
- A76. In an audit of group financial statements, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management or the firm to make sufficient and appropriate resources available.
- A77. The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the requirements of this ISA and the nature and circumstances of the audit engagement. As described in paragraph A12, in certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 27 and paragraph 39(c). For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures in respect of recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the audit engagement.
- A78. If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include:

⁴¹ See ISA 300, paragraph 9.

- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph A94).
- Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
- 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. 25–28)

A79. In the public sector, specialized 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 reporting in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing.

Engagement Performance

Scalability (Ref: Para. 29)

A80. When an audit is not carried out entirely by the engagement partner, or in an audit of an entity whose nature and circumstances are more complex, it may be necessary for the engagement partner to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement partner's overall responsibility for managing and achieving quality on the audit engagement and to be sufficiently and appropriately involved, the engagement partner is required to determine that the nature, timing and extent of direction, supervision and review is undertaken in accordance with paragraph 30. In such circumstances, personnel or members of the engagement team, including component auditors, may provide information to the engagement partner to enable the engagement partner to make the determination required by paragraph 30.

Direction, Supervision and Review (Ref: Para. 30)

- A81. Under proposed ISQM 1, the firm is required to establish a quality objective that addresses the nature, timing and extent of the direction and supervision of engagement teams and review of their work. ISQM 1 also requires 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.
- A82. 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 the quality of the audit engagement. Accordingly, the approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will generally include a combination of addressing the firm's policies or procedures and engagement specific responses.

- A83. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in fulfilling the requirements of this ISA, and in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 40.
- A84. Ongoing discussion and communication among members of the engagement team allows less experienced engagement team members to raise questions with more experienced engagement team members (including the engagement partner) in a timely manner and enables effective direction, supervision and review in accordance with paragraph 30.

Direction

- A85. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as:
- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication and actions.
 - Maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional skepticism when gathering and evaluating audit evidence (see paragraph A35).
 - Fulfilling relevant ethical requirements.
 - The responsibilities of respective partners when more than one partner is involved in the conduct of an audit engagement.
 - The responsibilities of respective engagement team members to perform audit procedures and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members.
 - Understanding the objectives of the work to be performed and the detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.
 - Addressing threats to the achievement of quality, and the engagement team's expected response. 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

- A86. Supervision includes matters such as:
- Tracking the progress of the audit engagement, which includes monitoring:
 - The progress against the audit plan;
 - Whether the objective of work performed has been achieved; and
 - 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 engagement team members when issues are more complex than initially anticipated.
- 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

A87. Review of the engagement team's work provides support for the conclusion that the requirements of this ISA have been addressed.

A88. Review of the engagement team's work 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 provide a basis for the auditor's opinion; and
- The objectives of the audit procedures have been achieved.

A89. 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., review of each individual working paper or selected working papers); and
- Which members of the engagement team are required to perform the different types of review.

The Engagement Partner's Review (Ref: Para. 31–34)

A90. As required by ISA 300, the engagement partner reviews the overall audit strategy and audit plan.⁴²
As required by ISA 230, the engagement partner documents the date and extent of the review.⁴³

A91. Timely review of documentation by the engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction

⁴² ISA 300, paragraph 11A

⁴³ ISA 230, paragraph 9(c)

on or before the date of the auditor's report. The engagement partner need not review all audit documentation.

A92. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments in relation to the 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 specialized area of accounting or auditing;
 - The use of personnel from service delivery centers.
- The decision to involve an auditor's expert, including the decision to involve an external expert.
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information.
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgment 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 accounting 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;
 - Decisions about the involvement of component auditors, including how to direct and supervise them and review their work, including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component; 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.

- The 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.

A93. The engagement partner exercises professional judgment in determining other matters to review, for example based on:

- The nature and circumstances of the audit engagement.
- 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

A94. 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, policies or procedures may include that:

- Work planned to be performed at an interim date is to 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 in a timely manner.
- Certain matters are to be reviewed by the engagement partner and the firm may specify the circumstances or engagements in which such matters are expected to be reviewed.

Scalability

A95. The approach to direction, supervision and review may be tailored 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 audit engagement. For example, if significant events have occurred that make the audit engagement more complex, the extent and frequency of the direction and supervision of the engagement team member may be greater and the review of the related working papers may be more detailed.
- 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 the 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 engagement team members may require more detailed instructions and more frequent, or in-person, interactions as the work is performed.

- The manner in which the reviews of the 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 the location of engagement team members, including when individuals from outside the firm's network or service delivery centers are used. For example, direction and supervision of individuals located at service delivery centers and the review of their work may:
 - Be more formalized and structured than when members of the engagement team are all situated in the same location; or
 - Use IT to facilitate the communication between the members of the engagement team.

A96. Identification of changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing or extent of direction, supervision or review. For example, if the assessed risk of material misstatement at the financial statement level increases because of a complex transaction, the engagement partner may need to change the planned level of review of the work related to the transaction.

A97. In accordance with paragraph 30(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 engagement team member 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.

Review of Communications to Management, Those Charged with Governance, or Regulatory Authorities (Ref: Para. 34)

A98. The engagement partner may exercise professional judgment in determining which formal written communications to review, taking into account the nature and circumstances of the audit engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.

Consultation (Ref: Para. 35)

A99. Proposed ISQM 1 requires the firm to establish a quality objective that addresses consultation on difficult or contentious matters and how the conclusions agreed are 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 laws or regulations.

A100. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm may 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.

A101. 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 firms, professional and regulatory bodies or commercial organizations that provide relevant quality control services.

A102. 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.⁴⁴

Engagement Quality Review (Ref: Para. 36)

A103. Proposed ISQM 1 contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with proposed ISQM 2, and requiring an engagement quality review for certain types of engagements.⁴⁵ Proposed ISQM 2 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.

Completion of the Engagement Quality Review Before Dating of the Auditor's Report (Ref: Para. 36(d))

A104. ISA 700 (Revised) requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.⁴⁶ If applicable to the audit engagement, proposed ISQM 2 and ISA 220 (Revised) require that the engagement partner be precluded from dating the engagement report until notification has been received from the engagement quality reviewer that the engagement quality review is complete. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgments made by the engagement team or that the conclusions reached thereon were not appropriate then the engagement quality review is not complete.⁴⁷

A105. 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.

A106. 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 coordinating requests from the engagement quality reviewer to another member of the engagement team.

⁴⁴ ISA 701, paragraphs 9 and A14

⁴⁵ Proposed ISQM 1, paragraph 34(f)

⁴⁶ ISA 700 (Revised), paragraph 49

⁴⁷ Proposed ISQM 2, paragraph 26

Differences of Opinion (Ref: Para. 37–38)

A107. Proposed ISQM 1 requires the firm to establish a quality objective that addresses differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management. ISQM 1 also requires that differences of opinion are brought to the attention of the firm and resolved.

A108. 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. 39)

A109. Proposed ISQM 1 sets out requirements for the firm's monitoring and remediation process. In addition, the firm is required to communicate to engagement teams information about the firm's monitoring and remediation process to enable them to take prompt and appropriate action in accordance with their responsibilities.⁴⁸ Information provided by members of the engagement team may be used by the firm in the firm's monitoring and remediation process, and exercising professional judgment and professional skepticism while conducting the audit may assist the members of the engagement team in remaining alert for information that may be relevant to that process.

A110. Information provided by the firm may be relevant to the audit engagement when, for example, it relates to findings on another engagement performed by the engagement partner or other members of the engagement team, findings from the local firm office or inspection results of previous audits of the entity.

A111. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement 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; or
- 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.

A112. A deficiency in the firm's system of quality management does not necessarily indicate that an 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 in the circumstances.

⁴⁸ Proposed ISQM 1, paragraphs 46-47

Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 40)

A113. Proposed ISQM 1 requires the firm to establish a quality objective addressing the engagement team's understanding and fulfillment of their responsibilities in connection with the engagement. ISQM 1 further requires that the quality objective include the overall responsibility of engagement partners for managing and achieving quality on the engagement and for being sufficiently and appropriately involved throughout the engagement.

A114. Relevant considerations in addressing paragraph 40 include determining how the engagement partner has complied with the requirements of this ISA, given the nature and circumstances of the audit engagement and how the audit documentation evidences the engagement partner's involvement throughout the audit engagement, as described in paragraph A118.

A115. Indicators that the engagement partner may not have been sufficiently and appropriately involved include, for example:

- Review by the engagement partner of the audit engagement planning, including reviewing the assessment of risks of material misstatement and responses to those risks towards the end of the audit.
- Evidence that the assignees were not adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and were not provided other necessary instructions and relevant information.
- A lack of evidence of the engagement partner's direction and supervision of the other members of the engagement team and the review of their work.

A116. If the engagement partner's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 40. 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:

- Updating and changing the audit plan;
- Reevaluating 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 personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: Para. 41)

A117. In accordance with ISA 230,⁴⁹ audit documentation provides evidence that the audit complies with the ISAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment 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.

⁴⁹ ISA 230, paragraph A7

A118. Documentation of the performance of the requirements of this ISA, including evidencing the involvement of the engagement partner and the engagement partner's determination in accordance with paragraph 40, may be accomplished in different ways depending on the nature and circumstances of the audit engagement. For example:

- Direction of the engagement team can be documented through signoffs of the audit plan and project management activities;
- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency and effectiveness of the engagement partner's communications and other actions in respect of culture and expected behaviors that demonstrate the firm's commitment to quality;
- Agendas from discussions between the engagement partner and other members of the engagement team, and where applicable the engagement quality reviewer, and related signoffs and records of the time the engagement partner spent on the engagement, may provide evidence of the engagement partner's involvement throughout the audit engagement and supervision of other members of the engagement team; or
- Signoffs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

A119. When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional skepticism, 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 24), the documentation may include explanations of how the engagement team dealt with the circumstance.

A120. 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.



AUASB Agenda Paper

Project:	IAASB Proposed Non-Authoritative Guidance – Extended External (EER) Assurance	Meeting:	9 September 2020
Topic:	EER	Agenda Item:	9.4
Strategic Objective:	Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards	Decision-Making:	For Update and Discussion
ATG Staff:	Marina Michaelides	Project Status:	In Progress
AUASB Sponsor:	Jo Cain		

Action Required and Decisions to be Made

- 1 The purpose of this Agenda Item is to update the AUASB on the themes and significant issues identified in the responses received on the March 2020 Public Consultation on the *Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance*, and obtain Board views about the Task Force’s initial proposals for key enhancements to the *Extended External Reporting Assurance* draft guidance.
- 2 A link to the IAASB issues paper is provided [\[here\]](#).

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Q1. The Board is asked for its views on whether the Task Force has appropriately identified the themes or issues, as applicable, from the responses to the Consultation Paper.	ATG agree that the TF has appropriately identified the key themes from the 43 CP Responses as summarised at A.
Question 2	Q2. The Board is asked for its views on the Task Force's proposed response(s) to the themes or issues, as applicable?	See section A below. ATG support TF responses to key themes raised in AUASB submission.
Question 3	Q3. Does the Board support the Task Force's proposal to include a table in an appendix to the Guidance document to illustrate differences between a limited and reasonable assurance engagement?	ATG agree with inclusion of LA vs RA table illustrating differences in procedures for areas covered in the guidance – addresses comments made in AUASB submission.
Question 4	Q4. What is the Board's preference in relation to Diagram 5, should it be simplified, deleted or retained?	The AUASB considers that Diagram 5 Acceptance and Continuance Considerations is overly complex. A flowchart may communicate the concepts more effectively alongside the questions on pages 75 and 76, as a visual walk through the process. AUASB would support the simplification of Diagram 5 or replacement with a flowchart.

Background

- 3 The IAASB issued *Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance* in March 2020, with a comment period ending 13 July 2020.
- 4 The AUASB undertook virtual outreach with the NZAuASB in June 2020 on this Guidance and [submitted a response to the IAASB](#).
- 5 The ATG considers that the EER taskforce has addressed the substantive matters raised by the AUASB in the submission. A summary of all AUASB matters raised matters and where the IAASB task force has gotten to on these is summarised in Section A of this paper.

Previous Discussions on Topic

- 6 Over the past year, the AUASB has been tracking the progress on the IAASB proposed EER guidance against the key matters raised in the AUASB's submissions to the IAASB and throughout the updated progress of the guidance. This tracking is reflected in the following AUASB meeting papers:
 - (a) 16 April 2019 (Agenda item 6.1)
 - (b) 11 September 2019 (Agenda Item 4.7)
 - (c) 3 December 2019 (Agenda Item 16.6)

Matters for Discussion and ATG Recommendations

A. AUASB matters raised and how the IAASB EER Task Force (TF) is proposing to deal with these matters in the final proposed EER Guidance.

7 The table below reflects a summary of AUASB key themes raised in our submission to the IAASB and how the EER TF are proposing to address these matters:

	<i>AUASB Key Theme (refer to AUASB Submission)</i>	<i>Proposed Approach by EER TF</i>
1	Limited and Reasonable Assurance	<p>The TF proposes to summarize, in a table, the key differences and implications btw LA and RA:</p> <ul style="list-style-type: none"> • using the material in ISAE 3410, <i>Assurance Engagements on Greenhouse Gas Statements</i> as a basis for illustrative considerations and procedures, • making it clear that the summary does not suggest a requirement or best practice, but is included for illustrative purposes only, and • positioning the table as an appendix to the Guidance.
2	Use of Examples – Supplement B	<p>The TF proposes including two further longer examples in Supplement B – one illustrating the assurance of reporting in line with the TCFD recommendations, and another illustrating the use of SASB standards, both of which address the reporting of a mix of qualitative and quantitative information, and historical and future-oriented information.</p> <p>The TF also proposes looking at whether theoretical or conceptual content within the Guidance can be readily replaced by shorter practical examples.</p>
3	Professional Scepticism and Professional Judgement	<p>The TF proposes to streamline the guidance in Chapter 2, by focusing on:</p> <ul style="list-style-type: none"> • why the exercise of professional scepticism and professional judgment are important in an EER engagement, • impediments that are more likely to arise in such engagements, and • including a short EER-specific example within the chapter to illustrate the exercise of professional scepticism and professional judgment in an EER context.
4	Qualitative Information	<p>The TF proposes retaining the guidance in a separate chapter and enhancing the linkage between this chapter and the other chapters, where relevant.</p> <p>The TF proposes enhancing the guidance on obtaining evidence and the evaluation of qualitative misstatements for qualitative information by including two further examples in Supplement B.</p>
5	Length, Format and Use of Language	<p>The TF is of the view that the perceived length of the Guidance is inextricably linked with the format in which the Guidance is to be published, and that presenting the Guidance in an innovative, easily accessible manner would, to a large extent, overcome possible barriers to its use as a result of its length. The Task Force proposes exploring ways in which this might be done, with IFAC and IAASB staff. Given the responses received, the Task Force considers this is a matter of urgency, and ideally the digital version will be in place by early 2021.</p>

6	Order of Chapters	The TF proposes repositioning Chapter 6 before Chapter 4, as the guidance on considering the entity's process to identify reporting topics follows logically from the guidance on preconditions (Chapter 3), and reinforces the preparer's role in preparing for assurance. The TF also proposes moving Chapter 11 and Chapter 12 to before the reporting chapter (Chapter 10), as reporting is the last stage in an assurance engagement.
7	Use of Diagrams	<p>The TF is looking for Board guidance on how to illustrate the concepts and interrelationships in Diagram 5 in a simpler way. One way might be to set out the determination of the presence of preconditions as a process diagram, with the related text:</p> <ul style="list-style-type: none">• presented as a paragraph alongside the process diagram, if the Guidance is to be presented in pdf format, or• accessible by clicking on aspects of the diagram, if the Guidance is published in an electronic format. <p>Either way, the proposed solution would alleviate the need for both the complex diagram and lengthy text; however, if this is not possible, the Task Force proposes deleting the diagram from this chapter.</p>

B. Other matters for noting

8 No other matters to note.

Collaboration with NZAuASB and other standard setters

- 9 A joint virtual outreach session was held with the NZAuASB on 3 June 2020 to elicit feedback from a broad range of stakeholders to inform the AUASB and NZAuASB submissions to the IAASB.
- 10 Considerable work was also undertaken between staff on both Board's in formulating the final submissions and sharing of views of Board members allocated to sponsor the EER project.

Next steps/Way Forward

- 11 The IAASB EER TF are expected to bring back updates to the EER draft Guidance and draft supplements to reflect agreed approach at September meeting in December 2020.
- 12 The IAASB EER TF will seek approval of final EER Guidance and supplements in March 2021.