



Subject: Minutes of the 109th meeting of the Auditing and Assurance Standards Board (AUASB)
Venue: The Portside Centre, Level 5, Symantec House, 207 Kent Street, Sydney
Date: Wednesday 12 June 2019 and Thursday 13 June 2019

Attendance

AUASB Members: Professor Roger Simnett (Chair)
Ms Robin Low (Deputy Chair)
Mr Gareth Bird
Mr Robert Buchanan (NZAuASB Chair)
Ms Jo Cain
Ms Julie Crisp (via teleconference for day 1)
Mr Klynton Hankin
Dr Noel Harding
Mr Rodney Piltz
Ms Carolyn Ralph
Mr Justin Reid

AUASB Technical Group: Mr Matthew Zappulla
Ms Rene Herman
Ms Marina Michaelides
Ms Anne Waters
Mr Tim Austin
Ms See Wen Ewe
Ms Jean You

Apologies: None

Observers: Ms Fiona Campbell – IAASB Deputy Chair (Agenda Item 2)
Mr Bill Edge – FRC Chair (Agenda Item 7)

Minutes

(Agenda Item 1 – Minute 1271) Agenda and introduction

The Chair welcomed members to the 109th AUASB Meeting and provided an update to the AUASB on the appointment of a new IAASB Chair.

(Agenda Items 1.3 – Minute 1272) Minutes of Previous AUASB Meetings on 16 April 2019.

Draft minutes were discussed and approved by the Board.

(Agenda Items 1.8 – Minute 1273) NZAuASB Update.

The NZAuASB Chair provided an update to the AUASB on the key matters discussed at the NZAuASB May 2019 Meeting, including the NZAuASB's deliberations on the proposed revisions to NZSRE 2410 (NZ equivalent of ASRE 2410).

The NZAuASB have not yet released the proposed NZ SRE 2410 as an exposure draft (ED) and are deliberating on the proposed wording of the description of the auditor's responsibilities in relation to going concern included in the auditor's review report.

The NZAuASB are considering a number of options at a teleconference to be scheduled in early July 2019. The chairs of the two boards are working closely to manage this situation and the possibility that the New Zealand exposure position might be different from that already exposed by the AUASB. They are committed



to full transparency so that constituency groups in both jurisdictions can consider all options for addressing the matter. Accordingly (as the AUASB Chair also confirmed), if the NZAuASB decide on proposed wording which does not align with the proposed wording in ED 01/19 ASRE 2410 (which is currently open for comment in Australia), it will likely reference the AUASB position in its Invitation to Comment and the AUASB will likely communicate the New Zealand position to Australian stakeholders to explore views.

The AUASB were also informed that this matter will be raised with stakeholders at the upcoming webinar on ED 01/19, however the position of NZAuASB will not be finalised until after the webinar.

(Agenda Item 2 – Minute 1274) IAASB June 2019 Meeting

The AUASB were presented with a summary of the major items on the upcoming IAASB meeting, to be held in New York from 17 – 21 June 2019.

ISA 315 Risks of Material Misstatements

The AUASB were informed about and discussed the proposed updates being presented to the IAASB at its upcoming Board meeting in relation to ISA 315 Risks of Material Misstatements. The agenda item was presented by Fiona Campbell, Deputy Chair of the IAASB and Chair of the IAASB's ISA 315 Task Force. The AUASB provided feedback that they are supportive of the proposed changes to ISA 315, including the new format which relocates the definitions and restructures the requirements to address the complexity, scalability and proportionality issues raised in many responses the IAASB received on ED 315.

The AUASB discussed that the use of expanded definitions to reduce the content in the requirements assisted with the length and understandability of the standard, without reducing its robustness. However, the AUASB provided feedback that it was important there needed to be a clear link from the requirements to the definitions, such as the use of hyperlinks etc. The AUASB generally considered that the significant concerns they raised in the AUASB submission on ED 315 have been addressed by the IAASB.

The AUASB also discussed that the circular/non-linear nature of ED 315 has been improved by the restructuring of the proposed standard. However some AUASB members felt this could be improved further by reconsidering the order of the requirements for the process of identification and assessment of ROMM, and identification of significant classes of transactions, account balances and disclosures, through further consideration of whether the identification and assessment of ROMM could be combined.

The AUASB suggested that the risk assessment process in ISA 315 could be further simplified by reconsidering if the 'Inherent Risk Factors' are included in the requirements, and the requirement to identify controls that address the risks of material misstatement in the controls activities component was not sufficiently clear. In addition, the AUASB gave feedback that the proposed new definition of risk of material misstatement (proposed conforming amendment in ISA 200) was circular in nature and needed revision.

ISA 600 Group Audits

An update on the progress of the ISA 600 Group Audits project was presented to the AUASB. The update focussed on confirming that the key public interest issues that the IAASB plan to address are aligned to feedback that the AUASB had provided in response to the IAASB Discussion Paper on this topic. The AUASB discussed the proposed new approach to scoping a group audit and how it aligns ISA 600 with the principles of revised ISA 315.

The AUASB highlighted the need for ISA 600 to consider in greater detail the magnitude and likelihood of group audit risks in the proposed standard and suggested ISA 600 may not need to be a standalone standard but an addendum to the existing ISA 315 or another suitable standard if it is mainly focused on applying the requirements of ISA 315 in a Group Audit context. The AUASB expressed a strong view that instead the focus of ISA 600 should be realigned to be more targeted at the special considerations for a Group Audit.

Audit Evidence

AUASB Members were provided with an overview of the status of Agenda Item 7 *Audit Evidence* by the AUASB Technical Group (ATG). The AUASB discussed whether the IAASB had appropriately captured all the issues related to audit evidence and the appropriateness of the proposed responses to the issues highlighted in the IAASB board papers on this topic.



Overall, the AUASB considered that too many issues were being presented as part of the Audit Evidence project. This resulted in the project being unwieldy and not meeting the immediate needs of stakeholders. The AUASB gave feedback that the scope of this project should be reconsidered, with the development of more specific, targeted guidance addressing the use of technology and technological tools as part of the evidence gathering process being the immediate consideration to address stakeholder needs by the IAASB.

Auditor Reporting Post Implementation Review

The AUASB were presented with the IAASB's Auditor Reporting Implementation Working Group's ("ARIWG") observations of global trends and key themes from research to date on the enhanced Auditor Reporting Standards, which were approved by the IAASB in December 2016. The ARIWG also included their updated plans in relation to the further post implementation review activities. The global trends and key themes from international research to date highlight:

- generally positive feedback across stakeholder groups on the benefits of the communication of Key Audit Matters ("KAMs");
- some jurisdictions have extended the auditor's reporting to include additional information such as materiality, non-audit services, and conclusions on KAMs.

The ARIWG also highlighted some implementation challenges they were aware of such as concerns about:

- ISA 720 *The Auditor's Responsibility Relating to Other Information* being difficult to apply in practice;
- criticism that some KAM reporting is 'boilerplate' and not suitably tailored to the entity; and
- the interaction between the going concern paragraph, KAMs and emphasis of matter paragraphs.

The AUASB agreed that the observations noted internationally were broadly consistent with the observations to date in Australia, but not all implementation challenges noted by the ARIWG in other jurisdictions were as wide spread in Australia.

The AUASB agreed with the proposed scope of the ARIWG's proposed post implementation review activities, including the need to address concerns about the operation of ISA 720. The AUASB are of the view that more extensive research and feedback must be sought to conclude on whether the objectives of the Auditor Reporting Standards have been achieved, and this must be done before consideration of whether there is benefit and demand to increase the reporting requirements further, including to other types of audit or assurance engagements.

The feedback from AUASB members on the above matters scheduled for deliberation at the June 2019 IAASB will be summarised by the AUASB Technical Director and shared with the IAASB members from Australia and New Zealand.

(Agenda Item 3 – Minute 1275) Quality Management Standards Submission

The ATG provided the AUASB with a summary of the feedback received on the suite of Quality Management Exposure Drafts (EDs). The AUASB discussed what should be included in the AUASB's submission to the IAASB on the EDs, taking into account matters raised during the AUASB's review of the IAASB papers, recent outreach conducted by the ATG and comments received from stakeholders. The main theme coming through the AUASB's feedback was the suggestion to reduce the level of prescriptiveness in the proposed Quality Management Standards (in particular ISQM 1), to ensure the standards remain principles based. There were concerns raised how the high level of detail specified in the requirements and application guidance in the standard, may lead audit firms down a compliance or checklist type approach.

Draft submissions will be compiled by the ATG then circulated to the AUASB for consideration and approval at its 26 June 2019 AUASB teleconference, ahead of submission to the IAASB on 1 July 2019.

(Agenda Item 4 – Minute 1276) GS 005 Using the Work of a Management's Expert

The AUASB received an update on the revision to Guidance Statement GS 005 *Using the Work of a Management's Expert*. A draft revision of the Guidance Statement will be brought to the September 2019 AUASB meeting for consideration.

(Agenda Item 5 – Minute 1277) Guidance Statement Revision Plan



The AUASB was presented with an analysis of the current suite of guidance statements (GSs) on issue by the ATG. This analysis summarised all the relevant legislative and standards changes which have impacted each AUASB Guidance Statement since it was released or last updated. The ATG provided to the AUASB an initial view on the priority for updating or withdrawing each of the guidance statements, however, the AUASB considered that further stakeholder input was required to determine the prioritisation of each GS. The ATG will determine the most effective method to conduct this additional outreach, determine the appropriate prioritisation and present an updated project plan to the AUASB for approval at a future AUASB meeting.

(Agenda Item 6 – Minute 1278) GS 008 Project Plan

AUASB reviewed and approved the project plan to update GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001*. A draft revision will be brought to the September 2019 AUASB meeting for the AUASB's consideration and approval.

(Agenda Item 7 – Minute 1279) FRC/Audit Quality Update

The AUASB were joined by the Chair of the Financial Reporting Council (FRC), Mr Bill Edge, to discuss Audit Quality matters currently impacting both Australia and other major jurisdictions overseas.

The AUASB Chair noted that the value of audit is under pressure in Australia due to increasing competitiveness in audit fees and Registered Company Auditors departing the profession, and led a discussion on how the AUASB could contribute to discussions around this issue. This was well supported by the Chair of the FRC who highlighted the important role the AUASB have to play in this debate, and that the AUASB maintains a very high degree of credibility on this issue due to its independence from the profession and the regulators who oversee audit quality in Australia.

The AUASB highlighted in its discussions that there is a need to recognise the positive factors that improve audit quality (e.g. enabling innovation) and a benefit from recognising the social value of audit, both of which may lead to improved staff retention and could form part of a future composite audit quality measure. The FRC Chair commented that it is essential for the FRC to work with the AUASB, ASIC and other regulatory bodies, accounting bodies and users of the financial statements on audit quality related issues, and it should not be seen as an issue for auditing firms alone.

(Agenda Item 8 – Minute 1280) AUASB EER Submission

AUASB reviewed a draft submission on the IAASB's EER Assurance – Phase 1 EER Consultation Paper. While supportive of the guidance it questioned whether it is most beneficial to intended users (assurance practitioners) in its current form. It suggested that the guidance should be repackaged to be made more accessible for the different stakeholders who will rely on this pronouncement. AUASB suggested narrowing down the type and profile of users of the document to ensure the guidance meets its overall intended objective in assisting assurance practitioners undertaking these engagements with a broad range of subject matter.

(Agenda Item 9 – Minute 1281) Not-For-Profit Sector Auditing and Assurance Issues

The ATG presented a summary of the key findings from a research report provided to the AUASB by Jenny (Yitang) Yang from the University of New South Wales regarding the audits of large charities registered with the Australian Charities and Not-for-profits Commission (ACNC). The report included findings around auditor selection, financial reporting framework choices (including numerous instances where the financial reporting framework was not adequately described in the financial report or the auditor's report), auditor remuneration and the format and content of the auditor's opinion.

The ATG outlined its planned or proposed actions regarding each of the key findings in Jenny's research. This led to a discussion on whether the AUASB is effectively communicating with the broad range of stakeholders identified by the research. The AUASB requested that the findings be communicated to the member bodies and ACNC, and that the ATG consider how best to engage with this stakeholder group for future AUASB communications.

(Agenda Item 10 – Minute 1282) Auditor implications arising from AASB ED's on Removal of Special Purpose Accounts

The AUASB received an overview of the Australian Accounting Standards Board's (AASB) planned exposure drafts to amend which entities can prepare special purpose financial statements under the accounting standards and the possible implications for the AUASB. Whilst the impact on the AUASB



standards of this project is likely to be limited to updating references, it was brought to AUASB's attention that, in the research supporting the AASB's project there were also instances where the financial reporting framework was not adequately described in the financial report.

The AUASB agreed with the ATG that, as a result of the findings recorded in Agenda items 9 and 10, that it was appropriate to remind auditors of their responsibilities related to evaluating the financial reporting framework under the AUASB standards. Consequently, the ATG will develop and issue an AUASB Bulletin to remind auditors of their responsibilities regarding the evaluation of an entity's financial reporting framework and current responsibilities for when to reference the financial reporting framework in the auditors' report.

(Agenda Item 11 – Minute 1283) Public Sector PAG Update

The Public Sector Project Advisory Group (PAG) Chair provided an update to the AUASB on the progress made in addressing Public Sector specific auditing issues raised for consideration by the Australasian Council of Auditors-General (ACAG). The activities to date have involved scoping the challenges for the public sector in three key areas; the Terms of Engagement, Engagement Leader responsibilities and Going Concern, as well as outlining the range of AUASB pronouncements to respond to these challenges.

The next PAG meeting will involve a detailed analysis of the challenges each Auditor General's office has identified in each of these topic areas. A more detailed overview of the feedback and the possible standard setting options will be presented to the AUASB at the September 2019 AUASB Meeting.

(Agenda Item 12 – Minute 1284) Joint Board Meeting

The AUASB held a joint session with the AASB to review the current AASB and AUASB Strategic Objectives and also identify projects on which the two boards should collaborate on for the 2019-20 reporting period. Minor wording changes were made to each Board's Strategic Objectives, which will be published on the AUASB Website once finalised. A further discussion about updates to the AUASB Strategy for 2019-2022 will be held at the next meeting of the AUASB in September 2019.

Next Meeting

The next regular meeting of the AUASB will be held in Melbourne, on Tuesday, 10 September 2019 commencing at 1.00 p.m.

Close of Meeting

The Chair closed the meeting at 12.30 p.m.

Approval

Signed as a true and correct record.

Roger Simnett
Chair

Date: 10 September 2019