



**Subject:** Minutes of the 123<sup>rd</sup> Meeting of the Auditing and Assurance Standards Board (AUASB)  
**Venue:** Via Zoom Teleconference  
**Date:** Wednesday 10 March 2021 9:00am – 3:00pm and Friday 12 March 2021 9:00am – 12:00pm

## Attendance

AUASB Members:

- Mr Bill Edge (Chair)
- Ms Julie Crisp (Deputy Chair)
- Mr Gareth Bird
- Mr Robert Buchanan (NZAuASB Chair)
- Ms Jo Cain
- Mr Klynton Hankin
- Dr Noel Harding
- Mr Rodney Piltz
- Ms Carolyn Ralph
- Mr Justin Reid
- Mr Andrew Porter

AUASB Technical Group Staff:

- Mr Matthew Zappulla
- Ms Rene Herman
- Ms Marina Michaelides
- Ms Anne Waters
- Ms Johanna Foyster
- Mr Tim Austin
- Ms See Wen Ewe
- Mr James Wake

Observers:

- Prof. Roger Simnett (Agenda Item 5 only)

Apologies:

- None

## Minutes

### (Agenda Item 1 – Minute 1436) Agenda and introduction

The Chair welcomed members to the 123<sup>rd</sup> AUASB Meeting.

### (Agenda Item 1.3 – Minute 1437) Minutes of Previous AUASB Meetings

Draft minutes for the AUASB meetings held on 1 & 4 December 2020 and 19 February 2021 were tabled for approval, with some minor editorial changes to the February 2021 meeting requested. The minutes for both AUASB meetings were then approved.

### (Agenda Item 1.5 – Minute 1438) AUASB Chair Update

Matters raised by the AUASB Chair for the attention of the AUASB were:

- Reflections on a very successful joint meeting with the AASB on 2 March 2021.
- An update on progress the AUASB Technical Group (ATG) had made on Guidance for auditors on the transition from special purpose reporting, which is being developed in conjunction with the AASB.



- An update on a number of AUASB operational matters, including plans to source additional technical staff or contractor resources on a short term or casual basis to assist the AUASB Technical Group in 2021, as well as progress on the new AUASB Digital Standards portal and website.
- Future nominations from Australia for the International Auditing and Assurance Standards Board (IAASB).

**(Agenda Item 1.8 – Minute 1439) NZAuASB Update**

The NZAuASB Chair provided an update to the AUASB on the significant matters currently impacting the NZAuASB, including:

- The Board considered and provided feedback on the New Zealand versions of the Quality Management Standards, which have now been issued as exposure drafts.
- The NZAuASB have had an initial discussion on the IESBA changes on non-assurance services and fees and issued a survey to constituents seeking feedback on the non-assurance services provisions to gain more information about the impact of non-assurance services on perceptions of independence.
- The main items discussed during a recent joint NZASB and NZAuASB meeting, including an updated External Reporting Board (XRB) strategy and progress on going concern issues since the previous meeting a year ago.
- In his capacity as a member of the Public Interest Oversight Board (PIOB) the NZAuASB Chair also provided an update on the PIOB's strategy to increase its visibility and the transparency of its work, and an update on the transitional arrangements being put in place to implement the Monitoring Group recommendations.

**(Agenda Item 2 – Minute 1440) FRC and Audit Quality Update**

The AUASB received an update on the Financial Reporting Council's Audit Quality Action Plan.

The AUASB discussed that the results of the recently completed survey of Audit Committee Chairs (ACCs) were pleasing, noting that, overall, ACCs were 'very satisfied' with the quality of their auditor. The AUASB requested the ATG to consider further ways to communicate the findings of this survey and other initiatives in relation to audit quality.

The AUASB also received an update on progress being made on recommendations from the PJC Inquiry into Regulation of Auditing in Australia that are relevant to the AUASB. The ATG detailed how the AUASB, AASB and ASIC are working together to determine the most appropriate way to respond to the recommendation on the disclosure of audit tenure. The matter will be discussed in greater detail at the April 2021 AUASB meeting.

**(Agenda Item 3 – Minute 1441) AUASB Foreword to Pronouncements – Review and Approval**

The AUASB was presented with an updated version of the *Foreword to AUASB Pronouncements* (the Foreword). Changes to the Foreword were necessary to align it with the AUASB's new *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications* (Due Process Framework), which was approved by the AUASB at its December 2020 meeting. The revised Foreword includes new links to related pronouncements and policy documents such as the AUASB's Due Process Framework and the AUASB's Preambles – Auditing Standards ASA 100 *Preamble to AUASB Standards* and ASA 101 *Preamble to Australian Auditing Standards*.

The Foreword was considered and approved unanimously by the AUASB, subject to a small number of amendments being made to reflect minor wording changes requested by individual Board members. The Board also supported the ATGs view that public exposure of the revised Foreword was not required, as changes to the extant document were not significant in nature and primarily to align the document with the AUASB's Due Process Framework.

**(Agenda Item 4 – Minute 1442) Quality Management Standards – Review and Approval**

The AUASB discussed the suite of Quality Management Standards (along with their respective Explanatory Statements) comprising:



- ASQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, which addresses an audit firm's responsibility for managing the quality of engagements.
- ASQM 2, *Engagement Quality Reviews*, which addresses the appointment and eligibility of engagement quality (EQ) reviewers and their responsibilities relating to the performance and documentation of an EQ review.
- ASA 220, *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*, which addresses the engagement partner and engagement team's responsibilities for quality management for an audit of a financial report.
- ASA 2021-1 *Amendments to Australian Auditing Standards*, which includes consequential amendments to the Auditing Standards as a result of changes to ASQM 1, ASQM 2 and ASA 220.

The AUASB discussed and agreed the Australian amendments to the standards as agreed by the AUASB at its February 2021 meeting. The AUASB also supported the ATGs proposals for how *Corporations Act 2001* amendments are dealt with by including an explicit upfront reference to the *Corporations Act 2001* in the introductory section of each standard. The AUASB also discussed the use of certain terms across the suite of standards (e.g., the difference between 'small' and 'less complex'), with the AUASB requesting that the ATG address this potential issue as part of implementation support activities.

Furthermore, the AUASB provided input into the draft Basis of Conclusions documents and Explanatory Statement, specifically requesting that:

- The Basis of Conclusions for ASQM 1 should recognise that, while the AUASB has decided to adopt ISQM 1 without substantive change, there are still some concerns in relation to scalability and that the AUASB will keep a watching brief on IAASB implementation support, as well as develop an implementation plan for the AUASB the review later in the year.
- The Basis of Conclusions for ASQM 2 needs to provide greater detail on the inclusion of the 2-year cooling off period in relation to the engagement quality reviewer and include details noting that, whilst ASQM 2 is a new standard, it meets the definition of an Auditing Standard that the AUASB has the authority to issue.
- The Basis of Conclusions for ASA 220 should be updated to provide greater detail in relation to the revised engagement partners responsibilities and their ability to assign responsibilities to other engagement team member in some instances.
- The wording in each of the Explanatory Memorandums should include updated language to describe how the AUASB uses international auditing standards as a base, consistent with the FRC's strategic direction to the AUASB.

Subject to the changes above being made by the ATG each of the Quality Management Standards and their associated Explanatory Statements were unanimously approved for issue by the AUASB. One AUASB member wished it noted however their significant concerns on the issue of scalability of ASQM 1, particularly for the smaller and medium practitioner (SMP) market segment. The member highlighted that despite the scalability (by applying a risk-based approach), ASQM 1 will remain a large compliance challenge for SMPs given the volume of requirements within the standard.

Additionally, the ATG presented their consideration of the need for re-exposure of the Quality Management Standards. The AUASB unanimously voted against re-exposure, agreeing with the ATG's recommendation that the changes made to the standards since they were originally exposed did not require re-exposure.

The ATG noted that there were still outstanding conforming and consequential amendments to other AUASB standards as a result of the new and revised Quality Management Standards being released. The exposure draft (ED) outlining these amendments was recently released by the IAASB. The ATG proposed that these additional conforming and consequential amendments be exposed by the AUASB in April 2021 to enable sufficient time for responses from stakeholders before comments are due to the IAASB on 24 May 2021.



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Accordingly, this ED will be sent for review and approval by AUASB members out of session prior to the April 2021 AUASB meeting.

The AUASB briefly discussed implementation challenges associated with the Quality Management Standards and the nature of implementation support the AUASB should considered developing and rolling out. The AUASB expressed concern regarding the extent of documentation that may be required to evidence compliance with the standards, particularly for SMP's. The AUASB agreed that the ATG should coordinate its implementation support activities with other National Standard Setters, the IAASB, and technical representatives at the Australian professional accounting bodies. In addition, the AUASB noted the importance of communicating the value of the enhancements included in the new Quality Management Standards to users. An implementation support plan will be brought to the AUASB for consideration at the June 2021 AUASB meeting.

### **(Agenda Item 5 – Minute 1443) International Matters**

#### *LCE Standard*

The AUASB Technical Group provided the AUASB an overview of the separate standard for Less Complex Entities (LCE) to be discussed at the IAASB's March 2021 meeting. The AUASB provided input into separate standard including comments on:

- Application of the standard: The AUASB commented on the distinction between a Less Complex Entity as described by the IAASB LCE working group in the IAASB agenda papers is different from an entity with less complex financial reporting. Some members of the AUASB considered that less complex financial reporting should be a stronger driver in the determination of the application of the LCE standard.
- Purpose of the standard: The AUASB encouraged the IAASB to continue to consider the needs of the intended users, particularly as it relates to risk assessment. This is an area that the AUASB still considers to be too complex in the separate standard.
- Essential Explanatory Material: The AUASB encouraged essential explanatory material to be referred to as something other than 'essential', as the term 'essential' may be interpreted as a quasi-requirement, which is not the intention.
- Maintenance of the standard every 3 years: The AUASB encouraged the IAASB to consider the perception of diminished audit quality, by not only users but also by practitioners, if the LCE standard is only maintained every 3 years.
- Reporting: The AUASB considered that the auditor's report should remain consistent whether practitioners are using the separate LCE standard or the full suite of ISAs. The auditor's report is the main output of the audit engagement that is seen by users, and a watered down version of the audit report for LCE engagements may create a perception that it is an inferior quality product.

The AUASB will continue to monitor the progress of this project and influence the direction of the standard through the AUASB international influencing strategy.

#### *Group Audits*

The AUASB Technical Group provided the AUASB an overview of the direction of revisions to ISA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* on the following areas:

- The scope and applicability of ED-600, including the definitions of group financial statements and the description of the term consolidation process (the 'entry point' into ED-600);
- The revised definition of component;



- The risk-based approach, including the involvement of component auditors in identifying, assessing and responding to the risks of material misstatement of the group financial statements;
- Interactions between the group auditor and the component auditor;
- Materiality and aggregation risk; and
- Documentation.

The AUASB Technical Group noted that the direction is largely consistent with AUASB feedback on ED-ISA 600. The AUASB will continue to monitor the progress of this project and influence the direction of the standard through the AUASB international influencing strategy.

#### *Audit Evidence*

The AUASB was presented with a summary of the Audit Evidence Task Force's proposed approach to revising the audit evidence standard. The paper highlighted a number of proposed actions including changes to the definition of audit evidence, information sources, relevance and reliability, and sufficiency and appropriateness of audit evidence.

AUASB Members expressed some concern with the direction of this IAASB project and raised that the proposed changes were in some instances creating circular references or introduced new elements of audit evidence that could over complicate the standard for practitioners.

#### *Extended External Reporting (EER) Guidance*

The AUASB Technical Group provided a short update to the AUASB of the final changes made to the IAASB's Non-Authoritative guidance on EER Assurance engagements. There were no issues noted for feedback to the IAASB, and the AUASB agreed to further consider how this guidance is rolled out in Australia and further EER strategic issues at the April 2021 AUASB meeting.

The AUASB Board sponsor for EER highlighted the opportunity presented for the AUASB to demonstrate leadership on EER assurance in collaboration with the AASB/NZAuASB/XRB as we roll-out the upcoming IAASB EER Assurance Guidance, including a workshop series that is proposed to engage with stakeholders, making the Guidance as accessible as possible and consulting on implementation monitoring for any jurisdiction-specific needs that emerge.

#### **(Agenda Item 7 – Minute 1444) AUASB Technical Work Program 2020-21 Update**

The AUASB reviewed the latest version of the AUASB 2020-21 Technical Work Program. Board members requested some minor amendments to the content in the document, and overall were happy with the presentation of the current AUASB priorities and projects. An updated version of the word program will now be published on the AUASB website.

#### **(Agenda Item 8 – Minute 1445) IESBA Exposure Draft: Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code**

The AUASB discussed the current IESBA proposals relating to changes to the Definitions of Listed Entity and Public Interest Entity in the Code. It was agreed that a short response to IESBA's exposure draft on the proposals will be prepared and shared with AUASB members for review out of session.

#### **(Agenda Item 9 – Minute 1446) Matters arising from AASB/AUASB Joint Strategy Day**

The AUASB held a private session to further discuss matters covered at the AASB/AUASB Joint Strategy Day held on 2 March 2021. The positive interaction and engagement across both Boards was noted and will be considered as part of the AUASB's future Work Program and Strategy for 2021-22.

The outputs from the AASB/AUASB Joint Strategy Day will be further considered and distributed by the AASB-AUASB Managing Director and then evaluated as part of the future AUASB Strategy and 2021-22 AUASB Technical Work Program later in 2021.



**Next Meeting**

The AUASB will be holding its next meeting via Videoconference on Tuesday 20<sup>th</sup> April 2021.

**Close of Meeting**

The Chair closed the meeting at 12.00 pm on Friday 12<sup>th</sup> March 2021.

**Approval**

Signed as a true and correct record.

W R Edge

*Chair*

Date: 20 April 2021