



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **6**

Meeting Date: 3-4 December 2019

Subject: Ethics Code Conforming Amendments – Approval of ASA 102

Date Prepared: 15 November 2019

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

1. To seek AUASB approval of proposed Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* for reissue.

Background

2. At the March 2019 AUASB meeting, the AUASB Technical Group (ATG) updated the Board on the IAASB's project to make limited amendments to various IAASB Standards to resolve actual or perceived inconsistencies between the IAASB's International Standards and the International Ethics Standards Board for Accountants' (IESBA) revised and restructured *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code).
3. On 15 November 2019, the IAASB issued Exposure Draft (ED) '*Proposed Changes to the IAASB Standards as a result of the Revised IESBA Code*', with comments due by 10 January 2020. The Explanatory Memorandum accompanying the ED provides background to, and an explanation of, the IAASB's proposed conforming amendments to its International Standards.

The ED and Explanatory Memorandum can be accessed through the following link:

<https://www.iaasb.org/news-events/2019-11/iaasb-seeks-public-comment-exposure-draft-conforming-amendments>

4. It is expected that the IAASB will approve its final conforming amendments in the first quarter of 2020 and that the conforming amendments will become effective approximately 90 days after approval by the Public Interest Oversight Board (PIOB).
5. The revised and restructured IESBA Code became operational from 15 June 2019. The Accounting Professional & Ethical Standards Board (APESB) has revised its Code to incorporate the changes to the IESBA's Code. The revised and restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, is effective from 1 January 2020. In developing the

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revised APES 110, the APESB used the IESBA Code as base document and then tailored the Code for the Australian environment.

For further background on the APESB's revision of APES 110, including main changes and Australia specific amendments, refer to the APESB's November 2018 Basis for Conclusions:
https://www.apesb.org.au/uploads/standards/apesb_standards/23072019020747_APES_110_Basis_for_Conclusions_Nov_2018.pdf

Matters to Consider

Proposed IAASB Conforming Amendments

6. IAASB Standards reference the extant IESBA Code in various ways, including simple references to the title of the Code and references to specific sections/paragraphs in the IESBA Code as it existed before April 2018.
7. The IAASB made it clear that the purpose of its project to update International Standards is solely to align extant wording with the restructured IESBA Code and not to re-evaluate or again discuss the merits of each reference. The project will not address other potential amendments to International Standards that may have been considered in other IAASB projects undertaken to achieve improvements in those Standards in the immediate term.
8. IAASB Staff have prepared an analysis of the suite of IAASB Standards, to identify areas which will require amendment to reflect the restructured IESBA Code.

For a list of IAASB Standards that have been identified for amendment refer to:
<https://www.iaasb.org/news-events/2019-11/iaasb-seeks-public-comment-exposure-draft-conforming-amendments>

9. The IAASB has categorised the nature of proposed changes as follows:
 - a) **Category 1**: Amendments to reflect structural changes to, and the applicability of, the IESBA Code.
 - Parts A, B and C of the Code have been renamed:
 - Part A now Part 1
 - Part B now Part 3
 - Part C now Part 2
 - To reflect the importance of Independence, Independence requirements have been moved to a separate Part 4 of the revised Code entitled '*Independence Standards*'.
 - b) **Category 2**: Amendments to the framework for addressing threats to compliance with the fundamental principles to the IESBA Code, including:
 - Enhanced conceptual framework to explain how to identify, evaluate and address threats.
 - Explicit requirement included to address threats by:
 - eliminating threats, or
 - reducing them to an acceptable level by:
 - eliminating the circumstances that create the threat;
 - applying safeguards; or
 - withdrawing from the engagement.

- Under the extant IESBA Code, safeguards included actions or measures that eliminate or reduce threats to an acceptable level. Under the revised IESBA Code:
 - ‘safeguards’ are measures that are applied to reduce the threats
 - measures to eliminate threats are separate from safeguards.
- c) **Category 3:** Updates to the title of the IESBA Code to include ‘International’ and ‘(including International Independence Standards)’.
- d) **Category 4:** Amendments to align with terminology used in the IESBA Code – including:
 - definition of ‘independence’ changed
 - ‘familiarity’ threat replaced with the threat of ‘long association’
 - ‘breaches’ used in relation to the Code; ‘non-compliance’ used in the context of laws and regulations.

Australian Approach

10. A concurrent project is being undertaken in Australia to implement necessary conforming amendments to AUASB Standards to:
 - a) conform with the amended IAASB Standards; and
 - b) align references in AUASB Standards to the revised and restructured APES 110.
11. As explained in the attached Project Plan (see Agenda Item 6.5), this project will be undertaken in two stages:
 - a) **Stage 1** will require a revised ASA 102 to be approved by the AUASB at its December 2019 meeting, to be reissued before the revised APES 110 becomes effective from 1 January 2020.
 - b) **Stage 2** will involve the issuance of two conforming amendment standards, to respectively update:
 - i. the AUASB’s ‘Force of Law’ Auditing Standards made under section 336 of the *Corporations Act 2001*; and
 - ii. other AUASB Standards.

Depending on the timing of the IAASB’s approval of the final conforming amendments in the first quarter of 2020, the AUASB will consider and approve the two Amending Standards at either its February or March 2020 meeting.

12. The proposed (Draft) ASA 102 has been reviewed by APESB staff. The two (Draft) Amending Standards will also be circulated to APESB technical staff for high level review before AUASB consideration and approval in 2020.

Rationale for reissuing ASA 102 in December 2019

13. In Australia, pronouncements issued by the APESB do not have the same legal status as Auditing Standards issued by the AUASB, which are legislative instruments. For this reason, the AUASB has issued ASA 102 in Australia. ASA 102 provides a ‘force of law’ requirement to comply with APES 110.
14. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102.

15. Extant ASA 102 (issued March 2018) refers to the extant APES 110 (issued in December 2010 and incorporating all amendments to May 2017, which became operative from January 2018). ASA 102 will have to be amended to reflect references to the revised APES 110 which was issued in November 2018 and effective from 1 January 2020.
16. Without updating ASA 102, any new requirements imposed by APES 110 will not be legally enforceable. Although members of the professional accounting bodies will be bound by the most recent APES 110, other practitioners who are not members have no professional requirement to comply.
17. Should the issuance of a revised ASA 102 be delayed until 2020, this may result in a misalignment of the version of the APES 110 referenced by the ASAs and the revised APES 110 (effective from 1 January 2020). The ATG is therefore recommending that the AUASB consider and approve a revised ASA 102, to be reissued in December 2019, before the revised APES 110 becomes effective.
18. At the March 2018 AUASB meeting, the Board agreed that it is preferable to revise and reissue ASA 102 whenever APES 110 is amended or revised, rather than issue an amending standard. By issuing a revised ASA 102:
 - The 'Preface' to ASA 102 will continue to form part of the Standard to explain how the Standard works (giving legal status to relevant ethical requirements) and why the Standard is required to be amended/reissued when amendments are made to APES 110 by the APESB. (It is standard practice to remove the Preface when compilations are done).
 - The potential for confusion, that may arise as a result of references to multiple versions of the Code, will be reduced.

Impact of proposed IAASB Conforming Amendments on ASA 102

19. The AUASB Technical Group (ATG) has undertaken a review of the IAASB's proposed changes to its International Standards, to determine the impact on ASA 102. Refer to Agenda Item 6.1 for the ATG's analysis in support of proposed conforming amendments to ASA 102.
20. The ATG's analysis shows that proposed amendments to IAASB Standards do not impact on the requirement in ASA 102 for an auditor, assurance practitioner, engagement quality control reviewer, and firm, to comply with relevant ethical requirements, including those pertaining to independence.
21. However, the ATG's review has identified a need to make limited changes to extant ASA 102 to:
 - a) reflect revised terminology and other revisions to the IESBA Code, which has been adopted in IAASB Standards; and
 - b) refer to the revised and restructured APES 110, which will become effective from 1 January 2020.

Public Exposure

22. It is the view of the ATG that the proposed changes to ASA 102 do not require public exposure, as these changes are not significant but rather editorial in nature or are changes only to reflect existing obligations under the revised IESBA/APES 110 with only limited options to amend wording. The AUASB is not seeking any comment as the proposed amendments will refer to the restructured APES 110.

Operative Date

23. The ATG recommends that the AUASB approve ASA 102 to be operative for engagements with financial reporting periods ending on or after 31 December 2019.

24. Should the issuance of ASA 102 be delayed, for whatever reason, this may result in a misalignment of the version of the APES 110 referenced by the ASAs and the revised APES 110 Code, which will become effective for practitioners from 1 January 2020.
25. The *Legislation Act 2003* expressly prohibits retrospective legislation.

NZAuASB

26. The NZAuASB does not have an equivalent to ASA 102.

“Compelling Reasons” Assessment

27. Not applicable.

AUASB Technical Group Recommendations

28. The ATG recommends that the Board approve the proposed Auditing Standard ASA 102 (Agenda Item 6.3) for reissue without public exposure, operative for engagements with financial reporting periods ending on or after 31 December 2019.

Material Presented

| | |
|-----------------|---|
| Agenda Item 6 | AUASB Board Meeting Summary Paper |
| Agenda Item 6.1 | Attachment to AUASB Board Meeting Summary Paper |
| Agenda Item 6.2 | <i>ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> – Marked up from extant |
| Agenda Item 6.3 | <i>ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> – Clean Version |
| Agenda Item 6.4 | Explanatory Statement for <i>ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> |
| Agenda Item 6.5 | Project Plan – <i>Conforming Amendments to AUASB Pronouncements – Revised IAASB Standards and International Ethics Code (IESBA Code)</i> |

Action Required

| No. | Action Item | Deliverable | Responsibility | Due Date | Status |
|-----|--|-------------|----------------|-------------------|---------|
| 1. | Consider and approve ASA 102 for subsequent issuance | Approval | AUASB | 3-4 December 2019 | Pending |

Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 6.0.1

Meeting Date: 3-4 December 2019

Subject: Impact of proposed IAASB Conforming Amendments on ASA 102

Date Prepared: 15 November 2019

1. The AUASB Technical Group (ATG) has undertaken a review of the IAASB's proposed changes to its International Standards, as set out in IAASB Exposure Draft *Proposed Changes to the IAASB Standards as a result of the Revised IESBA Code*, to determine the impact on ASA 102.
2. The ATG's review has identified a need to make limited changes to extant ASA 102 to:
 - a) reflect revised terminology and other revisions to the IESBA Code, which has been adopted in IAASB Standards; and
 - b) refer to the revised and restructured APES 110, which will become effective from 1 January 2020.

Conformity with International Standards on Auditing

3. ASA 102 has been made for Australian legislative purposes and, accordingly, there is no equivalent International Standard. However, the requirement and application and other explanatory material in extant ASA 102 have been drawn from ISQC 1, ISA 200 and ISA 220, as listed in the following table:

| Extant ASA 102 | International Standards |
|---------------------------|--|
| Paragraph 6 (requirement) | ISA 200 paragraph 14 ISA 220 paragraphs 9-11 ISQC 1 paragraph 20 |
| Paragraph A1 | ISA 200 paragraph A16 |
| Paragraph A2 | ISA 200 paragraph A17 |
| Paragraph A3 | ISQC 1 paragraph A7 ISA 200 paragraph A17 ISA 220 paragraph A4 |
| Paragraph A4 | ISQC 1 paragraph A8 |
| Paragraph A5 | ISA 200 paragraph A18 |
| Paragraph A6 | ISQC 1 paragraph A9 |
| Paragraph A7 | ISQC 1 paragraph A10 ISA 220 paragraph A5 |

The corresponding paragraphs have been deleted in the Australian issued equivalent Auditing Standards. For example: ASQC 1, paragraph A9, [Deleted by the AUASB. Refer ASA 102].

4. The ATG has reviewed the IAASB's proposed changes to the relevant paragraphs in the International Standards listed in the table above, to ensure ASA 102 continue to properly address the requirement to comply with relevant ethical requirements and that any deletions in

the Australian equivalent standard and referral to ASA 102 remain appropriate. The ATG's analysis is included as an appendix to this paper entitled *ATG Analysis of Impact of proposed IAASB Conforming Amendments on ASA 102*.

5. The analysis shows that proposed amendments to IAASB Standards will not impact on the requirement in paragraph 6 of ASA 102 for an auditor, assurance practitioner, engagement quality control reviewer, and firm, to comply with relevant ethical requirements, including those pertaining to independence.
6. However, as shown in the analysis, Application and Other Explanatory Material included in paragraphs A2, A3, A4, A5 and A6 of extant ASA 102, will need to be updated in line with changes proposed by the IAASB to reflect:
 - (a) revised terminology adopted in IAASB Standards (which aligns with IESBA Code/APES 110), for example:
 - the Code refers to 'breaches' of relevant ethical requirements; 'non-compliance' is used in the context of laws and regulations
 - 'ethics' used instead of 'professional ethics'
 - the revised Codes describe 'threats to compliance' and 'safeguards' differently
 - (b) amendments to the conceptual framework and a new requirement to address threats to compliance with fundamental principles (for example, threats to independence) of the IESBA Code/APES 110.

References to APES 110

7. References to APES 110 will need to be updated throughout the extant ASA 102 to:
 - a) reflect the new title of APES 110, *Code of Ethics for Professional Accountants (including Independence Standards)*; and
 - b) refer to the revised and restructured APES 110 which was issued in November 2018.

Refer to the Preface, paragraph 5 (Definitions) and paragraph A1 (Application and Other Explanatory Material) of the revised ASA 102.

Appendix: ATG Analysis of Impact of proposed IAASB Conforming Amendments on ASA 102.

Note:

- The analysis below shows the proposed conforming amendments to IAASB Standards for the revised IESBA Code, relevant notes regarding the revisions to the IESBA and APES Codes, the category of change and the proposed change to ASA 102.
- The analysis draws from the IAASB's Exposure Draft *Proposed Changes to the IAASB Standards as a result of the Revised IESBA Code* – refer: <https://www.iaasb.org/news-events/2019-11/iaasb-seeks-public-comment-exposure-draft-conforming-amendments>

| IAASB Standards ¹ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|---|--|--|-------------------------------------|------------------|-----------------------------|--------------|
| Standard | Extant Paragraphs | | Proposed Change | Cat ² | | |
| Extant ASA 102: paragraph 6 (requirement) | | | | | | |
| ISA 200 Paragraph 14 | The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. (Ref: Para. A16–A19) | No changes identified | N/A | N/A | N/A | N/A |

¹ The comparison is based on the 2018 Handbooks published by IAASB and IESBA

² Category of change - refer to AUASB BMSP (Agenda Item 6)

| IAASB Standards ¹ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|------------------------------|--|---|---|------------------|--|---|
| Standard | Extant Paragraphs | | Proposed Change | Cat ² | | |
| ISA 220 Paragraph 9 | Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. (Ref: Para. A4–A5) | The Code refers to breaches, rather than non-compliance. Perhaps this is a better phrase, also given the more recent introduction of non-compliance in the Code that has another meaning. | Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of non-compliance with relevant ethical requirements by members of the engagement team. (Ref: Para. A4–A5) | 4 | No impact on the paragraph 6 requirement of ASA 102. | APES 110 has been revised in line with the IESBA Code. Non-compliance is used in the context of laws and regulations. APES 110 also uses the term ‘NOCLAR’ to refer to ‘non-compliance’. Will need to amend paragraph 9 of extant ASA 220 to mirror ISA 220 changes. |
| ISA 220 Paragraph 10 | If matters come to the engagement partner’s attention through the firm’s system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A5) | The Code refers to breaches, rather than non-compliance. | If matters come to the engagement partner’s attention through the firm’s system of quality control or otherwise that indicate that members of the engagement team have not complied with breached relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A5) | 4 | No impact on the paragraph 6 requirement of ASA 102. | See comments above in relation to paragraph 9 of ASA 220. Amend paragraph 10 of extant ASA 220 to mirror ISA 220 changes. |
| ISA 220 Paragraph 11 | The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall: (a) Obtain relevant information from the firm and, where applicable, | The revised Code describes threats to compliance differently Paragraph R120.6, R120.7 and R120.10 have been amended from the extant Code, in particular in relation to how | The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall: (Ref: Para. A5) (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and | 2 & 4 | No impact on the paragraph 6 requirement of ASA 102. | APES 110 has been revised in line with the IESBA Code. Will need to amend paragraph 11 of extant ASA 220 to mirror ISA 220 changes. |

| IAASB Standards ¹ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|------------------------------|--|--|--|------------------|-----------------------------|--------------|
| Standard | Extant Paragraphs | | Proposed Change | Cat ² | | |
| | <p>network firms, to identify and evaluate circumstances and relationships that create threats to independence;</p> <p>(b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and</p> <p>(c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A6–A7)</p> | identified threats are addressed. | <p>relationships that create threats to independence;</p> <p>(b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and</p> <p>(c) <u>Evaluate whether the identified threats are at an acceptable level, and</u></p> <p>(d) <u>Take appropriate action to address them by eliminating the circumstances that create the threats, applying safeguards, or withdrawing</u> Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A6–A7)</p> | | | |
| ISQC 1 Paragraph 20 | The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical | No changes identified | N/A | N/A | N/A | N/A |

| IAASB Standards ¹ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|-------------------------------------|---|---|--|------------------|---|---|
| Standard | Extant Paragraphs | | Proposed Change | Cat ² | | |
| | requirements. (Ref: Para. A7–A10) | | | | | |
| Extant ASA 102: paragraph A1 | | | | | | |
| ISA 200 Paragraph A16 | The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' <i>Code of Ethics for Professional Accountants</i> (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive. | Update references to the Code. Remove references to the parts so that Code is referenced holistically. | The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise <u>the provisions</u> Parts A and B of the International Ethics Standards Board for Accountants' <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) related to an audit of financial statements, together with national requirements that are more restrictive. | 1 & 3 | Proposed changes to extant ASA 102 paragraph A1: The auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> , issued by the Accounting Professional & Ethical Standards Board Limited (December 2010 incorporating all amendments to May 2017) <u>in November 2018</u> , which are to be taken into account in determining whether relevant ethical requirements referred to in paragraph 6 of this Auditing Standard have been met. In relation to audits and reviews undertaken in accordance with the <i>Corporations Act 2001</i> , the provisions of Division 3 Part 2M.4 of the Act may also apply. | This para has been deleted in extant ASA 200 and replaced with a reference to Aus 16.1 which directs to ASA 102. Aus A16.1: “The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to audit engagements as defined in ASA 102.” Update extant ASA 102 references to the revised and restructured APES 110. Amend APES 110 title. |

| IAASB Standards ³ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|---|--|---|--|------------------|--|---|
| Standard | Extant Paragraphs | | Proposed Change | Cat ⁴ | | |
| Extant ASA 102: paragraphs A2 and A3 (now A2) | | | | | | |
| ISQC 1 Paragraph A7 | <p>The IESBA Code establishes the fundamental principles of professional ethics, which include:</p> <p>(a) Integrity;</p> <p>(b) Objectivity;</p> <p>(c) Professional competence and due care;</p> <p>(d) Confidentiality; and</p> <p>(e) Professional behavior.</p> | <p>Aligning with terminology used in the Code</p> | <p>The IESBA Code establishes the fundamental principles of professional ethics, <u>which include</u>are:</p> <p>(a) Integrity;</p> <p>(b) Objectivity;</p> <p>(c) Professional competence and due care;</p> <p>(d) Confidentiality; and</p> <p>(e) Professional behavior.</p> <p><u>The fundamental principles of ethics establish the standard of behavior expected of a professional accountant.</u></p> | 4 | <p>Proposed changes to extant ASA 102, paragraphs A2 and A3:</p> <p>Paragraphs A2 and A3 to be merged into paragraph A2 and amended as follows:</p> <p>APES 110 establishes the fundamental principles of professional ethics, <u>which are and provides a conceptual framework for applying those principles.</u></p> <p>A3. The fundamental principles of professional ethics, as described in APES 110, include:</p> <p>(a) Integrity;</p> <p>(b) Objectivity;</p> <p>(c) Professional competence and due care;</p> <p>(d) Confidentiality; and</p> <p>(e) Professional behaviour.</p> <p><u>The fundamental principles of ethics establish the standard of behavior expected of the auditor, assurance practitioner, engagement quality control reviewer, and firm, when performing audits, reviews and other assurance engagements.</u></p> | <p>Paragraph A7 has been deleted in extant ASQC 1 and replaced by Aus A7.1:</p> <p>Aus A7.1:</p> <p>“The firm is required to comply with relevant ethical requirements, including those pertaining to independence, when performing audits and reviews, other assurance engagements and related services engagements, as defined in ASA 102.”</p> <p>Paragraphs A2 and A3 of extant ASA 102 will be merged and wording amended to mirror the revised terminology used in paragraph A7 of ISQC 1, which aligns with terminology used in revised APES 110 (paragraph 110.1 A1).</p> |

³ The comparison is based on the 2018 Handbooks published by IAASB and IESBA

⁴ Category of change - refer to AUASB BMSP (Agenda Item 6)

| IAASB Standards ³ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|------------------------------|---|--|---|------------------|--|---|
| Standard | Extant Paragraphs | | Proposed Change | Cat ⁴ | | |
| ISA 220 Paragraph A4 | <p>The IESBA Code establishes the fundamental principles of professional ethics, which include:</p> <ul style="list-style-type: none"> (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behavior. | Refer comments in paragraph A7 of ISQC 1. | <p>The IESBA Code establishes the fundamental principles of professional ethics <u>which include</u> are:</p> <ul style="list-style-type: none"> (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behavior. <p><u>The fundamental principles of ethics establish the standard of behavior expected of a professional accountant.</u></p> | 4 | <p>Proposed changes to extant ASA 102, paragraphs A2 and A3:</p> <p>Refer to ISQC1 Paragraph A7 above.</p> | <p>Paragraph A4 has been deleted by the AUASB in extant ASA 220 and replaced by “Refer Aus A4.1”</p> <p>Aus A4.1: “The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to audit engagements as defined in ASA 102”</p> <p>Refer to comments under paragraph A7 of ASQC 1 above.</p> |
| ISA 200 Paragraph A17 | <p>Part A of the IESBA Code establishes the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements and provides a conceptual framework for applying those principles. The fundamental principles with which the auditor is required to comply by the IESBA Code are:</p> <ul style="list-style-type: none"> (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behavior. <p>Part B of the IESBA Code illustrates how the conceptual</p> | Aligning with terminology used in the Code and to reflect the structural changes to the Code (also refer comments in paragraph A7 of ISQC 1) | <p>Part A of the IESBA Code establishes the fundamental principles of ethics, <u>which are and provides a conceptual framework for applying those principles. The fundamental principles with which the auditor is required to comply by the IESBA Code are:</u></p> <ul style="list-style-type: none"> (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behavior. <p>Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. <u>The fundamental principles of ethics establish the standard of behavior</u></p> | 1 & 4 | <p>Proposed changes to extant ASA 102, paragraphs A2 and A3:</p> <ul style="list-style-type: none"> • Paragraphs A2 and A3 to be merged into paragraph A2 and amended: Refer to ISQC1 Paragraph A7 above. | <p>This paragraph has been deleted in the extant ASA 200 and replaced with “See ASA 102”.</p> <p>Paragraphs A2 and A3 of extant ASA 102 will be merged – refer to comments under paragraph A7 of ASQC 1.</p> <p>Paragraph A4 of extant ASA 102 will be replaced by the second part of ISA 200 paragraph A17 to reflect:</p> <ul style="list-style-type: none"> • APES 110 structure changed in line with revised IESBA Code. • Revised Code now includes a separate |

| IAASB Standards ³ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|---|--|---|---|------------------|--|---|
| Standard | Extant Paragraphs | | Proposed Change | Cat ⁴ | | |
| | framework is to be applied in specific situations. | | <p><u>expected of a professional accountant.</u></p> <p><u>The IESBA Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the IESBA Code sets out <i>International Independence Standards</i>, which apply the conceptual framework of identifying, evaluating and addressing threats to the fundamental principles and compliance with independence requirements.</u></p> | | <ul style="list-style-type: none"> The second part of proposed paragraph A17 of ISA 200 (see shaded area in fourth column) will be reflected in new paragraphs A3 and A4 of ASA 102: <p>Refer below to ASA 102, revised paragraphs A3 and A4.</p> | <p>section for Independence Standards.</p> <ul style="list-style-type: none"> Amendments to the framework for addressing threats to compliance with fundamental principles to the Code |
| Extant ASA 102: paragraph A4 (now A3 and A4) | | | | | | |
| ISQC 1 Paragraph A8 | Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats. | Aligning with terminology used in the Code Reflecting the structural changes to the Code | <p>Part B of is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.</p> <p><u>The IESBA Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the IESBA Code sets out <i>International Independence Standards</i>, which</u></p> | 1, 2 & 4 | <p>Proposed changes to extant ASA 102, paragraph A4:</p> <ul style="list-style-type: none"> Paragraph A4 of extant ASA 102 to be renumbered A3 and replaced by wording to mirror the first sentence of the proposed paragraph A8 of ISQC 1: <p>APES 110 illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations</p> | This para has been deleted in extant ASQC 1 and replaced with a reference to ASA 102. |

| IAASB Standards ³ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|------------------------------|-------------------|--|---|------------------|---|--------------|
| Standard | Extant Paragraphs | | Proposed Change | Cat ⁴ | | |
| | | | apply the conceptual framework of identifying, evaluating and addressing threats to the fundamental principles and compliance with independence requirements. | | <p>where safeguards are not available to address the threats.</p> <p>APES 110 provides a conceptual framework to apply in order to identify, evaluate and address threats to compliance with the fundamental principles.</p> <ul style="list-style-type: none"> A new paragraph A4 to be included to specifically address the <i>Independence Standards</i>, which has been relocated to a separate Part 4 of the revised and restructured APES 110 Code (which aligns with the IESBA Code) <p>The ATG recommends using the APES 110 wording as it is clearer than the wording proposed in paragraph A8 of ISQC 1 – refer to paragraph 120.13 A1 of the revised APES 110.</p> <p>Proposed new paragraph A4:</p> <p>APES 110 specifies <i>Independence Standards</i>, which set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. The auditor, assurance</p> | |

| IAASB Standards ³ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|-------------------------------------|--|--|-------------------------------------|------------------|---|---|
| Standard | Extant Paragraphs | | Proposed Change | Cat ⁴ | | |
| | | | | | practitioner, engagement quality control reviewer, and firm are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. | |
| Extant ASA 102: paragraph A5 | | | | | | |
| ISA 200 Paragraph A18 | In the case of an audit engagement it is in the public interest and, therefore, required by the IESBA Code, that the auditor be independent of the entity subject to the audit. The IESBA Code describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective and | No changes identified (see paragraph 400.1, 400.5) | N/A | N/A | Proposed changes to extant ASA 102, paragraph A5: In the case of an audit engagement, it is in the public interest and required by APES 110, that the auditor be independent of the entity subject to the audit. APES 110 describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that | As ASA 102 applies to audits, reviews and other assurance engagements (refer ASA 102 paragraph 1), the ATG is proposing that this paragraph be broadened accordingly. [Mirrors wording used in (equivalent) paragraph A33 of ISAE/ASAE 3000] |

| IAASB Standards ³ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|---|---|---|--|------------------|---|--|
| Standard | Extant Paragraphs | | Proposed Change | Cat ⁴ | | |
| | to maintain an attitude of professional skepticism. | | | | conclusion . Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional scepticism. | |
| Extant ASA 102: paragraph A6 | | | | | | |
| ISQC 1 Paragraph A9 | <p>The fundamental principles are reinforced in particular by:</p> <ul style="list-style-type: none"> • The leadership of the firm; • Education and training; • Monitoring; and • A process for dealing with non-compliance. | The Code refers to “breaches” of the Code. “Non-compliance” is used to refer to laws and regulations. | <p>The fundamental principles are reinforced in particular by:</p> <ul style="list-style-type: none"> • The leadership of the firm; • Education and training; • Monitoring; and • A process for dealing with breaches non-compliance. | 4 | <p>Proposed changes to extant ASA 102, paragraph A6:</p> <p>The fundamental principles in APES 110 are reinforced in particular by:</p> <p>(a) ...;</p> <p>(b) ...;</p> <p>(c) ...; and</p> <p>(d) A process for dealing with breaches non-compliance.</p> | <p>This paragraph has been deleted in ASQC 1 and replaced with a reference to ASA 102.</p> <p>APES 110 has been revised in line with the IESBA Code.</p> <p>Non-compliance is used in the context of laws and regulations. APES 110 also uses the term ‘NOCLAR’ to refer to ‘non-compliance’.</p> <p>ASA 102 to be amended to mirror revised terminology used in IAASB Standards and the revised APES 110.</p> |
| Extant ASA 102: paragraph A7 | | | | | | |
| ISQC 1 Paragraph A10 and ISA 220 Paragraph A5 | <p>The definitions of “firm,” “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISQC. For example, the IESBA Code defines the “firm” as:</p> <p>(a) A sole practitioner, partnership or corporation of professional accountants;</p> | No change identified | N/A | N/A | No change | N/A |

| IAASB Standards ³ | | Notes in Relation to the 2018 IESBA Code | Proposed Changes to IAASB Standards | | Proposed Changes to ASA 102 | ATG Comments |
|------------------------------|--|--|--|------------------|--------------------------------|--------------|
| Standard | Extant Paragraphs | | Proposed Change | Cat ⁴ | | |
| | <p>(b) An entity that controls such parties through ownership, management or other means; and</p> <p>(c) An entity controlled by such parties through ownership, management or other means.</p> <p>The IESBA Code also provides guidance in relation to the terms “network” and “network firm.”</p> <p>In complying with the requirements in paragraphs 20–25 (ISQC 1) and paragraphs 9-11 (ISA 220), the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.</p> | | | | | |

ASA 102
(December 2019)

Auditing Standard ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

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

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PREFACE

Reasons for Issuing ASA 102

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* pursuant to the requirements of the legislative provisions and the 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 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

ASA 102 is an Auditing Standard made under the *Corporations Act 2001* for Australian legislative purposes. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102. Under ASA 102 the auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) ~~(December 2010 incorporating all amendments to May 2017)~~ in November 2018, which are to be taken into account in determining whether relevant ethical requirements have been met. The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

~~The requirement and application and other explanatory material in ASA 102 have been drawn from several standards of the International Auditing and Assurance Standards Board (IAASB).~~

The AUASB has made ASA 102 in a format that is consistent with the other Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality control in compliance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* by 1 January 2010.

Main Features

This Auditing Standard establishes requirements and provides application and other explanatory material regarding the responsibilities of auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

Under the Strategic Direction given to the AUASB by the FRC, the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

ASA 102 has been made for Australian legislative purposes and accordingly there is no equivalent ISA issued by the IAASB. However, the requirement and application and other explanatory material in ASA 102 have been drawn from several standards of the IAASB.

The IAASB has made limited amendments to several International Standards to address changes made to the International Ethics Standards Board for Accountants' *International Code of Ethics for*

Auditing Standard ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Professional Accountants (including International Independence Standards) (IESBA Code), which is effective from 15 June 2019.

The APESB has issued a revised APES 110 to incorporate the changes to the IESBA Code. The revised APES 110 is effective from 1 January 2020.

The revision of ASA 102:

- a) reflects amendments made to relevant paragraphs in equivalent IAASB standards to address inconsistencies between IAASB Standards and the IESBA Code; and
- b) updates references to the revised APES 110, reissued in November 2018.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (reissued ~~March 2018~~December 2019) pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

Dated: 3 December 2019

R Simnett AO
Chair - AUASB

Auditing Standard ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

However, the requirement and application and other explanatory material in this Auditing Standard have been drawn from ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*, ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* and ISA 220 *Quality Control for an Audit of Financial Statements*, as issued by the IAASB, as listed in the following table:

| ASA 102 | International Standards |
|----------------------------|--|
| Paragraph 6 (requirement) | ISA 200 paragraph 14 ISA 220 paragraphs 9-11 ISQC 1 paragraph 20 |
| Paragraph A1 | ISA 200 paragraph A16 |
| Paragraph A2 | ISA 200 paragraph A17 |
| Paragraph A 2 3 | ISQC 1 paragraph A7 ISA 200 paragraph A17 ISA 220 paragraph A4 |
| Paragraph A 3 4 | ISQC 1 paragraph A8 ISA 200 paragraph A17 |
| Paragraph A4 | ISQC 1 paragraph A8 ISA 200 paragraph A17 |
| Paragraph A5 | ISA 200 paragraph A18 |
| Paragraph A6 | ISQC 1 paragraph A9 |
| Paragraph A7 | ISQC 1 paragraph A10 ISA 220 paragraph A5 |

Compliance with this Auditing Standard, together with other Australian Auditing Standards, enables compliance with the ISAs and ISQC 1.

AUDITING STANDARD ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Application

1. This Auditing Standard applies to:
 - (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
 - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
 - (c) an audit or review of other financial information;
 - (d) other assurance engagements; and
 - (e) a firm required to comply with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*.

Operative Date

2. This Auditing Standard is operative for engagements with reporting periods ending on or after ~~31 March 2018~~ 31 December 2019.

Introduction

Scope of this Auditing Standard

3. This Auditing Standard includes a requirement for auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

Objective

4. The objective of the auditor, assurance practitioner, engagement quality control reviewer and firm is to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

Definition~~s~~(s)

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
 - (a) Assurance practitioner means assurance practitioner as defined in ASQC 1.
 - (b) Auditor means auditor as defined in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.
 - (c) Engagement quality control reviewer means engagement quality control reviewer as defined in ASQC 1.

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Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

- (d) Firm means firm as defined in ASQC 1.
- (e) Relevant ethical requirements means ethical requirements that apply to the auditor, assurance practitioner, engagement quality control reviewer and firm. In Australia, these include the applicable requirements of APES 110 *Code of Ethics for Professional Accountants* (*including Independence Standards*), issued by the Accounting Professional & Ethical Standards Board Limited (~~December 2010 incorporating all amendments to May 2017~~) in November 2018, the applicable provisions of the *Corporations Act 2001* and other applicable law or regulation.

Requirements

Compliance with Relevant Ethical Requirements (Ref: Para. A1-A7)

6. The auditor, assurance practitioner, engagement quality control reviewer, and firm shall comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

* * *

Application and Other Explanatory Material

Compliance with Relevant Ethical Requirements (Ref: Para. 6)

A1. The auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants* (including *Independence Standards*), issued by the Accounting Professional & Ethical Standards Board Limited ~~(December 2010 incorporating all amendments to May 2017 in November 2018)~~, which are to be taken into account in determining whether relevant ethical requirements referred to in paragraph 6 of this Auditing Standard have been met. In relation to audits and reviews undertaken in accordance with the *Corporations Act 2001*, the provisions of Division 3 Part 2M.4 of the Act may also apply.

~~A2. APES 110 establishes the fundamental principles of professional ethics and provides a conceptual framework for applying those principles.~~

~~A3.~~ A2. The fundamental principles of professional ethics, as described in APES 110, include which are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behaviour.

The fundamental principles of ethics establish the standard of behaviour expected of the auditor, assurance practitioner, engagement quality control reviewer, and firm, when performing audits, reviews and other assurance engagements.

~~A4.~~ A3. APES 110 illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats. APES 110 provides a conceptual framework to apply in order to identify, evaluate and address threats to compliance with the fundamental principles.

~~A5.~~ A4. APES 110 specifies *Independence Standards*, which set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. The auditor, assurance practitioner, engagement quality control reviewer, and firm are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements.

~~A6.~~ A5. In the case of an audit engagement, it is in the public interest and required by APES 110, that the auditor be independent of the entity subject to the audit. APES 110 describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.

~~A7.~~ A6. The fundamental principles in APES 110 are reinforced in particular by:

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- (a) The leadership of the firm;
- (b) Education and training;
- (c) Monitoring; and
- (d) A process for dealing with ~~non-compliance~~breaches.

A8-A7. The definition of terms in APES 110 may differ from the definitions of those terms in Australian Auditing Standards including terms defined in ASQC 1, ASA 200 and ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.

In complying with the requirements of this Auditing Standard, the definitions used in APES 110 apply in so far as is necessary to interpret the ethical requirements of ASQC 1, ASA 200 and ASA 220.

ASA 102
(December 2019)

Auditing Standard ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

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PREFACE

Reasons for Issuing ASA 102

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* pursuant to the requirements of the legislative provisions and the 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 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

ASA 102 is an Auditing Standard made under the *Corporations Act 2001* for Australian legislative purposes. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102. Under ASA 102 the auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) in November 2018, which are to be taken into account in determining whether relevant ethical requirements have been met. The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

The AUASB has made ASA 102 in a format that is consistent with the other Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality control in compliance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* by 1 January 2010.

Main Features

This Auditing Standard establishes requirements and provides application and other explanatory material regarding the responsibilities of auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

Under the Strategic Direction given to the AUASB by the FRC, the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

ASA 102 has been made for Australian legislative purposes and accordingly there is no equivalent ISA issued by the IAASB. However, the requirement and application and other explanatory material in ASA 102 have been drawn from several standards of the IAASB.

The IAASB has made limited amendments to several International Standards to address changes made to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), which is effective from 15 June 2019.

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

The APESB has issued a revised APES 110 to incorporate the changes to the IESBA Code. The revised APES 110 is effective from 1 January 2020.

The revision of ASA 102:

- a) reflects amendments made to relevant paragraphs in equivalent IAASB standards to address inconsistencies between IAASB Standards and the IESBA Code; and
- b) updates references to the revised APES 110, reissued in November 2018.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements (reissued December 2019)* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

Dated: 3 December 2019

R Simnett AO
Chair - AUASB

Auditing Standard ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

However, the requirement and application and other explanatory material in this Auditing Standard have been drawn from ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*, ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* and ISA 220 *Quality Control for an Audit of Financial Statements*, as issued by the IAASB, as listed in the following table:

| ASA 102 | International Standards |
|---------------------------|--|
| Paragraph 6 (requirement) | ISA 200 paragraph 14 ISA 220 paragraphs 9-11 ISQC 1 paragraph 20 |
| Paragraph A1 | ISA 200 paragraph A16 |
| Paragraph A2 | ISQC 1 paragraph A7 ISA 200 paragraph A17 ISA 220 paragraph A4 |
| Paragraph A3 | ISQC 1 paragraph A8 ISA 200 paragraph A17 |
| Paragraph A4 | ISQC 1 paragraph A8 ISA 200 paragraph A17 |
| Paragraph A5 | ISA 200 paragraph A18 |
| Paragraph A6 | ISQC 1 paragraph A9 |
| Paragraph A7 | ISQC 1 paragraph A10 ISA 220 paragraph A5 |

Compliance with this Auditing Standard, together with other Australian Auditing Standards, enables compliance with the ISAs and ISQC 1.

AUDITING STANDARD ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Application

1. This Auditing Standard applies to:
 - (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
 - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
 - (c) an audit or review of other financial information;
 - (d) other assurance engagements; and
 - (e) a firm required to comply with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*.

Operative Date

2. This Auditing Standard is operative for engagements with reporting periods ending on or after 31 December 2019.

Introduction

Scope of this Auditing Standard

3. This Auditing Standard includes a requirement for auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

Objective

4. The objective of the auditor, assurance practitioner, engagement quality control reviewer and firm is to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

Definitions

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
 - (a) Assurance practitioner means assurance practitioner as defined in ASQC 1.
 - (b) Auditor means auditor as defined in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.
 - (c) Engagement quality control reviewer means engagement quality control reviewer as defined in ASQC 1.

Auditing Standard ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

- (d) Firm means firm as defined in ASQC 1.
- (e) Relevant ethical requirements means ethical requirements that apply to the auditor, assurance practitioner, engagement quality control reviewer and firm. In Australia, these include the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited in November 2018, the applicable provisions of the *Corporations Act 2001* and other applicable law or regulation.

Requirements

Compliance with Relevant Ethical Requirements (Ref: Para. A1-A7)

6. The auditor, assurance practitioner, engagement quality control reviewer, and firm shall comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

* * *

Application and Other Explanatory Material

Compliance with Relevant Ethical Requirements (Ref: Para. 6)

A1. The auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited in November 2018, which are to be taken into account in determining whether relevant ethical requirements referred to in paragraph 6 of this Auditing Standard have been met. In relation to audits and reviews undertaken in accordance with the *Corporations Act 2001*, the provisions of Division 3 Part 2M.4 of the Act may also apply.

A2. APES 110 establishes the fundamental principles of ethics which are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behaviour.

The fundamental principles of ethics establish the standard of behaviour expected of the auditor, assurance practitioner, engagement quality control reviewer, and firm, when performing audits, reviews and other assurance engagements.

A3. APES 110 provides a conceptual framework to apply in order to identify, evaluate and address threats to compliance with the fundamental principles.

A4. APES 110 specifies *Independence Standards*, which set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. The auditor, assurance practitioner, engagement quality control reviewer, and firm are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements.

A5. APES 110 describes independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.

A6. The fundamental principles in APES 110 are reinforced in particular by:

- (a) The leadership of the firm;
- (b) Education and training;
- (c) Monitoring; and
- (d) A process for dealing with breaches.

A7. The definition of terms in APES 110 may differ from the definitions of those terms in Australian Auditing Standards including terms defined in ASQC 1, ASA 200 and ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.

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

In complying with the requirements of this Auditing Standard, the definitions used in APES 110 apply in so far as is necessary to interpret the ethical requirements of ASQC 1, ASA 200 and ASA 220.

ASA 102
(December 2019)

Explanatory Statement

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

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

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

Contact Details

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Reasons for Issuing ASA 102

The Auditing and Assurance Standards Board (AUASB) reissues Australian Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* pursuant to the requirements of the legislative provisions and the 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 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

ASA 102 is an Auditing Standard made under the *Corporations Act 2001* for Australian legislative purposes. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102. Under ASA 102 the auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) in November 2018, which are to be taken into account in determining whether relevant ethical requirements have been met. The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

The AUASB has made ASA 102 in a format that is consistent with the other Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality control in compliance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* by 1 January 2010.

Purpose of ASA 102

The purpose of ASA 102 is to require auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

Main Features

Under the Strategic Direction given to the AUASB by the FRC, the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

ASA 102 has been made for Australian legislative purposes and accordingly there is no equivalent ISA issued by the IAASB. However, the requirement and application and other explanatory material in ASA 102 have been drawn from several standards of the IAASB.

The IAASB has made limited amendments to several International Standards to address changes made to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), which is effective from 15 June 2019.

The APESB has issued a revised APES 110 to incorporate the changes to the IESBA Code. The revised APES 110 is effective from 1 January 2020. [APES 110 is available, free of charge, on the APESB's website: www.apesb.org.au](http://www.apesb.org.au)

The revision of ASA 102:

- a) reflects amendments made to relevant paragraphs in equivalent IAASB standards to address inconsistencies between the IAASB Standards and the IESBA Code; and
- b) updates references to the revised APES 110, reissued in November 2018.

Operative Date

The reissued ASA 102 is operative for engagements with financial reporting periods ending on or after ~~31 March 2018~~ 31 December 2019.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the ISAs of the IAASB as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing ASA 102

It is the view of the AUASB that the changes to ASA 102 do not require public exposure as they are not significant in nature and have no impact on the requirement of ASA 102.

Regulatory Impact Statement

A Preliminary Assessment form has been prepared in connection with the making of ASA 102 and lodged with the Office of Best Practice Regulation (OBPR).

The OBPR has advised the AUASB Technical Group that a Regulatory Impact Statement (RIS) is not required in relation to this standard.

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements
~~Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements~~

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This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Issuing ASAASA 102

The purpose of ASA 102 is to require auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

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Main Features

ASA 102 is reissued to:

- a) reflect recent amendments made to standards of the International Auditing and Assurance Standards Board to conform with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards); and
- b) update references to the revised APES 110 Code of Ethics for Professional Accountants (including Independence Standards), reissued by the Accounting Professional & Ethical Standards Board Limited in November 2018.

Human Rights Implications

Australian Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.

Project Plan

| | |
|------------------------------|--|
| Project Title: | Conforming Amendments to AUASB Pronouncements – Revised IAASB Standards and International Ethics Code (IESBA Code) |
| Project Objective(s): | Implementation of conforming amendments to update AUASB Pronouncements in response to revised IAASB Standards and IESBA Code |
| Priority: | High |
| Issue/Reason: | <ul style="list-style-type: none">• Conformity with IAASB Standards, updated to align with the revised IESBA <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code).• Update of references to the revised APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> – effective from 1 January 2020. |
| Date Prepared: | 17 October 2019 |
| Date to be Approved: | 22 October 2019 |

Project Objectives

The proposed project objective is to make limited amendments to AUASB Standards to:

- a) Conform with proposed amendments to IAASB Standards, updated to align with the revised IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), which are expected to go into effect almost immediately after IAASB approval, early in 2020.
- b) Align references in AUASB pronouncements to the revised APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110 Code), which will be effective from 1 January 2020.

Background

1. At the March 2019 AUASB meeting, the AUASB Technical Group (ATG) updated the Board on the IAASB's project to develop amendments to IAASB Standards in response to the revised IESBA Code. At that point in time, it was still uncertain when the IAASB would be finalising proposed amendments.
2. The revised IESBA Code was issued in July 2018 with an effective date of 15 June 2019. The Australian equivalent of the IESBA Code, the APES 110 Code, was issued by the Accounting Professional & Ethical Standards Board (APESB) in November 2018, with an effective date of 1 January 2020.
3. The IESBA's *Basis for Conclusions, Improving the Structure of the Code of Ethics for Professional Accountants* indicates that IESBA has taken great care to ensure they did not inadvertently change the meaning of the IESBA Code or weaken it as part of the restructuring process.

4. In developing the revised APES 110 Code, which is effective from 1 January 2020, the APESB has used the IESBA Code as a base and then tailored the Code for the Australian environment.
5. IAASB Standards reference the extant IESBA Code in various ways, including simple references to the title of the Code and references to specific sections/paragraphs in the IESBA Code as it existed before April 2018.
6. A project to update the IAASB Standards for the revised and restructured IESBA Code is currently underway to address inconsistencies between the international standards and the restructured IESBA Code.
7. The purpose of updating the IAASB Standards is solely to align the extant wording with the restructured IESBA Code and not to re-evaluate or again discuss the merits of each reference. The IAASB project will not address other potential amendments to international standards that may have been considered in other IAASB projects undertaken to achieve improvements in those Standards in the immediate term.
8. In light of the limited nature and scope of conforming amendments, the IAASB project has been undertaken on an expeditious basis as outlined in the IAASB's (proposed) Project Proposal. The proposed amendments to the IAASB Standards will be issued for a 45-day comment period only (ordinarily no shorter than 90 days), given the need to include the final changes in the 2020 IAASB Handbook.
9. The IAASB has prepared an Exposure Draft (ED) which shows the proposed conforming amendments to IAASB Standards to address changes to the IESBA Code. The draft ED has been reviewed by IESBA staff.
10. The IAASB (proposed) Project Proposal sets out the IAASB's project timeline. It is expected that the IAASB will formally approve the Project Proposal and ED at its 7 November 2019 IAASB teleconference meeting. The ED is expected to be issued on or around 15 November with a 45-day comment period.
11. It is expected that the IAASB will issue its final Conforming Amendments Standard early in 2020 (Q1).

Proposed IAASB Conforming Amendments

12. IAASB Staff have prepared an analysis of the suite of IAASB Standards, to identify areas which will require amendment to reflect the restructured IESBA Code.

For a list of IAASB Standards that have been identified for amendment (including the nature of proposed changes), please refer to Agenda Item 2-A of the IAASB's November 2019 meeting: *'Proposed Changes to the IAASB Standards as a result of the Revised IESBA Code'*.

13. The IAASB has identified the following 4 categories of changes:
 - a) Proposed amendments to reflect structural changes to, and the applicability of, the IESBA Code.
 - b) Proposed amendments to the framework for addressing threats to compliance with the fundamental principles to the IESBA Code (under the revised Code the definition of 'safeguards' have been amended and measures to eliminate threats are now separate from safeguards).
 - c) Updates to the title of the IESBA Code.

- d) Proposed amendments to align with terminology used in the revised Code (e.g. definition of Independence).

Australian Approach

A concurrent project will be undertaken in Australia to identify necessary conforming changes to AUASB Standards.

The project will be undertaken in two stages:

STAGE 1: Re-issue ASA 102 (December 2019)

1. The AUASB Technical Group (ATG) will finalise a Project Plan, for review and approval by the AUASB Chair.
2. The ATG will undertake a review of all Australian specific paragraphs (prefix “Aus”) and Australian domestic standards to identify all cross references to ‘relevant ethical requirements’ and the APES 110 Code, and identify any relevant terminology that may need to be updated. The ATG will compare these cross references with proposed changes identified by the IAASB, as captured in tabular format under Agenda Item 2-A (see above) – for completeness.
3. The ATG will evaluate whether and how the proposed changes to the IAASB Standards, as per Agenda Item 2-A above, will impact on AUASB Standards.
4. The ATG will also consider the implications of the proposed changes to the IAASB Standards on AUASB Standards for which no equivalent international standard exists.
5. Based on this analysis, the ATG will develop conforming amendment standards for consideration and approval by the AUASB.
6. In Australia, pronouncements issued by the APESB do not have the same legal status as auditing standards issued by the AUASB, which are legislative instruments. For this reason, the AUASB has issued ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (ASA 102) in Australia. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102 (refer to ‘Issues’ below). There is no equivalent International Standard on Auditing (ISA) issued by the IAASB.
7. The revised APES 110 Code will become effective for practitioners from 1 January 2020. As extant ASA 102 (March 2018) refers to the extant APES 110 Code (amended in May 2017 and operative from January 2018), ASA 102 will have to be amended or reissued to reflect the most recently issued version of the APES 110 Code.
8. The proposed conforming amendments to IAASB Standards will only go into effect after approval by the IAASB – expected early 2020. Should the issuance of a revised ASA 102 be delayed until 2020, this may result in a misalignment of the version of the APES 110 Code referenced by the ASAs and the revised APES 110 Code (effective from 1 January 2020). This is particularly important for the auditor’s report.
9. The ATG is therefore recommending that:

- a) the AUASB consider and approve the re-issuance of a revised ASA 102 (and accompanying Explanatory Statement) at its 3-4 December 2019 meeting.
 - b) ASA 102 (and accompanying Explanatory Statement) be re-issued in December 2019 before the revised APES 110 Code becomes effective.
 - c) the ATG issue an AUASB Alert to stakeholders in December 2019, to create awareness of impending changes (APES Code's effective date and related AUASB conforming amendments)
10. The proposed (Draft) ASA 102 will be circulated to the APESB for high level review before AUASB consideration and approval.

STAGE 2 – Issue Conforming Amendment and Compilation Standards to update other AUASB Standards (February 2020)

1. To implement conforming amendments to other AUASB Standards, the ATG will develop the following two Amending Standards:
 - a) (Draft) Amending Standard to update Auditing Standards made under section 336 of the *Corporations Act 2001* – ‘Force of Law’ standards; and
 - b) (Draft) Amending Standard to update other AUASB Standards – non ‘force of Law’ Standards.
2. Depending on the timing of the IAASB’s approval of the final conforming amendments in the first quarter of 2020, the AUASB will consider and approve the two Amending Standards at either its February or March 2020 meeting
3. The proposed (Draft) Amending Standards will be circulated to the APESB for high level review before AUASB consideration and approval.

Longer-term (March 2020+)

4. AUASB Guidance Statements – a ‘piecemeal’ approach will be adopted to update all Guidance Statements in accordance with the Project Plan to Revise AUASB Guidance Statements.

Issues

1. Public Exposure

The ATG is not recommending any public exposure of the proposed revised ASA 102 and two Amending Standards, as amendments are not anticipated to be significant but rather administrative in nature, primarily required to update references in AUASB Standards to the restructured APES 110 Code (which is based on the restructured IESBA Code). The AUASB is not seeking any comment as the proposed amendments will refer to the restructured APES 110 Code.

2. Operative Date

- a) The ATG recommends that the AUASB approve ASA 102 and the two Amending Standards to be operative for engagements with reporting periods ending on or after 31 December 2019.

- b) Should the issuance of the proposed AUASB Standards be delayed, for whatever reason, this may result in a misalignment of the version of the APES 110 Code referenced by the ASAs and the revised (restructured) APES 110 Code, which will become effective for practitioners from 1 January 2020. This is particularly important for the auditor's report.

Resources

The following AUASB resources will be engaged:

- a) AUASB Technical Director to review the project.
- b) AUASB Senior Project Manager to act in oversight role (Johanna Foyster) and to prepare the three proposed (Draft) Standards (excluding for ASAEs – refer c. below) and accompanying materials for AUASB consideration (and circulation to the APESB for review).
- c) AUASB Senior Project Manager (Marina Michaelides) to supervise analysis related to ASAEs (see d below), and be responsible for preparation of relevant sections of the Amending Standard for ASAEs that are impacted.
- d) AUASB Project Manager/Graduate Intern to assist with initial analysis and development of proposed amending standards.

Project Timeline

| Date | Description |
|--|---|
| 2019 | |
| 22 Oct | Approval of internal project plan by AUASB Chair. |
| <u>STAGE 1</u> 23 Oct to 8 Nov | ATG to assess impact of IAASB changes on AUASB Standards ATG to develop: <ul style="list-style-type: none"> proposed Auditing Standard ASA 102 other accompanying materials, e.g.: <ul style="list-style-type: none"> Explanatory Guide (ASA 102) AUASB meeting papers |
| 11-15 Nov | APESB - High level review of proposed amendments to ASA 102. |
| 19 Nov | First Mailout AUASB papers – ASA 102 and related materials. |
| 3-4 December 2019 (before APES 110 becomes effective) | AUASB approval of: <ul style="list-style-type: none"> Auditing Standard ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> (to be reissued). Explanatory Statement to accompany ASA 102. |
| Early Dec 2019 | Issue AUASB Alert to stakeholders |
| Dec 2019 | Issue the revised ASA 102 and ASA 102 Explanatory Guide |
| 2020 | |
| <u>STAGE 2</u> | ATG to develop: <ul style="list-style-type: none"> Amending Standard – to update ‘Force of Law’ Standards Amending Standard – to update non ‘Force of Law’ Standards Compilation Standards |
| Jan 2020 | APESB - High level review of proposed amendments to AUASB standards. |
| Feb/March 2020 (following IAASB approval of final conforming amendments to IAASB Standards) | AUASB approval of: <ul style="list-style-type: none"> Amending Standard to update Auditing Standards made under section 336 of the <i>Corporations Act 2001</i> – ‘Force of Law’ standards. Amending Standard to update other AUASB Standards – non ‘Force of Law’ standards. <p>Issue two Amending Standards and compiled versions of all AUASB Standards impacted by the two Amending Standards</p> |
| 2020 - 2022 | Update Guidance Statements – piecemeal approach, in line with Project to review all AUASB Guidance Statements |



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 7.0

Meeting Date: 3 December 2019

Subject: GS 005 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence*

Date Prepared: 25 November 2019

☒ **Action Required**

☐ **For Information Purposes Only**

A. Agenda Item Objectives

1. For the AUASB to provide input into the:
 - a. **draft** of revised GS 005 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence* (GS 005);
 - b. **unresolved matter** as outlined in Section C below;
 - c. **specific matters** for consideration as outlined in Section E below; and
2. To update the AUASB on the proposed way forward and seek feedback.

B. Background

1. At the 4/5 December 2018 AUASB meeting, the AUASB approved the project plan for an update to GS 005.
2. The audit technical group (ATG) established a project advisory group to provide input into the revision to GS 005. The PAG held 2 teleconferences to progress the revision of GS 005.
3. At the 13 June 2019 AUASB meeting, the ATG provided the AUASB with a project update ([Agenda Item 4, 13 June 2019 AUASB meeting](#)).
4. At the 11 September AUASB meeting, the ATG provided the AUASB with a project update (Agenda Item 7.0.0, 11 September 2019 AUASB meeting) and provided the AUASB with a suggested way forward. The AUASB agreed with the way forward as presented in the September BMSP and outlined below:
 - a) The AUASB Chair to discuss with ASIC the need for more definitive commentary / mark-up on the draft GS 005, so that the PAG and AUASB have a deeper understanding of exactly

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

where the regulator concerns are, in order to work together to achieve improved audit quality in this area (refer update at paragraph 7);

- b) The ATG to share draft GS with Canada and New Zealand to obtain feedback from those jurisdictions – the purpose of this, is really a sense check that the proposed Australian position is aligned with other jurisdictions. Feedback to be shared with the PAG and any issues worked through (refer update at paragraph 8);
- c) The AUASB members provided commentary to the ATG (offline), for the ATG to work through with the PAG. Dependent on the extent of commentary, this may result in the need for a teleconference with the AUASB (refer update at paragraph 9); and
- d) The draft GS 005 to be brought back to the December 2019 AUASB meeting with a view to approve and issue the guidance statement.

C. Carry forward unresolved matter impacting GS 005

- 5. One of the significant issues identified by the GS 005 Project Advisory Group, is in relation to the extent of audit effort around data that has been tested by a management's expert. Additionally, the PAG would like a clear distinction between source data that is internal company data and external information. To reflect this, the ATG (in conjunction with the PAG) has amended the wording in GS 005 (marked in red from extant) and uses the word test where internally produced information is referenced, while otherwise using the word evaluate.:

*In many cases, the auditor may **test** the source data directly, **particularly where the data is internally produced by the company**. However, in other cases, for example when the nature of the source data used by the management's expert is highly technical in relation to the expert's field, that expert may test the source data. If the management's expert has tested the source data, the auditor considers the most appropriate way of **evaluating** whether the source data is sufficiently reliable for their purposes such as enquiry of that expert as to the scope and nature of the testing they performed, supervision or review of that expert's tests and/or the involvement of an auditor's expert¹.*

- 6. As management experts are often used in relation to auditing estimates, there is a clear link into ASA 540. ASA 540 is unclear as to the extent of audit effort around data that has been tested by a management's expert. This matter has been raised with the IAASB ISA 540 implementation working group, but to date the ATG has had no response to this query. This matter was highlighted to the AUASB at the September 2019 AUASB meeting in Agenda Item 7.0.2. Currently, the wording used in GS 005 in relation to testing data in relation to an accounting estimate is consistent with the wording used in revised ASA 540 reflected below:

If the work of a management's expert involves sources of data relating to an accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in a financial report, the auditor may find the requirements and application material of ASA 540² helpful.

Question for the AUASB:

- i. **Is the AUASB in agreement with the proposed wording of paragraphs 52 and 53 of GS 005 as reflected in paragraph 5 and 6 above?**

¹ Refer to ASA 620.

² ASA 540 paragraph A131.

D. Activities since the September AUASB meeting

7. With reference to paragraph 4(a) above, the AUASB Chair and ATG Senior Project Manager met with ASICs Senior Executive Leader, Financial Reporting and Audit on 13 November 2019. ASIC has not provided further feedback on the draft revision.
8. With reference to paragraph 4(b) above, the ATG has shared the revised GS 005 with both the Canadian and NZ standard setting boards. Feedback on the draft Guidance Statement has yet to be received by the ATG and is expected to be received prior to the December AUASB meeting. The ATG will verbally update the AUASB at the 3 December 2019 AUASB meeting.
9. With reference to paragraph 4(c) above, the ATG worked with the PAG Chair and AUASB Chair to incorporate AUASB member feedback from the September 2019 AUASB meeting in the draft GS 005, this has been reflected in the mark-up draft as presented at Agenda Item 7.1; and has resulted in some specific matters for AUASB consideration (refer paragraph 11 below).
10. The ATG shared a revised draft with the PAG for further commentary. Several editorials were suggested, and these are incorporated in the mark-up draft as presented at Agenda Item 7.1; and feedback has resulted in some specific matters for AUASB consideration (refer paragraph 11 below).

E. Specific matters for AUASB consideration

11. In working with the PAG Chair and AUASB Chair on clearing AUASB member comments and PAG final comments (refer paragraphs 9-10 above), there are 2 areas that the ATG is seeking AUASB input:

- a. **Title change** from *‘Using the Work of a Management’s Expert’* to *‘Evaluating the Work of a Management’s Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence’*. The suggested title change, while being long, is purposeful to clearly relay what the substance of the guidance statement is about. There are views that the extant title may relay a message that the work of a management’s expert may be blindly accepted as audit evidence, which is clearly not the intent of GS 005.

Another option that has been suggested may be: *Considerations when evaluating the extent to which the auditor uses the work of a management’s expert as audit evidence*.

Stemming from the change of title is a consideration of the use of the term ‘use’ which in some instances has now been replaced with ‘evaluate’ or ‘use and evaluate’ as the ATG considers this better reflects the substance of the guidance.

Questions for the AUASB:

- ii. **Does the AUASB support the title change as presented or the option above?**
- iii. **Does the AUASB agree with the specific wording change ‘use’ to ‘evaluate’ in paragraphs 9, 19 and 42(b)(ii) of the Guidance Statement.**

- b. **Examples of a management expert and the interplay with the existing ASA 500 definition of a management’s expert:** *Management’s expert means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.* It is the section of *‘other than accounting or auditing’* that has been highlighted to us as needing some elaboration.

As accounting is getting more complex, there may be some confusion / judgement as to whether the expert is clearly inside or outside of the definition of a management's expert. The ATG has included additional guidance at paragraph 16, but does not want to create an issue where there may not be one?

The ATG references that the PCAOB in relation to using the work of a company's specialist and auditor's specialist explicitly scopes out the work of a person with specialised skill or knowledge in income taxes or information technology as audit evidence. This scope out for an auditor's expert makes logical sense; it's the scope out for a company's specialist that is probably more difficult to reconcile with.

Questions for the AUASB:

- iv. **Is this an area that is seen to be judgemental / problematic in practice?**
- v. **Does paragraph 16 provide appropriate guidance?**

F. Way Forward

12. The ATG proposes the following way forward (subject to the nature and extent of feedback from Canada and New Zealand):
 - a. ATG to work with the PAG on suggested resolutions to AUASB, Canada and NZ comments;
 - b. ATG to share final draft with the PAG for fatal flaw comment; and
 - c. Bring final draft to March 2019 AUASB meeting for approval to issue

Question for the AUASB:

- vi. **Does the AUASB agree with the proposed way forward?**

Material Presented

| | |
|-----------------|--|
| Agenda Item 7.0 | AUASB Board Meeting Summary Paper |
| Agenda Item 7.1 | GS 005 <i>Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor uses their work as Audit Evidence</i> – Marked-Up Draft (mark-up from September 2019 AUASB meeting) |
| Agenda Item 7.2 | GS 005 <i>Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor uses their work as Audit Evidence</i> – Clean Draft |

Action Required

| No. | Action Item | Deliverable | Responsibility | Due Date | Status |
|-----|--|----------------------------|----------------|-----------------|--------|
| 1. | AUASB to provide comments and feedback as outlined in Section A above. | Comments at Board meeting. | AUASB | 3 December 2019 | |

GS 005
(date)

Guidance Statement GS 005

Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence ~~Using the Work of a Management's Expert~~

Issued by the Auditing and Assurance Standards Board

*Confidential
Draft*

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This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



Australian Government

Auditing and Assurance Standards Board

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Guidance Statement GS 005 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence*

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 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence* 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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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 005 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence* 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:

R Simnett AO
Chair - AUASB

GUIDANCE STATEMENT GS 005

Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors when using the work of a management's expert as audit evidence in relation to:
 - (a) the audit of a financial report, in accordance with the *Corporations Act 2001*;
 - (b) the audit of a financial report, or a complete set of financial statements for any other purpose; and
 - (c) the audit of other historical financial information¹.
2. This Guidance Statement provides guidance that may be considered and adapted as necessary in the circumstances, to non-historical financial information assurance engagements but is not a substitute for referring to the requirements and application material contained in ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Issuance Date

3. This Guidance Statement is issued on 16 March 2015 by the AUASB and replaces GS 005 *Using the Work of a Management's Expert*, issued in March 2015.

Introduction

4. This Guidance Statement has been developed to provide guidance on:
 - (a) the circumstances under which a management's expert may be used and the nature of that work;
 - ~~(b) the auditor's considerations in determining the extent to which the work of a management's expert is used as audit evidence in carrying out the responsibilities of the auditor with respect to an entity's financial report or other historical financial information; and~~
 - (b)
 - (c) the auditor's considerations in determining the information to be used as audit evidence.

Scope of this Guidance Statement

5. ASA 500² *Audit Evidence*, establishes mandatory requirements and provides application and explanatory material on using the work of a management's expert as audit evidence. This Guidance Statement is to be read in conjunction with ASA 500.

¹ For example, other historical financial information may include the annual Australian Prudential Regulation Authority (APRA) return(s) for a life company as specified in Prudential Standard LPS 310 *Audit and Related Matters – Attachment A*.

² See ASA 500, paragraph 8.

Guidance Statement GS 005 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence*

6. [ASA 500³ establishes mandatory requirements and provides application and explanatory material on information obtained from an external information source. This Guidance Statement does not provide guidance on information obtained from an external information source.](#)
7. This guidance applies equally to the use of a management's expert's [work](#) whether they are internal or external to an entity, but does not deal with the use of experts that are not engaged or employed by management.
8. [The work of a management's expert is often associated with accounting estimates, accordingly this Guidance Statement should be read in conjunction with ASA 540 *Auditing Accounting Estimates and Related Disclosures*⁴.](#)

Interaction with Using the Work of an Auditor's Expert

- 7.9. It is the responsibility of the engagement partner⁵ to determine that the engagement team has the appropriate competence and capabilities, including sufficient time, to perform an audit engagement in accordance with the Australian Auditing Standards, relevant ethical requirements, and applicable legal and regulatory requirements. When management [uses evaluates](#) the work of a management's expert to assist the entity in preparing the financial report, the auditor determines whether the involvement of an auditor's expert is required.
- 8.10. There is no requirement for the auditor to use an auditor's expert to assess the work performed by a management's expert, however [the auditor assesses whether or not an auditor's expert is needed-if expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor determines whether to use the work of an auditor's expert](#)⁶. An auditor who is not an expert in a relevant field other than accounting or auditing may be able to obtain a sufficient understanding of that field to perform the audit without the use of an auditor's expert. [Examples of how Ways in which](#) this understanding may be obtained include:
- (a) Experience in auditing entities that require such expertise;
 - (b) Education or professional development in the particular field which may include formal courses;
 - (c) Discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own competence to deal with matters in that field;
 - (d) Discussion with auditors who have performed engagements in the same or similar industries with the same or similar use of experts for the preparation of financial statements.
- 9.11. The auditor's decision on whether to use an auditor's expert may be influenced by factors such as:
- (a) The nature and significance of the matter, including its complexity;
 - (b) The risks of material misstatement;
 - (c) The expected nature of procedures to respond to the identified risks, including:

³ [ASA 500, paragraph 7](#)

⁴ [ASA 540 paragraph 30.](#)

⁵ [ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 14.](#)

⁶ [ASA 620 *Using the Work of an Auditor's Expert*, paragraph 7.](#)

- (i) the auditor's knowledge and experience with the work of experts in relation to such matters; and
- (ii) the availability and extent of alternative sources of audit evidence;
- (d) The extent to which management has used a management's expert.

~~10.12.~~ This Guidance Statement does not provide guidance on the auditor's use of the work of an auditor's expert. ASA 620 *Using the Work of an Auditor's Expert* establishes mandatory requirements and provides explanatory guidance on using the work of an auditor's expert as audit evidence.

~~———— The work of a management's expert is often associated with accounting estimates, accordingly this Guidance Statement should be read in conjunction with ASA 540 *Auditing Accounting Estimates and Related Disclosures*.~~

Definitions

~~12.13.~~ For the purposes of this Guidance Statement the following items have the meanings attributed in the Australian Auditing Standards and reproduced below:

- (a) Expertise means skills, knowledge and experience in a particular field⁷.
- (b) Management's expert means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial report or other historical financial information⁸.
- ~~(b)(c)~~ External information sources⁹ means and external individual or organisation that provides information that has been used by the entity in preparing the financial report (for example pricing services), or that has been obtained by the auditor as audit evidence, when such information and that is suitable for a use by a broad range of users. When information has been provided by an individual or organisation acting in the capacity of a management's expert, that individual or organisation, is not considered use of a management's expert an external information source with respect to that particular information.

The Auditor's Responsibility for the Conclusion

~~13.14.~~ The auditor has sole responsibility for the audit opinion expressed and that responsibility is not reduced by the auditor's use of the work of a management's expert ("expert").

Examples of the use of Management's Experts

- 15. The preparation and presentation of a financial report and/or other historical financial information of an entity is the responsibility of management and those charged with governance. Determination of amounts included in the financial report and/or other historical financial information may require expertise in a field other than accounting or auditing.
- 16. An individual may possess expertise in accounting or auditing, as well as expertise in a field other than accounting or auditing (for example an actuary may also be an accountant). In these circumstances the determination of whether that individual is a management's expert depends on the nature of the work performed. For example, an individual with expertise in applying methods of accounting for deferred income tax can often be easily distinguished

⁷ ASA 620 paragraph 6(b)

⁸ ASA 500 paragraph 5(e)

⁹ See ASA 500 paragraph 5(d)

from an expert in taxation law. The former is not a management's expert for the purposes of this Guidance Statement as this constitutes accounting expertise; the latter is an expert for the purposes of this Guidance Statement as this constitutes legal expertise. Similar distinctions may also be able to be made in other areas, for example:

- between expertise in methods of accounting for financial instruments, and expertise in complex modelling for the purpose of valuing financial instruments, the former is not considered to be a management's expert as this constitutes accounting experience;
- entity internal expertise in IT controls is not considered to be a management's expert as management is responsible for the design and implementation of controls that is integral to the functioning of the financial reporting system and preparation of the financial report.

~~14.17.~~ Management may engage or employ experts (this may include but is not limited to actuaries, valuers, engineers, environmental consultants, geologists, scientists, health practitioners, taxation specialists, legal advisors and other industry specialists) to obtain the necessary information to prepare the financial report and/or historical financial information. Examples of such expertise include:

- Valuation (for example, high-technology materials or equipment, complex financial instruments, land and buildings, intangibles, investments and environmental liabilities);
- Determination of physical characteristics relating to quantity on hand or condition (for example, quantity or condition of minerals, mineral reserves, or raw materials stored in stockpiles);
- Determination of amounts derived by using specialised techniques or methods (for example, actuarial calculations of liabilities associated with insurance contracts or employee benefit plans); and
- Interpretation of technical requirements of contract, laws and regulations. This may be done in some cases by those possessing legal expertise. ASA 502 *Audit Evidence – Specific Considerations for Litigation and Claims* establishes requirements and provides application and other explanatory material regarding considerations by an auditor in obtaining sufficient appropriate audit evidence relating to litigation and claims. The requirement in ASA 502 is for the auditor to consider the applicable requirements and guidance on using the work of an expert contained in ASA 500 before relying on in-house or external legal counsel.

Considerations in Determining the Extent that to which the Auditor Uses the Work of a Management's Expert

~~15.18.~~ When a financial report and/or other historical financial information includes amounts determined by, or based upon the work of a management's expert, the auditor considers (as outlined in paragraph 21 of this guidance statement) ~~and concludes on~~ whether the work of that expert is adequate for the auditor's purposes, and can be accepted as appropriate audit evidence.

~~16.19.~~ The auditor's decision on whether to use and evaluate ~~use~~ the work of a management's expert as audit evidence ~~will may~~ be influenced by:

- (a) the nature and significance of the matter including its complexity;
- (b) the risks of material misstatement in the matter; and

- (c) the expected nature of procedures to respond to the identified risks, including the auditor's knowledge of, and experience with, the work of the experts in relation to such matters and the availability of alternative sources of audit evidence.

~~17.20.~~ When determining the nature, timing and extent of audit procedures in relation to the work of the expert, the auditor makes reference to the requirements, application material and guidance contained in ASA 500¹⁰.

Considerations in Determining the Information to Be Used as Audit Evidence

~~18.21.~~ ASA 500¹¹ requires that if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor, to the extent necessary, ~~and~~ having regard to the significance of that expert's work for the auditor's purposes:

- Evaluates the competence, capabilities and objectivity of that expert;
- Obtains an understanding of the work of that expert; and
- Evaluates the appropriateness of that expert's work as audit evidence for the relevant assertion.

~~19.22.~~ In relation to the work of a management's expert, the auditor obtains more persuasive audit evidence the higher the auditor's assessment of risk¹². The auditor may also consider obtaining more persuasive evidence as:

- (a) the significance of the management's expert's work on the financial statements increases, ~~including the risk of material misstatement~~;
- (b) the ability of the company to affect the management's expert's judgements increases; ~~and~~
- (c) the level of knowledge, skill and ability possessed by the management expert decreases.

Generally, the required audit effort when evaluating the work of a management's expert is the greatest when the risk of material misstatement is high, the management's expert's work is critical to the auditor's conclusions, the management's expert has lower levels of knowledge, skill and ability; and the company has the ability to significantly influence the management's expert's judgements.

~~19.~~ —

Competence, Capabilities and Objectivity of a Management's Expert

~~20.23.~~ The auditor makes reference to the requirements, application and other explanatory material contained in ASA 500 and evaluates whether the management's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. This is ordinarily performed as part of the audit planning and risk assessment process ~~but the~~ timing of which may be restricted by management's process for planning and selecting experts.

~~21.24.~~ Competence, capability and objectivity of a management's expert impacts the degree of reliability of the management's expert's work as audit evidence, that is, the extent to which the management's expert's work could provide persuasive evidence.

¹⁰ ASA 500, paragraph 8.

¹¹ See ASA 500, paragraph 8.

¹² ASA 330 *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

~~22.25.~~ The ~~sufficiency and appropriateness~~ nature and extent of procedures of evidence to assess the management's expert's competence, capability and objectivity depends on the significance of the management's expert's work to the auditor's conclusion regarding the relevant assertion and the risk of material misstatement of the relevant assertion. As the significance of the management's expert's work and risk of material misstatement increases, the persuasiveness of the evidence the auditor obtains for these assessments also increases.

Competence

~~23.26.~~ Competence ~~may be described as~~ relates to the nature and level of expertise of the management's expert. The auditor uses professional judgement when determining the competency of a management's expert. When assessing competence, the auditor may consider the guidance included in ASA 500¹³ as well as:

- (a) The management's expert's experience in the type of work performed, including applicable areas of speciality within the expert's field;
- (b) The reputation and standing of the management's expert including:
 - (i) Previous experience with the work of the expert;
 - (ii) Enquiring of other practitioners who have used that management's expert or others working in the same industry;
- (c) The professional certification, license or professional accreditation of the management's expert. Experts - may have professional obligations under their professional or industry bodies. These obligations vary significantly and are determined by the professional or industry body¹⁴. The auditor's confidence when assessing the competency of the management's expert may increase with membership of professional or industry bodies that:
 - Require professional qualification or accreditation;
 - Subject their members- to regulatory requirements/guidance;
 - Subject their members to a specific set of standards or guidance on the expert's services;
 - Require continuous professional development; and
 - Require professional obligations to be followed by their members.

~~24.27.~~ The auditor's evaluation of the management's expert may be influenced by the management's expert's work environment, for example the expert's internal quality control policies and procedures.

Capability

~~25.28.~~ Capability ~~may be described as~~ relates to the ability of the management's expert to exercise their competency in the circumstances. When assessing capability, the auditor may consider:

- Geographic location

¹³ ASA 500, paragraph A49.

¹⁴ For example actuaries are governed by the Institute of Actuaries of Australia, an actuary's specific responsibilities in relation to data are set out in the *Actuarial Code of Professional Conduct, Actuarial Professional Standards* and where relevant other regulatory and legislative requirements, *APRA Prudential Standards* and the *Life Insurance Act 1995*.

- Availability of time
- Availability of resources
- Instructions on scope provided by management

Objectivity

26.29. Objectivity ~~is described as~~ relates to the possible the absence of any affects that bias, conflict of interest, or the influence of others may have on the professional or business judgement of the management's expert. When assessing objectivity, the auditor may considers:

- (a) circumstances that threaten the objectivity of the management's expert; and
- (b) whether appropriate safeguards are in place to eliminate those threats or reduce them to an acceptable level.

27.30. ASA 500 indicates that evidence from external sources is generally more reliable than that generated internally. The auditor may assess the relationship to the company of the management's expert, specifically, whether circumstances exist that give the company the ability to significantly affect the management's expert's judgements about the work performed, conclusions or findings. The existence of a relationship between the management's expert and the entity being audited may impair the management's expert's ability to be objective. The risk that the objectivity of a management's expert will be impaired increases when the management's expert is employed by the entity or is related in some way to the entity. Where a management's expert is employed by the entity, the auditor needs to consider whether there are any mitigating factors such as professional and/or statutory obligations governing the work of the management's expert that would impact on the objectivity of the management's expert.

28.31. Circumstances which may threaten the objectivity of the management's expert may include: advocacy threats, familiarity threats, self-review threats and self-interest threats¹⁵. Examples include economic dependency of the management's expert on the entity and contingency based fee arrangements.

29.32. The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the management's expert and the significance of the expert's work in the context of the audit. There may be safeguards specific to the audit engagement, however there may be circumstances where safeguards cannot reduce threats to an acceptable level¹⁶.

30.33. When the management's expert is an employee of the entity, mitigating factors which enhance the ability of the management's expert to be objective, and therefore are safeguards for the lack of independence may include:

- Adherence to the professional standards issued by the expert's regulating body.
- Formal appointment of the management's expert by those charged with governance and direct access to those charged with governance by that expert.

Ordinarily, the basis on which the management's expert is remunerated and or incentives offered as part of that remuneration are considered by the auditor when assessing the management's expert's objectivity.

¹⁵ See ASA 500, paragraph ~~A41~~A52.

¹⁶ See ASA 620, paragraph A19.

Consideration of the above may also be relevant in evaluating the objectivity of a management's expert that is external to the entity.

Overall Assessment of Competence, capability and objectivity of a management's expert

~~31.~~34. If the auditor is concerned with the competence, capability or objectivity of the management's expert, the auditor may consider communicating any concerns with management and if appropriate those charged with governance and considers whether sufficient appropriate audit evidence can be obtained concerning the work of the management's expert. The auditor may undertake alternative procedures or seek audit evidence from another expert including an auditor's expert⁺⁷.

Obtaining an Understanding of the Work of a Management's Expert

~~32.~~35. The auditor makes reference to the requirements, application and other explanatory material in ASA 500 when obtaining an understanding of the management's expert's work to assess whether it is adequate for the purposes of the audit.

~~33.~~36. When obtaining an understanding of the management expert's work, the auditor, having regard to whether the management's expert is internal or external to the entity, considers:

- The terms of the engagement between the entity and the management expert, including understanding the nature, timing and extent of work to be performed by the management's expert and the form of any report to be provided by that expert;
- Whether the auditor has any prior knowledge of the management expert's field of expertise, or with that expert;
- The economic and competitive conditions impacting the entity and its operating results;
- Whether there is evidence of undue management pressure on the management's expert;
- The existence of controls within the entity over the work of the management's expert (for example whether there are procedures in place to challenge or review the expert's work, such as review by those charged with governance) or controls over the source data used in the expert's assessment;
- Whether management has authorised their expert to discuss their findings or conclusions with the auditor¹⁸;
- Whether the management's expert has consented to the auditor's intended use of their findings⁷; and
- Whether the management's expert has agreed for the auditor to access their work papers (review of the expert's work papers is not normally required other than as considered necessary by the auditor using their professional judgement).

~~34.~~37. Where management has not consented for their expert to discuss their findings or conclusions with the auditor, or the management's expert has not consented to the auditor's intended use of their findings, the auditor considers the guidance as provided in paragraphs ~~53-51~~ and to 54.

⁺⁷ ~~Refer ASA 620.~~

¹⁸ Agreement for the expert to discuss findings with the auditor, and consent for the auditor to use the expert's findings, is generally discussed and agreed with management or those charged with governance and the expert at the planning phase of the engagement.

Engagement with the Management's Expert

35.38. As early as practicable during the engagement, the auditor communicates with the management's expert either directly or indirectly through management, and considers the management's expert's approach and methodology. The auditor assesses whether the approach and methodology is an appropriate basis for determination of the matter included in the financial report or other historical financial information. For example where management uses a valuation expert for a purchase price adjustment calculation, the auditor communicates with the management's expert early on in the valuation process so as to understand and agree on the basis for identification of assets and the basis of the valuation methodology.

Evaluating the Appropriateness and Adequacy of the work of a Management's Expert

36.39. ASA 500¹⁹ contains application and other explanatory material that when evaluating the appropriateness of the management expert's work as audit evidence for the relevant assertion, the auditor considers:

- The relevance and reasonableness of the management expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial report;
- If the management expert's work involves the use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
- If the management expert's work involves significant use of source data, the relevance, completeness and accuracy of that source data.

37.40. ASA 540²⁰ contains requirements and application material when evaluating the appropriateness of the work of a management's expert as audit evidence in relation to the audit of accounting estimates.

Determining the necessary audit effort for evaluating the management's expert's work

38.41. ASA 500 and ASA 540 do not require that the auditor reperforms the work of a management's expert. Instead the auditor's responsibility is to evaluate whether the management's expert's work provides sufficient appropriate audit evidence to support a conclusion regarding whether the corresponding accounts or disclosures in the financial report are in conformity with the relevant financial reporting framework.

39.42. Factors that may impact the sufficiency of evidence when evaluating persuasiveness of evidence needed when evaluating the work of a management's expert include the risk of material misstatement and the significance of the management's expert's work to the auditor's conclusion.

- (a) Consistent with ASA 330²¹, the higher the risk of material misstatement for an assertion, the more persuasive the evidence needed to support a conclusion about that assertion.
- (b) The significance of a management's expert's work refers to the degree to which the auditor gathers evidence in evaluating the management's expert's work to support the auditor's conclusions about the assertion. Generally, the greater the significance of the management's expert's work to the auditor's conclusion, the more persuasive the evidence from the management's expert's work needs to be. The significance of the management's expert's work stems from:

¹⁹ See ASA 500, paragraph ~~A48~~**A59**.

²⁰ See ASA 540 paragraph 30

²¹ Refer ASA 330 *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

- (i) The extent to which the management's expert's work affects the account balances, classes of transactions and disclosures in the financial report. In certain situations that work may be a primary source of audit evidence, while in other situations, the management's expert's work may only be used as a cross-check.
- (ii) The auditor's approach to testing the relevant assertion and the availability of alternative sources of audit evidence. For example, when a company's accounting estimate is determined principally based on the work of a management's expert, and the auditor plans to test how management made the accounting estimate, the auditor would plan to ~~use~~ *evaluate* the work of the management's expert for evidence regarding the estimate. If the auditor tests an assertion by developing an independent expectation, the auditor would give less consideration to the work of the management's expert.

The Findings and Conclusions of the Management's Expert

40.43. The auditor considers the final findings and conclusions in the agreed form of report of the expert. The auditor using their professional judgement considers what additional procedures are required, particularly when the risk of material misstatement has been assessed as significant. The auditor may consider performing more extensive procedures or engaging an auditor's expert²² to review some or all of the work of the management's expert. Specific procedures to evaluate the reasonableness of the management's expert's work for the auditor's purposes may include:

- Enquiries of the management's expert.
- Comparing the management's expert's final report to the draft report (if a draft report is provided) and understanding and enquiring into material differences.
- Understanding the accuracy of prior period estimates made by that management's expert.
- Corroborative procedures, such as:
 - observing the management's expert's work;
 - examining published data, such as statistical reports from reputable, authoritative sources;
 - confirming relevant matters with relevant third parties;
 - performing detailed analytical procedures; and/or
 - re-performing calculations including sensitivity analysis on key inputs.
- Consultation with another expert with relevant expertise when, for example, the findings or conclusions of the expert are not consistent with other audit evidence or the findings indicate an error, deviation, deficiency in internal control, or other significant matter or the scope of the engagement or adequacy of evidence is insufficient.
- Discussion of the management's expert's report with management and if appropriate those charged with governance, including understanding their assessment of the

²² ~~Refer ASA 620.~~

expert's findings. In addition, if material, the auditor may seek to understand the reasons for the final report differing from initial draft reports.

~~41.44.~~ Relevant factors when evaluating the relevance and reasonableness of the findings or conclusions of the management's expert, whether in a report or other form, may include whether they are:

- Consistent with the auditor's understanding of the entity and its environment;
- Clearly expressed, including reference to the objectives agreed with management, the scope of the work performed and standards applied;
- Consistent with the results of other audit procedures;
- Cross-checked against one or more other methodologies;
- Based on an appropriate period/point in time and take into account events occurring after that date, where relevant;
- Subject to any reservation, limitation or restriction on use, and if so, whether this has implications for the auditor; and
- Based on appropriate consideration of errors, deviations, deficiencies in internal controls or other significant matters identified by the management's expert.

Methods, Assumptions and Source Data

~~42.45.~~ When a management's expert's work involves the use of methods, assumptions and source data, the auditor ordinarily does not reperform all of the work undertaken by that expert. The auditor's responsibility is to evaluate that the management's expert's work provides sufficient appropriate audit evidence to support a conclusion regarding whether in all material respects the corresponding account balances, classes of transactions or disclosures in the financial report are in conformity with the applicable financial reporting framework-.

Methods

~~43.46.~~ When a management's expert's work involves the use of significant methods, factors relevant to the auditor's evaluation of the appropriateness of methods include whether they are:

- Generally accepted within the management's expert's field;
- Justified as the appropriate valuation methodology;
- Consistent with the requirements of the applicable financial reporting framework; and
- Dependent on the use of specialised models.

~~44.47.~~ Ordinarily the auditor is not expected to obtain access to proprietary models used by a management's expert. Rather, the auditor's responsibility is to obtain information to assess whether the model used is appropriate, robust and in conformity with the applicable financial reporting framework. Depending on the model and the factors discussed under paragraph ~~37~~43, this may involve for example one or more of the following:

- (a) obtaining an understanding of the model;
- (b) reviewing descriptions of the model in the management's expert's report;
- (c) testing controls over the company's evaluation of the management's expert's work;

- (d) assessing inputs to and outputs from the model or in place of other procedures, the auditor may consider using an alternative model for comparison.

45.48. If the work of a management's expert involves the use of methods relating to an accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in a financial report, the auditor follows the requirements contained within ASA 540.²³

Assumptions

46.49. When a management's expert's work involves the use of significant assumptions, factors relevant to the auditor's evaluation of the reasonableness of those assumptions may include consideration of:

- The degree of estimation uncertainty associated with the management's expert's underlying assumptions and the degree of stress testing undertaken;
- Significant changes during the course of the audit that may affect the appropriateness of the assumptions used; and
- Consistency of those assumptions with relevant information. The following examples may be considered relevant:
 - assumptions generally accepted within the management's expert's field and are they appropriate for financial reporting purposes;
 - industry, regulatory and other external factors, including economic conditions;
 - existing market information;
 - historical or recent experience, along with changes in conditions and events affecting the company;
 - significant assumptions used in other estimates tested in the company's financial report

47.50. Assumptions relating to accounting estimates that are made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate²⁴. In these circumstances, the auditor applies the relevant requirements of ASA 540 to those assumptions.

Source Data Used by the Management's Expert

48.51. The auditor considers whether the source data is sufficiently relevant and reliable for their purposes, including evidence relating to the accuracy and completeness of the data and evaluating whether the data is sufficiently precise and detailed. The extent of the auditor's procedures is dependent on the nature and risk of the source data and the materiality of the underlying balance, transaction and/or disclosure to which it relates. When a management's expert's work involves the use of source data that is significant to that expert's work, procedures such as the following may be used to evaluate that data:

- Identifying the source of the data, including obtaining an understanding of the data, and where applicable, testing the internal controls over the data and, where relevant, its transmission to the management's expert.

²³ See ASA 540 paragraph 30 and A131.

²⁴ See ASA 540 paragraph A130.

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- Assessing the data for completeness, accuracy and consistency with information available to the auditor.

~~49.~~52. In many cases, the auditor may test the source data directly, particularly where the data is internally produced by the company. However, in other cases, for example when the nature of the source data used by the management's expert is highly technical in relation to the expert's field, that expert may test the source data. If the management's expert has tested the source data, the auditor considers the most appropriate way of evaluating whether the source data is sufficiently reliable for their purposes such as enquiry of that expert as to the scope and nature of the testing they performed, supervision or review of that expert's tests and/or the involvement of an auditor's expert²⁵.

~~50.~~53. If the work of a management's expert involves sources of data relating to an accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in a financial report, the auditor may find the requirements and application material of ASA 540²⁶ helpful.

~~Conclusion on~~Evaluation of the Work Undertaken by the Expert

~~51.~~54. The auditor evaluates the ~~relevance and reliability~~sufficiency and appropriateness of the management's expert's work ~~and concludes as to whether the work of the management's expert is appropriate as~~ audit evidence for the relevant assertion.

~~52.~~55. Considerations when evaluating the sufficiency and appropriateness of the management's expert's work include considering the ~~Factors that affect the~~ relevance and reliability of ~~the management's expert's~~ that work including ~~considering~~:

- (a) the results of the auditor's procedures over the competence, capability and objectivity of the management's expert;
- (b) the results of the auditor's procedures over the management's expert's methods, assumptions and source data;
- (c) the nature of any restrictions, disclaimers or limitations in the management's expert's report; and
- (d) the consistency of the management's expert's work with other evidence obtained by the auditor and the auditor's understanding of the company and its environment.

~~53.~~56. If the auditor determines that the work of the management's expert is not appropriate for the auditor's purposes, or does not address material errors, deviations, deficiencies in internal controls or other material matters, or does not constitute sufficient appropriate audit evidence, the auditor agrees with management on the nature and extent of further work to be performed by the management's expert; or performs additional audit procedures appropriate to the circumstances. The auditor may communicate this with those charged with governance. If the matter cannot be resolved, this is reported to those charged with governance and it may be necessary for the auditor to express a modified opinion in the auditor's report if the auditor cannot obtain sufficient appropriate audit evidence.

57. When the auditor concludes that the work of the management's expert is appropriate for the auditor's purposes, the auditor may accept that expert's findings or conclusions as appropriate audit evidence. The auditor then determines whether the management's expert's findings or conclusions have been accurately reflected in the financial report or other historical financial information including relevant disclosures.

²⁵ ~~Refer to ASA 620.~~

²⁶ ~~See~~ ASA 540 paragraph A131.

Documentation

~~54.~~58. Although there are no specific documentation requirements in ASA 500, the auditor is required to comply with the documentation requirements of ASA 230, that requires the auditor when assessing the extent of documentation, to consider what audit documentation is necessary to enable an experienced auditor, having no previous connection with the audit, to understand the auditor's:

- Assessment of whether to use the work of the management's expert;
- Evaluation of the competence, capabilities and objectivity of the management's expert;
- Understanding the management's expert's work;
- Evaluation of the appropriateness of the management's expert's work as audit evidence for the relevant assertion.

~~55.~~59. The auditor ordinarily includes in their documentation relevant extracts from the management's expert's findings including the conclusions reached.

~~56.~~60. The auditor follows the documentation requirements of ASA 540²⁷ when the management's expert's work is used in the preparation of an accounting estimate.

Reference to the Work of a Management's Expert in the Auditor's Report

~~57.~~61. The auditor does not refer to the work of the management's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor indicates in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.

~~58.~~62. If the auditor makes reference to the work of the management's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor indicates in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

Communication with Those Charged with Governance and Others

~~59.~~63. Due to uncertainties that may be associated with the work undertaken by a management's expert, the potential effects on the financial report and/or other historical financial information of any significant risks are likely to be of governance interest.

~~60.~~64. ASA 260 *Communication with Those Charged with Governance* contains the auditor's responsibility to communicate with those charged with governance in an audit of a financial report. In relation to using the work of a management's expert, the auditor, using professional judgement, may communicate:

- Whether management has engaged a management's expert;
- Concerns regarding competency or objectivity of the management's expert;
- Materiality and risk of the subject matter subject to determination by the management's expert;

²⁷ See ASA 540 paragraph 39.

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- The proposed intended use of the management's expert's work by the auditor;
- Key findings/conclusions of the management's expert's report including commentary on:
 - Significant assumptions, methods and data used;
 - Degree of subjectivity of assumptions;
 - Whether the expert's work is adequate for audit purposes and obtains appropriate audit evidence; and
 - Significant differences in judgement between the auditor and expert.

The appropriate timing for communications will vary with the circumstances of the engagement; however, it may be appropriate to communicate significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion.

Conformity with International Pronouncements

[61-65.](#) There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

GS 005
(date)

Guidance Statement GS 005

Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence

Issued by the Auditing and Assurance Standards Board

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Guidance Statement GS 005 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence*

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 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence* 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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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 005 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence* 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:

R Simnett AO
Chair - AUASB

GUIDANCE STATEMENT GS 005

Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors when using the work of a management's expert as audit evidence in relation to:
 - (a) the audit of a financial report, in accordance with the *Corporations Act 2001*;
 - (b) the audit of a financial report, or a complete set of financial statements for any other purpose; and
 - (c) the audit of other historical financial information.
2. This Guidance Statement provides guidance that may be considered and adapted as necessary in the circumstances, to non-historical financial information assurance engagements but is not a substitute for referring to the requirements and application material contained in ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Issuance Date

3. This Guidance Statement is issued on 16 March 2015 by the AUASB and replaces GS 005 *Using the Work of a Management's Expert*, issued in March 2015.

Introduction

4. This Guidance Statement has been developed to provide guidance on:
 - (a) the circumstances under which a management's expert may be used and the nature of that work;
 - (b) the auditor's considerations in determining the extent to which the work of a management's expert is used as audit evidence in carrying out the responsibilities of the auditor with respect to an entity's financial report or other historical financial information; and
 - (c) the auditor's considerations in determining the information to be used as audit evidence.

Scope of this Guidance Statement

5. ASA 500¹ *Audit Evidence*, establishes mandatory requirements and provides application and explanatory material on using the work of a management's expert as audit evidence. This Guidance Statement is to be read in conjunction with ASA 500.
6. ASA 500² establishes mandatory requirements and provides application and explanatory material on information obtained from an external information source. This Guidance

¹ ASA 500, paragraph 8.

² ASA 500, paragraph 7

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Statement does not provide guidance on information obtained from an external information source.

7. This guidance applies equally to the use of a management's expert's work whether they are internal or external to an entity, but does not deal with the use of experts that are not engaged or employed by management.
8. The work of a management's expert is often associated with accounting estimates, accordingly this Guidance Statement should be read in conjunction with ASA 540 *Auditing Accounting Estimates and Related Disclosures*³.

Interaction with Using the Work of an Auditor's Expert

9. It is the responsibility of the engagement partner⁴ to determine that the engagement team has the appropriate competence and capabilities, including sufficient time, to perform an audit engagement in accordance with the Australian Auditing Standards, relevant ethical requirements, and applicable legal and regulatory requirements. When management evaluates the work of a management's expert to assist the entity in preparing the financial report, the auditor determines whether the involvement of an auditor's expert is required.
10. There is no requirement for the auditor to use an auditor's expert to assess the work performed by a management's expert, however if expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor determines whether to use the work of an auditor's expert⁵. An auditor who is not an expert in a relevant field other than accounting or auditing may be able to obtain a sufficient understanding of that field to perform the audit without the use of an auditor's expert. Ways in which this understanding may be obtained include:
 - (a) Experience in auditing entities that require such expertise;
 - (b) Education or professional development in the particular field which may include formal courses;
 - (c) Discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own competence to deal with matters in that field;
 - (d) Discussion with auditors who have performed engagements in the same or similar industries with the same or similar use of experts for the preparation of financial statements.
11. The auditor's decision on whether to use an auditor's expert may be influenced by factors such as:
 - (a) The nature and significance of the matter, including its complexity;
 - (b) The risks of material misstatement;
 - (c) The expected nature of procedures to respond to the identified risks, including:
 - (i) the auditor's knowledge and experience with the work of experts in relation to such matters; and
 - (ii) the availability and extent of alternative sources of audit evidence;

³ ASA 540 paragraph 30.

⁴ ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 14.

⁵ ASA 620 *Using the Work of an Auditor's Expert*, paragraph 7.

- (d) The extent to which management has used a management's expert.
12. This Guidance Statement does not provide guidance on the auditor's use of the work of an auditor's expert. *ASA 620 Using the Work of an Auditor's Expert* establishes mandatory requirements and provides explanatory guidance on using the work of an auditor's expert as audit evidence.

Definitions

13. For the purposes of this Guidance Statement the following items have the meanings attributed in the Australian Auditing Standards and reproduced below:
- (a) Expertise means skills, knowledge and experience in a particular field⁶.
- (b) Management's expert means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial report or other historical financial information⁷.
- (c) External information source⁸ means an external individual or organisation that provides information that has been used by the entity in preparing the financial report, or that has been obtained by the auditor as audit evidence, when such information is suitable for a use by a broad range of users. When information has been provided by an individual or organisation acting in the capacity of a management's expert, that individual or organisation is not considered an external information source with respect to that particular information.

The Auditor's Responsibility for the Conclusion

14. The auditor has sole responsibility for the audit opinion expressed and that responsibility is not reduced by the auditor's use of the work of a management's expert ("expert").

Examples of the use of Management's Experts

15. The preparation and presentation of a financial report and/or other historical financial information of an entity is the responsibility of management and those charged with governance. Determination of amounts included in the financial report and/or other historical financial information may require expertise in a field other than accounting or auditing.
16. An individual may possess expertise in accounting or auditing, as well as expertise in a field other than accounting or auditing (for example an actuary may also be an accountant). In these circumstances the determination of whether that individual is a management's expert depends on the nature of the work performed. For example, an individual with expertise in applying methods of accounting for deferred income tax can often be easily distinguished from an expert in taxation law. The former is not a management's expert for the purposes of this Guidance Statement as this constitutes accounting expertise; the latter is an expert for the purposes of this Guidance Statement as this constitutes legal expertise. Similar distinctions may also be able to be made in other areas, for example:
- between expertise in methods of accounting for financial instruments, and expertise in complex modelling for the purpose of valuing financial instruments, the former is not considered to be a management's expert as this constitutes accounting experience;

⁶ ASA 620 paragraph 6(b)

⁷ ASA 500 paragraph 5(e)

⁸ ASA 500 paragraph 5(d)

- entity internal expertise in IT controls is not considered to be a management's expert as management is responsible for the design and implementation of controls that is integral to **the functioning of the financial reporting system and preparation of the financial report**.
17. Management may engage or employ experts (this may include but is not limited to actuaries, valuers, engineers, environmental consultants, geologists, scientists, health practitioners, taxation specialists, legal advisors and other industry specialists) to obtain the necessary information to prepare the financial report and/or historical financial information. Examples of such expertise include:
- Valuation (for example, high-technology materials or equipment, complex financial instruments, land and buildings, intangibles, investments and environmental liabilities);
 - Determination of physical characteristics relating to quantity on hand or condition (for example, quantity or condition of minerals, mineral reserves, or raw materials stored in stockpiles);
 - Determination of amounts derived by using specialised techniques or methods (for example, actuarial calculations of liabilities associated with insurance contracts or employee benefit plans); and
 - Interpretation of technical requirements of contract, laws and regulations. This may be done in some cases by those possessing legal expertise. *ASA 502 Audit Evidence – Specific Considerations for Litigation and Claims* establishes requirements and provides application and other explanatory material regarding considerations by an auditor in obtaining sufficient appropriate audit evidence relating to litigation and claims. The requirement in ASA 502 is for the auditor to consider the applicable requirements and guidance on using the work of an expert contained in ASA 500 before relying on in-house or external legal counsel.

Considerations in Determining the Extent to which the Auditor Uses the Work of a Management's Expert

18. When a financial report and/or other historical financial information includes amounts determined by, or based upon the work of a management's expert, the auditor considers (as outlined in paragraph 21 of this guidance statement) whether the work of that expert is adequate for the auditor's purposes, and can be accepted as appropriate audit evidence.
19. The auditor's decision on whether to use and evaluate the work of a management's expert as audit evidence may be influenced by:
- (a) the nature and significance of the matter including its complexity;
 - (b) the risks of material misstatement in the matter; and
 - (c) the expected nature of procedures to respond to the identified risks, including the auditor's knowledge of, and experience with, the work of the experts in relation to such matters and the availability of alternative sources of audit evidence.
20. When determining the nature, timing and extent of audit procedures in relation to the work of the expert, the auditor makes reference to the requirements, application material and guidance contained in ASA 500⁹.

⁹ ASA 500, paragraph 8.

Considerations in Determining the Information to Be Used as Audit Evidence

21. ASA 500¹⁰ requires that if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor, to the extent necessary and having regard to the significance of that expert's work for the auditor's purposes:
- Evaluates the competence, capabilities and objectivity of that expert;
 - Obtains an understanding of the work of that expert; and
 - Evaluates the appropriateness of that expert's work as audit evidence for the relevant assertion.
22. In relation to the work of a management's expert, the auditor obtains more persuasive audit evidence the higher the auditor's assessment of risk¹¹. The auditor may also consider obtaining more persuasive evidence as:
- (a) the significance of the management's expert's work on the financial statements increases;
 - (b) the ability of the company to affect the management's expert's judgements increases;
 - (c) the level of knowledge, skill and ability possessed by the management expert decreases.

Generally, the required audit effort when evaluating the work of a management's expert is the greatest when the risk of material misstatement is high, the management's expert's work is critical to the auditor's conclusions, the management's expert has lower levels of knowledge, skill and ability; and the company has the ability to significantly influence the management's expert's judgements.

Competence, Capabilities and Objectivity of a Management's Expert

23. The auditor makes reference to the requirements, application and other explanatory material contained in ASA 500 and evaluates whether the management's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. This is ordinarily performed as part of the audit planning and risk assessment process the timing of which may be restricted by management's process for planning and selecting experts.
24. Competence, capability and objectivity of a management's expert impacts the degree of reliability of the management's expert's work as audit evidence, that is, the extent to which the management's expert's work could provide persuasive evidence.
25. The nature and extent of procedures to assess the management's expert's competence, capability and objectivity depends on the significance of the management's expert's work to the auditor's conclusion regarding the relevant assertion and the risk of material misstatement of the relevant assertion. As the significance of the management's expert's work and risk of material misstatement increases, the persuasiveness of the evidence the auditor obtains for these assessments also increases.

Competence

26. Competence relates to the nature and level of expertise of the management's expert. The auditor uses professional judgement when determining the competency of a management's

¹⁰ ASA 500, paragraph 8.

¹¹ ASA 330 *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

expert. When assessing competence, the auditor may consider the guidance included in ASA 500¹² as well as:

- (a) The management's expert's experience in the type of work performed, including applicable areas of speciality within the expert's field;
 - (b) The reputation and standing of the management's expert including:
 - (i) Previous experience with the work of the expert;
 - (ii) Enquiring of other practitioners who have used that management's expert or others working in the same industry;
 - (c) The professional certification, license or professional accreditation of the management's expert. Experts may have professional obligations under their professional or industry bodies. These obligations vary significantly and are determined by the professional or industry body¹³. The auditor's confidence when assessing the competency of the management's expert may increase with membership of professional or industry bodies that:
 - Require professional qualification or accreditation;
 - Subject their members to regulatory requirements/guidance;
 - Subject their members to a specific set of standards or guidance on the expert's services;
 - Require continuous professional development; and
 - Require professional obligations to be followed by their members.
27. The auditor's evaluation of the management's expert may be influenced by the management's expert's work environment, for example the expert's internal quality control policies and procedures.

Capability

28. Capability relates to the ability of the management's expert to exercise their competency in the circumstances. When assessing capability, the auditor may consider:
- Geographic location
 - Availability of time
 - Availability of resources
 - Instructions on scope provided by management

Objectivity

29. Objectivity relates to the possible effects that bias, conflict of interest, or the influence of others may have on the professional or business judgement of the management's expert. When assessing objectivity, the auditor may consider:

¹² ASA 500, paragraph A49.

¹³ For example actuaries are governed by the Institute of Actuaries of Australia, an actuary's specific responsibilities in relation to data are set out in the *Actuarial Code of Professional Conduct, Actuarial Professional Standards* and where relevant other regulatory and legislative requirements, *APRA Prudential Standards* and the *Life Insurance Act 1995*.

- (a) circumstances that threaten the objectivity of the management's expert; and
 - (b) whether appropriate safeguards are in place to eliminate those threats or reduce them to an acceptable level.
30. ASA 500 indicates that evidence from external sources is generally more reliable than that generated internally. The auditor may assess the relationship to the company of the management's expert, specifically, whether circumstances exist that give the company the ability to significantly affect the management's expert's judgements about the work performed, conclusions or findings. The existence of a relationship between the management's expert and the entity being audited may impair the management's expert's ability to be objective. The risk that the objectivity of a management's expert will be impaired increases when the management's expert is employed by the entity or is related in some way to the entity. Where a management's expert is employed by the entity, the auditor needs to consider whether there are any mitigating factors such as professional and/or statutory obligations governing the work of the management's expert that would impact on the objectivity of the management's expert.
31. Circumstances which may threaten the objectivity of the management's expert may include: advocacy threats, familiarity threats, self-review threats and self-interest threats¹⁴. Examples include economic dependency of the management's expert on the entity and contingency based fee arrangements.
32. The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the management's expert and the significance of the expert's work in the context of the audit. There may be safeguards specific to the audit engagement, however there may be circumstances where safeguards cannot reduce threats to an acceptable level¹⁵.
33. When the management's expert is an employee of the entity, mitigating factors which enhance the ability of the management's expert to be objective, and therefore are safeguards for the lack of independence may include:
- Adherence to the professional standards issued by the expert's regulating body.
 - Formal appointment of the management's expert by those charged with governance and direct access to those charged with governance by that expert.

Ordinarily, the basis on which the management's expert is remunerated and or incentives offered as part of that remuneration are considered by the auditor when assessing the management's expert's objectivity.

Consideration of the above may also be relevant in evaluating the objectivity of a management's expert that is external to the entity.

Overall Assessment of Competence, capability and objectivity of a management's expert

34. If the auditor is concerned with the competence, capability or objectivity of the management's expert, the auditor may consider communicating any concerns with management and if appropriate those charged with governance and considers whether sufficient appropriate audit evidence can be obtained concerning the work of the management's expert. The auditor may undertake alternative procedures or seek audit evidence from another expert including an auditor's expert.

¹⁴ ASA 500, paragraph A52.

¹⁵ ASA 620, paragraph A19.

Obtaining an Understanding of the Work of a Management's Expert

35. The auditor makes reference to the requirements, application and other explanatory material in ASA 500 when obtaining an understanding of the management's expert's work to assess whether it is adequate for the purposes of the audit.
36. When obtaining an understanding of the management expert's work, the auditor, having regard to whether the management's expert is internal or external to the entity, considers:
- The terms of the engagement between the entity and the management expert, including understanding the nature, timing and extent of work to be performed by the management's expert and the form of any report to be provided by that expert;
 - Whether the auditor has any prior knowledge of the management expert's field of expertise, or with that expert;
 - The economic and competitive conditions impacting the entity and its operating results;
 - Whether there is evidence of undue management pressure on the management's expert;
 - The existence of controls within the entity over the work of the management's expert (for example whether there are procedures in place to challenge or review the expert's work, such as review by those charged with governance) or controls over the source data used in the expert's assessment;
 - Whether management has authorised their expert to discuss their findings or conclusions with the auditor¹⁶;
 - Whether the management's expert has consented to the auditor's intended use of their findings; and
 - Whether the management's expert has agreed for the auditor to access their work papers (review of the expert's work papers is not normally required other than as considered necessary by the auditor using their professional judgement).
37. Where management has not consented for their expert to discuss their findings or conclusions with the auditor, or the management's expert has not consented to the auditor's intended use of their findings, the auditor considers the guidance as provided in paragraphs 51 to 54.

Engagement with the Management's Expert

38. As early as practicable during the engagement, the auditor communicates with the management's expert either directly or indirectly through management, and considers the management's expert's approach and methodology. The auditor assesses whether the approach and methodology is an appropriate basis for determination of the matter included in the financial report or other historical financial information. For example where management uses a valuation expert for a purchase price adjustment calculation, the auditor communicates with the management's expert early on in the valuation process so as to understand and agree on the basis for identification of assets and the basis of the valuation methodology.

¹⁶ Agreement for the expert to discuss findings with the auditor, and consent for the auditor to use the expert's findings, is generally discussed and agreed with management or those charged with governance and the expert at the planning phase of the engagement.

Evaluating the Appropriateness and Adequacy of the work of a Management's Expert

39. ASA 500¹⁷ contains application and other explanatory material that when evaluating the appropriateness of the management expert's work as audit evidence for the relevant assertion, the auditor considers:
- The relevance and reasonableness of the management expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial report;
 - If the management expert's work involves the use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
 - If the management expert's work involves significant use of source data, the relevance, completeness and accuracy of that source data.
40. ASA 540¹⁸ contains requirements and application material when evaluating the appropriateness of the work of a management's expert as audit evidence in relation to the audit of accounting estimates.

Determining the necessary audit effort for evaluating the management's expert's work

41. ASA 500 and ASA 540 do not require that the auditor reperforms the work of a management's expert. Instead the auditor's responsibility is to evaluate whether the management's expert's work provides sufficient appropriate audit evidence to support a conclusion regarding whether the corresponding accounts or disclosures in the financial report are in conformity with the relevant financial reporting framework.
42. Factors that may impact the persuasiveness of evidence needed when evaluating the work of a management's expert include the risk of material misstatement and the significance of the management's expert's work to the auditor's conclusion.
- (a) Consistent with ASA 330¹⁹, the higher the risk of material misstatement for an assertion, the more persuasive the evidence needed to support a conclusion about that assertion.
 - (b) The significance of a management's expert's work refers to the degree to which the auditor gathers evidence in evaluating the management's expert's work to support the auditor's conclusions about the assertion. Generally, the greater the significance of the management's expert's work to the auditor's conclusion, the more persuasive the evidence from the management's expert's work needs to be. The significance of the management's expert's work stems from:
 - (i) The extent to which the management's expert's work affects the account balances, classes of transactions and disclosures in the financial report. In certain situations that work may be a primary source of audit evidence, while in other situations, the management's expert's work may only be used as a cross-check.
 - (ii) The auditor's approach to testing the relevant assertion and the availability of alternative sources of audit evidence. For example, when a company's accounting estimate is determined principally based on the work of a management's expert, and the auditor plans to test how management made the accounting estimate, the auditor would plan to evaluate the work of the management's expert for evidence regarding the estimate. If the auditor tests

¹⁷ ASA 500, paragraph A59.

¹⁸ ASA 540 paragraph 30

¹⁹ ASA 330 *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

an assertion by developing an independent expectation, the auditor would give less consideration to the work of the management's expert.

The Findings and Conclusions of the Management's Expert

43. The auditor considers the final findings and conclusions in the agreed form of report of the expert. The auditor using their professional judgement considers what additional procedures are required, particularly when the risk of material misstatement has been assessed as significant. The auditor may consider performing more extensive procedures or engaging an auditor's expert to review some or all of the work of the management's expert. Specific procedures to evaluate the reasonableness of the management's expert's work for the auditor's purposes may include:

- Enquiries of the management's expert.
- Comparing the management's expert's final report to the draft report (if a draft report is provided) and understanding and enquiring into material differences.
- Understanding the accuracy of prior period estimates made by that management's expert.
- Corroborative procedures, such as:
 - observing the management's expert's work;
 - examining published data, such as statistical reports from reputable, authoritative sources;
 - confirming relevant matters with relevant third parties;
 - performing detailed analytical procedures; and/or
 - re-performing calculations including sensitivity analysis on key inputs.
- Consultation with another expert with relevant expertise when, for example, the findings or conclusions of the expert are not consistent with other audit evidence or the findings indicate an error, deviation, deficiency in internal control, or other significant matter or the scope of the engagement or adequacy of evidence is insufficient.
- Discussion of the management's expert's report with management and if appropriate those charged with governance, including understanding their assessment of the expert's findings. In addition, if material, the auditor may seek to understand the reasons for the final report differing from initial draft reports.

44. Relevant factors when evaluating the relevance and reasonableness of the findings or conclusions of the management's expert, whether in a report or other form, may include whether they are:

- Consistent with the auditor's understanding of the entity and its environment;
- Clearly expressed, including reference to the objectives agreed with management, the scope of the work performed and standards applied;
- Consistent with the results of other audit procedures;
- Cross-checked against one or more other methodologies;
- Based on an appropriate period/point in time and take into account events occurring after that date, where relevant;

Guidance Statement GS 005 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence*

- Subject to any reservation, limitation or restriction on use, and if so, whether this has implications for the auditor; and
- Based on appropriate consideration of errors, deviations, deficiencies in internal controls or other significant matters identified by the management's expert.

Methods, Assumptions and Source Data

45. When a management's expert's work involves the use of methods, assumptions and source data, the auditor ordinarily does not reperform all of the work undertaken by that expert. The auditor's responsibility is to evaluate that the management's expert's work provides sufficient appropriate audit evidence to support a conclusion regarding whether in all material respects the corresponding account balances, classes of transactions or disclosures in the financial report are in conformity with the applicable financial reporting framework.

Methods

46. When a management's expert's work involves the use of significant methods, factors relevant to the auditor's evaluation of the appropriateness of methods include whether they are:
- Generally accepted within the management's expert's field;
 - Justified as the appropriate valuation methodology;
 - Consistent with the requirements of the applicable financial reporting framework; and
 - Dependent on the use of specialised models.
47. Ordinarily the auditor is not expected to obtain access to proprietary models used by a management's expert. Rather, the auditor's responsibility is to obtain information to assess whether the model used is appropriate, robust and in conformity with the applicable financial reporting framework. Depending on the model and the factors discussed under paragraph 43, this may involve for example one or more of the following:
- (a) obtaining an understanding of the model;
 - (b) reviewing descriptions of the model in the management's expert's report;
 - (c) testing controls over the company's evaluation of the management's expert's work;
 - (d) assessing inputs to and outputs from the model or in place of other procedures, the auditor may consider using an alternative model for comparison.
48. If the work of a management's expert involves the use of methods relating to an accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in a financial report, the auditor follows the requirements contained within ASA 540.²⁰

Assumptions

49. When a management's expert's work involves the use of significant assumptions, factors relevant to the auditor's evaluation of the reasonableness of those assumptions may include consideration of:
- The degree of estimation uncertainty associated with the management's expert's underlying assumptions and the degree of stress testing undertaken;

²⁰ ASA 540 paragraph 30 and A131.

- Significant changes during the course of the audit that may affect the appropriateness of the assumptions used; and
 - Consistency of those assumptions with relevant information. The following examples may be considered relevant:
 - assumptions generally accepted within the management's expert's field and are they appropriate for financial reporting purposes;
 - industry, regulatory and other external factors, including economic conditions;
 - existing market information;
 - historical or recent experience, along with changes in conditions and events affecting the company;
 - significant assumptions used in other estimates tested in the company's financial report
50. Assumptions relating to accounting estimates that are made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate²¹. In these circumstances, the auditor applies the relevant requirements of ASA 540 to those assumptions.

Source Data Used by the Management's Expert

51. The auditor considers whether the source data is sufficiently relevant and reliable for their purposes, including evidence relating to the accuracy and completeness of the data and evaluating whether the data is sufficiently precise and detailed. The extent of the auditor's procedures is dependent on the nature and risk of the source data and the materiality of the underlying balance, transaction and/or disclosure to which it relates. When a management's expert's work involves the use of source data that is significant to that expert's work, procedures such as the following may be used to evaluate that data:
- Identifying the source of the data, including obtaining an understanding of the data, and where applicable, testing the internal controls over the data and, where relevant, its transmission to the management's expert.
 - Assessing the data for completeness, accuracy and consistency with information available to the auditor.
52. In many cases, the auditor may test the source data directly, particularly where the data is internally produced by the company. However, in other cases, for example when the nature of the source data used by the management's expert is highly technical in relation to the expert's field, that expert may test the source data. If the management's expert has tested the source data, the auditor considers the most appropriate way of evaluating whether the source data is sufficiently reliable for their purposes such as enquiry of that expert as to the scope and nature of the testing they performed, supervision or review of that expert's tests and/or the involvement of an auditor's expert.
53. If the work of a management's expert involves sources of data relating to an accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in a financial report, the auditor may find the requirements and application material of ASA 540²² helpful.

²¹ ASA 540 paragraph A130.

²² ASA 540 paragraph A131.

Guidance Statement GS 005 *Evaluating the Work of a Management's Expert and Considerations in Determining the Extent to which the Auditor Uses their Work as Audit Evidence*

Evaluation of the Work Undertaken by the Expert

54. The auditor evaluates the sufficiency and appropriateness of the management's expert's work as audit evidence for the relevant assertion.
55. Considerations when evaluating the sufficiency and appropriateness of the management's expert's work include considering the relevance and reliability of that work including:
- (a) the results of the auditor's procedures over the competence, capability and objectivity of the management's expert;
 - (b) the results of the auditor's procedures over the management's expert's methods, assumptions and source data;
 - (c) the nature of any restrictions, disclaimers or limitations in the management's expert's report; and
 - (d) the consistency of the management's expert's work with other evidence obtained by the auditor and the auditor's understanding of the company and its environment.
56. If the auditor determines that the work of the management's expert is not appropriate for the auditor's purposes, or does not address material errors, deviations, deficiencies in internal controls or other material matters, or does not constitute sufficient appropriate audit evidence, the auditor agrees with management on the nature and extent of further work to be performed by the management's expert; or performs additional audit procedures appropriate to the circumstances. The auditor may communicate this with those charged with governance. If the matter cannot be resolved, this is reported to those charged with governance and it may be necessary for the auditor to express a modified opinion in the auditor's report if the auditor cannot obtain sufficient appropriate audit evidence.
57. When the auditor concludes that the work of the management's expert is appropriate for the auditor's purposes, the auditor may accept that expert's findings or conclusions as appropriate audit evidence. The auditor then determines whether the management's expert's findings or conclusions have been accurately reflected in the financial report or other historical financial information including relevant disclosures.

Documentation

58. Although there are no specific documentation requirements in ASA 500, the auditor is required to comply with the documentation requirements of ASA 230, that requires the auditor when assessing the extent of documentation, to consider what audit documentation is necessary to enable an experienced auditor, having no previous connection with the audit, to understand the auditor's:
- Assessment of whether to use the work of the management's expert;
 - Evaluation of the competence, capabilities and objectivity of the management's expert;
 - Understanding the management's expert's work;
 - Evaluation of the appropriateness of the management's expert's work as audit evidence for the relevant assertion.
59. The auditor ordinarily includes in their documentation relevant extracts from the management's expert's findings including the conclusions reached.

60. The auditor follows the documentation requirements of ASA 540²³ when the management's expert's work is used in the preparation of an accounting estimate.

Reference to the Work of a Management's Expert in the Auditor's Report

61. The auditor does not refer to the work of the management's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor indicates in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.
62. If the auditor makes reference to the work of the management's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor indicates in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

Communication with Those Charged with Governance and Others

63. Due to uncertainties that may be associated with the work undertaken by a management's expert, the potential effects on the financial report and/or other historical financial information of any significant risks are likely to be of governance interest.
64. ASA 260 *Communication with Those Charged with Governance* contains the auditor's responsibility to communicate with those charged with governance in an audit of a financial report. In relation to using the work of a management's expert, the auditor, using professional judgement, may communicate:
- Whether management has engaged a management's expert;
 - Concerns regarding competency or objectivity of the management's expert;
 - Materiality and risk of the subject matter subject to determination by the management's expert;
 - The proposed intended use of the management's expert's work by the auditor;
 - Key findings/conclusions of the management's expert's report including commentary on:
 - Significant assumptions, methods and data used;
 - Degree of subjectivity of assumptions;
 - Whether the expert's work is adequate for audit purposes and obtains appropriate audit evidence; and
 - Significant differences in judgement between the auditor and expert.

The appropriate timing for communications will vary with the circumstances of the engagement; however, it may be appropriate to communicate significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion.

²³ ASA 540 paragraph 39.

Conformity with International Pronouncements

65. There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

*Confidential
Draft*



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **8.0**

Meeting Date: 3 December 2019

Subject: ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity

Date Prepared: 25 November 2019

Prepared By: Anne Waters

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

1. To provide an update on ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ED 01/19) including:
 - The feedback received from New Zealand stakeholders and deliberations of the NZAuASB on the description of the responsibility for going concern;
 - The joint sub-committee's discussions on going concern matters to date; and
 - Feedback from Australian and New Zealand stakeholders on other matters included in the exposure drafts.

Background

2. At its meeting on 12 September 2018 the AUASB agreed consistent with the principle of harmonisation with New Zealand¹, to update ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410) concurrently and consistently with the NZAuASB's equivalent standard, NZ SRE 2410. Importantly it was agreed the scope of this update is limited to Auditor Reporting conforming amendments to facilitate consistency in reporting, and NOCLAR.

¹ The AUASB and the NZAuASB have a mandate to harmonise standards where applicable, unless there is a compelling reason not to. Compelling reasons for differences between Australian and New Zealand standards are where:
(a) Different regulatory requirement apply; and/or
(b) Different practices are considered appropriate (including the use of significant terminology).

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

3. The AUASB approved ED 01/19 at its meeting on 16 April 2019 and issued [Explanatory Memorandum and ED 01/19](#) on 16 May 2019, seeking feedback from stakeholders on proposed amendments to ASRE 2410.
4. The NZAuASB released their equivalent Exposure ED NZAuASB 2019-1 on 12 July 2019, with different wording in the auditor's review report of the auditor's responsibility relating to going concern.
5. The AUASB issued an [Addendum to Explanatory Memorandum ED 01/19](#) (Addendum) on 19 July 2019 to communicate to Australian stakeholders the different options presented by the AUASB and the NZAuASB, and request additional feedback on this issue, in order to inform the AUASB in its deliberations on the proposed amendments to ASRE 2410.
6. At its meeting on 19 September 2019 the AUASB discussed the alternate wording and also discussed feedback received from stakeholders on this matter. Key issues discussed were:
 - The AUASB acknowledged and agreed with the consistent feedback that the AUASB and NZAuASB should do everything possible to align their approach to this matter.
 - The AUASB confirmed that the scope and objective of this project was limited to aligning the format and content where appropriate, of the review report, to the auditor's report, and not to change other underlying procedural requirements in ASRE 2410.
 - In considering NZAuASB's ED, the AUASB concluded that an explicit statement that the auditor concludes on going concern basis of accounting and whether a material uncertainty related to going concern exists, is not a requirement in ASRE 2410, and therefore this should not be included in the auditor's responsibilities section of the review report. It was agreed that this would be misleading to readers of the review report, and in excess of the current requirements.
 - The AUASB also discussed whether the underlying requirements in ASRE 2410 in relation to going concern should be enhanced in the future and agreed this would be considered after this project was completed.
7. The AUASB agreed with the proposal to form a sub-committee consisting of Members and technical staff from the AUASB and NZAuASB to work together to progress this project.

Update on the description of the auditor's responsibilities in relation to going concern

8. Refer to Appendix 1 of this paper which includes the two options proposed by the AUASB and the NZAuASB for the AUASB's information.

Deliberations of the NZAuASB

9. At its meeting on 24 October 2019 the NZAuASB discussed feedback from stakeholders on their exposure draft. Complete written responses were received from one firm, two professional bodies, and one academic, in addition to a few email responses specifically in relation to the going concern issue.
10. New Zealand staff also sought views from the broader financial reporting supply chain, given that the changes have an objective linked to enhancing communication. They solicited views from the XRB Board, NZASB Board members, XRAP members and developed a survey to obtain views from investors and others. They also sought views from the FMA (regulator) and the Reserve Bank.

11. The most significant matter raised by stakeholders was the reporting of the auditor's responsibilities related to going concern. Paragraph (12) is an extract from NZAuASB meeting papers which summarises the feedback they received.
12. Extract from NZAuASB meeting papers
 - In summary, there was not strong support for either option, "both options have their weakness". There was more support for the sentiment expressed in option 1 but considerable pushback against the drafting.
 - Various views were received in relation to the proposed description of the auditors' responsibilities related to going concern. The variation in responses is indicative that this is both an important topic and a somewhat complex description to articulate. Key themes emerging include:
 - A public interest need for the NZAuASB and the AUASB to work together to agree a common approach.
 - A need to clarify the objective and scope of the proposals and the value added by doing so.
 - A need for simple, understandable language. (e.g. both options have low Flesch readability).
 - Additional factors to consider include:
 - The length and emphasis of the going concern description in the review report. If going concern is not an issue why draw so much attention to it? What value is added by highlighting that the auditor was not really looking at going concern and did not find anything.
 - The post implementation review of auditor reporting by the IAASB which will explore extending the reporting requirements beyond audits and a reluctance to go ahead of the IAASB. It may also be relevant to note [new requirements](#) issued in the UK by the FRC, albeit not for an interim review, that go even further than ISA 570, which seem to respond to the feedback received from the NZASB and XRAP.
 - The overlap with the auditor's responsibilities at year end (and thus the relevance of the interim statement). NZ IAS 1 notes the preparers assessment covers a period of at least 12 months. If an entity goes under 9 months after year end, the auditor will be accountable under ISA 570.

Specific feedback on the two proposed options :

| Approach | In favour | Concern |
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| Listing the procedure from paragraph 19 (option 2) | Does not imply a higher requirement than 2410. | Incomplete. The procedure does not capture the responsibility. May infer long form reporting which may confuse. |

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| | | Lacks clarity about what has changed and from when. |
| Articulating the responsibility as a “negative” conclusion. (First sentence of option 1) | To capture the overarching “responsibility” and distinguish that from the audit. Some support for “conclude”. i.e. is implicit. | Concern that “conclude” was too strong, may go beyond what is required. Sentences too long and language too complicated. |
| Addressing reporting responsibility when there is a material uncertainty (Second sentence option 1) | Generally supported | One comment that this does not really tell you anything as you would report a material uncertainty if there was anything to tell. |
| Future events may cast doubt on the ability of the entity to continue as a going concern (Third sentence option 1) | Generally supported (or no concerns raised) | One opposing view Deloitte Australia: “We don’t believe this is appropriate as it is extraneous for the circumstances of a review engagement, and it is out of context as there is no linkage to the date of the auditor’s review report (which is how it is structured in the auditor’s report under AS 700). |
| A broader need to clarify the responsibility within the requirements of 2410 (i.e. a need to clarify para 19) | A number of suggestions for clarification in the standard | |

13. Based on this feedback the NZAuASB agreed both options were not appropriate, and discussed;
 - The feedback highlighted a need to clarify the auditor’s responsibilities and that the existing standard was deficient;
 - Given feedback from users and preparers that the descriptions were confusing, placed too much emphasis on going concern, and including a description could increase the expectation gap, was this improving the communicative value of the review report;
 - It is very difficult to articulate the auditor’s responsibility as it is linked to the previous audit.
14. Based on this feedback the NZAuASB had mixed views on whether they should be including the responsibility for going concern in the review report or whether this would confuse the users, and was it best to “remain silent” and not include this in the review report. The NZAuASB discussed an

indicative preference to not describe the auditor's responsibilities in relation to going concern in the revised review report wording. However they acknowledged that this had not been considered by the AUASB. It was agreed that the sub-committee would further consider possible wording, or if not if it is appropriate to "remain silent".

Feedback from Australian stakeholders on the description of going concern

15. Included in our Addendum we asked our stakeholders:

Do you agree that the review report should include a description of the responsibility for the auditor in respect of going concern?

Do you agree with how the auditor's responsibility has been described in ED 01/19?

16. The AUASB received feedback from the big 6 audit firms and the professional bodies. The AUASB request for feedback was open to all stakeholders, including preparers and users. We did not receive feedback from preparers or users.
17. As discussed at the September meeting we received mixed feedback on both options as follows:
- Two respondents agreed with option 2 (in AUASB's ED) with no changes;
 - Half of the respondents did not agree listing the procedures (option 2) was communicating the responsibilities and that the responsibility needs to include the impact on the review report if there is a material uncertainty related to going concern or a modification, (as is done in option 1);
 - Seven respondents commented that ASRE 2410 does not require the auditor to "conclude" on the going concern basis of accounting, and they do not agree it is appropriate to include this as an explicit statement in the review report as is done in NZAuASB's ED. Respondents commented that this wording is appropriate for an audit and is not appropriate for a review engagement;
18. All Australian respondents said they agree it is appropriate to include the auditor's responsibilities in the review report. The feedback in New Zealand questioning the value of including this in the review report was from preparers and users.

Joint sub-committee deliberations

19. The joint sub-committee met on 11 November 2019. The NZAuASB members expressed a preference to remain silent due to concerns that describing the responsibility in the review report may not improve the communicative value of the report and may add to the expectation gap. The AUASB members acknowledged that this may be a way forward, given (1) the constraints of the scope of the project, (2) the technical nature of the matters that contribute to the difficulty of expressing these responsibilities in way that does not add to the expectation gap, and (3) the potential imbalance in volume of words that could inadvertently direct more attention than appropriate to the going concern responsibilities over and above other responsibilities. The AUASB members expressed a desire to further explore words, and if the description is too long, to also assess whether an option to cross refer to a full description of auditor's responsibilities on the AUASB website is possible (as is allowed for the annual audit). A longer description of relevant responsibilities are available for readers, without unnecessarily lengthening the audit report itself.
20. There were different views as to whether the *procedures* in ASRE 2410 are the *responsibility*. The AUASB members expressed views that the responsibility has to align to the procedures given the nature of a review engagement. This is consistent with the *responsibilities* described in the annual audit report, where the words are lifted from the ASA 570 *procedure/requirement*.

21. There was a discussion that if there was a need for detailed wording and acknowledging the feedback that a long description of the responsibility for going concern may be disproportionate to the rest of the report, this could be overcome by reference to wording on a website as is done in the annual auditor's report. Note that was discussed initially by both boards but not considered necessary. But two respondents in New Zealand and one in Australia suggested this as an option to be reconsidered.
22. In exploring "words" it may be necessary to seek consensus on what is the responsibility as compared to the procedure, before we can agree how to describe that responsibility in the report. If this does not assist, it may be possible to develop FAQs or Basis of Conclusion as to why the report is silent.
23. Staff and the joint sub-committee members will continue to work together to find a way forward.

Question for the AUASB

What is your view on whether it is beneficial for users of the review report to include the auditor's responsibility for going concern, or whether this is not included based on the above feedback?

Feedback on other questions in the EDs from stakeholders

24. The AUASB Technical Group (ATG) are still to finalise its consideration of the feedback on the other questions asked in ED 01/19. The following is a summary of the feedback where the ATG require direction from the AUASB to progress further.

Do you agree with the scope and key proposals to incorporate the auditor's reporting requirements made to the auditor's report consistently into the auditor's review report?

25. All respondents agreed with the scope and key proposals with one respondent commenting on global convergence/consistency and consistent application across the full suite of Australian review standards.

Do you agree with the proposed amendments to incorporate conforming amendments as a result of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR)?

26. All agreed with amending ASRE 2410 for NOCLAR, however three respondents recommended further amendments were required (note not all three recommended each point):
 - Include more from ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* and where relevant, APES 110 *Code of Ethics for Professional Accountants* as follows:
 - (i) paragraph 15 - the auditor to enquire about whether the entity is aware of any NOCLAR.
 - (ii) paragraph 19 - if the auditor becomes aware of an instance of, or suspects, NOCLAR, to obtain an understanding of the nature of the act and the circumstances in which it has occurred, as well as further information to evaluate the possible effect on the financial statements
 - (iii) Paragraphs 23 – 25 which relate to communicating and reporting identified or suspected non-compliance.
 - (iv) Additional responsibilities that go beyond ASA 250 included in paragraph 9, for example communicating to group auditors, and documentation.

Or include more references from ASRE 2410 to ASA 250 for these points.

27. NZAuASB also received feedback to include more from ASA 250 specifically paragraph 15, 19 and 25.
28. ATG view:
- Appendix 2 includes the amendments included in ED 01/19 to reflect the NOCLAR amendments for the AUASB's reference. These are based on the conforming amendments made to ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* internationally.
 - ASA 250 is an entire standard dedicated to NOCLAR and is required for an audit. The auditor is not required to comply with ASA 250 under ASRE 2410 and are required to make certain enquiries, update their understanding of the entity and perform analytical procedures to identify if there are any NOCLAR. The AUASB previously discussed not adding more to ASRE 2410 and where possible refer to the relevant auditing standard for guidance.
 - (i) There is no specific requirement in ED 01/19 for an enquiry about laws and regulations, however there is an enquiry in Appendix 2 *Illustrative detailed procedures that may be performed*. The ATG consider it appropriate to add a specific enquiry requirement which is based on ASRE 2400 (note this was an existing requirement in ASRE 2400 and not a NOCLAR conforming amendment) as follows:

The auditor shall enquire of management and, where appropriate, those charged with governance, as to the existence of any actual or suspected non-compliance with provisions of laws and regulations that are generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements
 - (ii) ED 01/19 includes increased requirements for the auditor to communicate any identified NOCLAR to TCWG (appendix 2), as well as requesting management to consider the effect on the financial report, and for the auditor to consider the effect on the review report. We consider ASA 250 paragraphs 19, 23 – 25 (refer above) are covered by paragraph 20 in extant ASRE 2410. We consider it appropriate to make references from ASRE 2410 to ASA 250 for the points above.

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| <p>Question for the AUASB</p> |
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|---|
| <p>Do you agree with adding an additional requirement in ASRE 2410 included in paragraph 28(i) above?</p> |
|---|

Do you agree with including reviews of financial reports prepared in accordance with a compliance framework explicitly in the scope of ASRE 2410?

29. All respondents agreed with including compliance frameworks with some respondents providing additional comments, however noted some editorial amendments for consistency.
30. One respondent questioned whether the way compliance frameworks had been added to ASRE 2410 was the most effective way given it was very rarely and the standard is applicable primarily to interim reviews required under the *Corporations Act 2001*. They suggested that minimum attention be given to compliance frameworks. For example, include compliance frameworks in the definition paragraph 5 but then include a statement along the lines that “this standard does not address the circumstance where a review is conducted by the auditor of the entity on a financial report prepared under a compliance framework as it is expected to rarely occur. However, the requirements can be adapted for that purpose.” Then remove the references to compliance frameworks throughout the standard.

ATG Recommendation

We have amended ASRE 2410 to specifically include compliance frameworks including the opinion wording and an illustrative example. This was done for usability of the standard. Given only one respondent suggested this, we recommend leaving the compliance frameworks drafting as is in the ED.

Question for the AUASB

Do you agree with the ATG's recommendation, or do you prefer to adopt the feedback in paragraph 29?

Going Concern

31. Some respondents requested more detail from ASA 570 be included in ASRE 2410 as follows:

- Paragraph 50 in ED 01/19 refers to “If adequate disclosure about the material uncertainty is made in the financial report.....” One respondent asked for more detail on what is “adequate disclosure” in an interim financial report when there is a material uncertainty relating to an event or condition that casts significant doubt on the entity’s ability to continue as a going concern. Paragraph 19 of ASA 570 prescribes four specific disclosure requirements for annual financial statements that are subject to audit;
- Specific procedures required when a material uncertainty exists ASA 570 paragraph 16 such as:
 - (i) Evaluation of management’s plans for future actions;
 - (ii) Analysis of the cash flow forecast;
 - (iii) Obtaining written representations from management and TCWG regarding their plans for future actions and feasibility of these plans and appropriately reference to
- Require the auditor to enquire about the basis for TCWG’s assessment of the entity’s ability to continue as a going concern.

32. The ATG considers that it is not appropriate to include these amendments as ASRE 2410 A52 includes the following reference to ASA 570:

ASA 570 Going Concern provides information that the auditor may find helpful in considering going concern in the context of the review engagement.

Any further amendments to ASRE 2410 are beyond the scope of this project.

Question for the AUASB

Do you agree that these recommendations are beyond the scope of this project?

Use of going concern basis of accounting is inappropriate

33. The following requirement was added to ED 01/19 and is not in extant ASRE 2410, to ensure all possible reporting scenarios are included in the interim review standard. Previously this requirement only resided in ASA 570.

Extract from ED 01/19 Paragraph 52:

If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgement, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse conclusion.

34. No respondents in Australia or New Zealand raised concern about this requirement being added. However, NZAuASB staff have raised this as something for their board to consider due to concerns expressed by some stakeholders about the auditor's responsibilities related to going concern (i.e. some stakeholder views that the auditor is not required to conclude on the appropriateness of the use of the going concern basis as part of the interim review), and if it is appropriate to include this requirement without clarifying the required procedures.
35. The ATG do not recommend removing this based on the reasons detailed in paragraph 33 for adding this. However as this is being raised to the NZAuASB are seeking the AUASB's view.

Question for the AUASB

We seek confirmation from the AUASB that it is appropriate to include ED 01/19 paragraph 52 in the final standard.

Other information

36. The AUASB previously concluded that it is not appropriate to include a requirement in ASRE 2410 for an Other Information paragraph until the results of the IAASB's Auditor Reporting post implementation is known. The IAASB have indicated that they are aware of concerns with ISA 720² and based on this the AUASB believe it is prudent to wait until this standard is reviewed internationally. This conclusion was communicated in the Explanatory Memorandum to ED 01/19. All respondents in Australia agreed with scope of our amendments to ASRE 2410 and some specifically commented that they agree with not requiring an Other Information paragraph.
37. Two out of three submissions in New Zealand have a different view and commented that an Other Information paragraph would be useful for users. This is not a matter that was explored with New Zealand users.
38. Extract from submissions received by NZAuASB:

"We are not convinced that there is a compelling argument to not require a section on Other Information in the interim review report. As most interim reports would be published by entities with commentary and other information attached, it would be useful for the user to understand the context of our responsibilities in relation to Other Information in the interim report. However, we agree that it is a pragmatic solution to consider this potential improvement at a later date." (EY)

"As interim financial statements will typically be published in conjunction with other information, such as the directors' report, we suggest that it would aid transparency to include a section on other information, when applicable, to clarify what the auditor did in relation to that other information." (CPA)

39. The NZAuASB are considering this matter at their December meeting.

Question for the AUASB

Has your view changed on inclusion of an "Other Information" section in the review report.

² ISA 720 *The Auditor's Responsibility Relation to Other Information*

Do you agree with the proposed effective date? If not, please explain why not.

40. The proposed effective date included in ED 0119 was for financial reporting periods commencing on or after 1 January 2020, with early adoption permitted. Five respondents agreed to the proposed effective date but two proposed effective date of financial reporting periods ending on or after 31 December 2019. The ATG's view is that the effective date will be reconsidered based on when the final standard is ready for issue.

Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?

41. All respondents commented that they are not aware of any laws and regulations that have not been included or addressed in ED 01/19.

Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

42. All respondents commented that they are not aware of any laws or regulations that would prevent or impede the application of the proposed standard.

Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

43. All respondents commented that they are not aware of any principles or practices that would prevent or impede the application of ED 01/19.

What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:

- a. Where these costs are likely to occur;*
- b. The estimate extent of costs, in percentage terms (relative to audit fees); and*
- c. Whether expected costs outweigh the benefits to the users of audit services?*

44. All respondents do not expect significant increase in costs for both auditors and the business community however, one respondent commented that there will be costs incurred a result of deviating from the audit firm's global audit methodology and associated guidance. These include localisation of the audit platform for review engagements in accordance with proposed ASRE 2410, local methodology and guidance customisation, and updates to management representation letter templates and review report templates. These deviations may cause confusion for auditors when working as component engagement teams on global Group audits and will require customised local learning for the auditors.

Are there any other significant public interest matters that stakeholders wish to raise?

45. None of the respondents have raised any other significant public interest matters.

Next steps

46. The sub-committee will continue to assess the going concern issue and report back at our February 2020 meeting.

Question for the AUASB

Any other comments or matters that the AUASB would like to raise?

APPENDIX 1 The auditor's responsibility for going concern wording included in the exposure drafts

Option 1 (NZAuASB's ED)

"Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by [those charged with governance] is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the [period] financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions may cause the entity to cease to continue as a going concern."

Option 2 (AUASB's ED)

"We make enquiries about whether management have changed their assessment of the entity's ability to continue as a going concern. When, as a result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall enquire of management as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. We consider the adequacy of the disclosures about such matters in the financial statements."

APPENDIX 2: NOCLAR

The following shows the amendments made to the communication requirements as a result of NOCLAR

Under Communication heading

30. When, as a result of performing the review of a financial report, a matter comes to the auditor's attention that ~~causes the auditor to believe~~ indicates the existence of fraud or non-compliance ~~by the entity~~ with laws and regulations or suspected fraud or non-compliance with laws and regulations, has occurred in the entity, the auditor shall:

- (a) communicate the matter unless prohibited by law or regulation, as soon as practicable to those charged with governance and shall consider the implications for the review. (Ref: Para. A39)
- (b) request management's assessment of the effect (s) on the financial report;
- (c) consider the effect on the auditor's conclusion and the review report; and
- (d) determine whether law, regulation or relevant ethical requirements:
 - (i) require the auditor to report to an appropriate authority outside the entity;
 - (ii) establish responsibilities under which reporting to an appropriate authority

outside the entity may be appropriate in the circumstances. (Ref: Para. A39A38 – A40)

31. The auditor shall communicate relevant matters of governance interest arising from the review of the financial report to those charged with governance. (Ref: Para. A40 and A59A58)



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **9.0.0**

Meeting Date: 3-4 December 2019

Subject: Assurance Framework Publications

Prepared By Tim Austin

Date Prepared: 21 November 2019

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. The objective of this agenda item is to present the initial outlines of two of the AUASB proposed assurance framework publications to the AUASB Members to obtain feedback on:
 - (a) whether the publications are broadly being developed in line with what was discussed at the September 2019 AUASB Meeting; and
 - (b) whether the AUASB considers the proposed publication timeline appropriate.
2. The AUASB is asked to respond to questions 1-6 below.

Background

1. At the September 2019 AUASB Meeting, the AUASB Technical Group (ATG) presented the Board with a revised Assurance Framework project plan for approval. The revised project plan proposed three publications targeted at different stakeholder groups. The objectives of each of the publications are:
 - (a) Publication 1 – Provide a simple and accessible overview of the assurance framework, explaining things like the different levels of assurance, the assurance products available and the auditor’s responsibility for going-concern and fraud. (Target audience – non-practitioner stakeholders who do not have an in-depth understanding of the assurance framework.)
 - (b) Publication 2 – Prepare a guide for assurance ‘prescribers’ to assist with drafting effective assurance requirements in legislation/regulation including acquittal arrangements to assist with reducing instances of engagements which are unclear, not able to be assured or difficult to assure. (Target audience – legislators/regulators in Australia.)
 - (c) Publication 3 – Improve understanding of the other credibility enhancing engagements that can be undertaken under the suite of AUASB standards using real-life examples including,

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cyber security assurance, engagements over culture, modern-slavery statements and climate change. (Target audience – Preparers who are unaware of the assurance products available and would like to understand how assurance can be provided over range of subject matters to provide to their users.)

2. The AUASB Members approved the revised project plan and provided feedback on the content of each publication as well as the proposed timeframe for completion.

Matters to Consider

Style of Publications

3. The publications have been drafted in a consistent style which aims to avoid the use of complex language. In drafting publication 1, which is intended to provide a simple and accessible overview of the assurance framework, each area has broadly been broken down into:
 - (a) What is the concept;
 - (b) What do auditors do about it; and
 - (c) What does this look like in practice?
4. To assist with explaining what concepts look like in practice a number of examples have been used. These examples in the final publication will be designed to clearly stand out from the main body text.
5. An index of defined terms has also been included in the document and the defined terms have been highlighted throughout the publication.

Questions – Publication 1

1. Do AUASB Members overall consider that the publications are being drafted with the appropriate style and level of technical language?
 2. Should there be explicit references to AUASB standards to provide further reading for interested users?
 3. Are there particular terms that should be included in the definitions section?
 4. Are there any frequently asked questions that AUASB Members believe should be included in the publication as examples?
-
6. Publication 2, which is intended to be a guide for assurance ‘prescribers’ to assist with drafting effective assurance requirements, largely follows the format of the NZAuASB’s [equivalent publication](#) and the Department of Finance’s [Resource Management Guide 210](#) *Clarification of the terms ‘Audit’ and ‘Assurance’*.
 7. Publication 2 has been provided to AUASB Members as a preliminary draft to capture feedback on the key messages and structure. Additional editorial changes and content is still to be made.
 8. Publication 2 has been broadly broken down into:
 - (a) What subject-matter can be assured under the AUASB framework;
 - (b) What levels of assurance are available;

- (c) Who do you want to perform the engagement; and
- (d) Tips for drafting assurance requirements, including FAQs.

Questions

- 5. Do AUASB Members agree with the current approach to drafting publication 2?
- 6. Are there specific examples that should be included in the publication not already considered?

Publication plan:

- 9. To ensure the publications are presented in a consistent and engaging format, an external graphics expert will be engaged to assist with finalisation. Feedback will also be sought from technical staff of the Professional Bodies, AASB and APESB.
- 10. Publications 1 and 2 are planned to be issued by the end of February 2020. As staff publications, the AUASB is not required to approve the publications but they will be sent to AUASB Members for fatal flaw review. The publications will then be approved for issue subsequent to review by the AUASB Technical Director and AUASB Chair.

Material Presented

| | |
|-------------------|---|
| Agenda Item 6.0.0 | AUASB Board Meeting Summary Paper |
| Agenda Item 6.0.1 | (Draft) Publication 1 – Overview of Assurance |
| Agenda Item 6.0.2 | (Draft) Publication 2 – Guide for Assurance Prescribers |

Action Required

| No. | Action Item | Deliverable | Responsibility | Due Date | Status |
|-----|--|-----------------|----------------|-------------------|--------|
| 1. | Respond to Questions in Agenda Item 11.0.0 | Feedback to ATG | AUASB | 3-4 December 2019 | |



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **10.0**

Meeting Date: 3 & 4 December 2019
Subject: AUASB Strategy – Update and Approval
Date Prepared: 27 November 2019

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

1. For the AUASB to review and approve the revised AUASB Strategy developed by the AUASB Strategy Subcommittee since the last AUASB meeting.

Background

1. A joint session to review the AASB and AUASB Strategies was held with the AASB in Sydney as part of the AUASB Meeting in June 2019. Whilst high level discussions were held by AUASB members in table groups, a full review of the AUASB strategy was not possible, so was deferred to the September 2019 AUASB meeting.
2. At the September 2019 AUASB meeting several revisions to the proposed Strategy were requested by AUASB Members, including better alignment of the AUASB's strategic objectives and strategic priorities and additional consideration of how thought leadership contributes to each strategic priority.
3. Other topics related to the AUASB Strategy discussed were confirmation of the AUASB's continuing commitment to support the Australian Accounting Standards Board (AASB) Australian Financial Reporting Framework Project and clarification of the AUASB's role when it comes to educational activities, which AUASB Members agreed are predominately the domain of the accounting professional bodies.
4. A subcommittee of AUASB Members (Robin Low, Julie Crisp, Klynton Hankin, Jo Cain and Carolyn Ralph) was appointed to work with the AUASB Chair and Technical Director to update the AUASB Strategy at the September 2019 AUASB Meeting, with the AUASB Chair requesting that the updated strategic priorities be reviewed again by the full board at the AUASB's December 2019 meeting.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Matters to Consider

1. Refer to the updated AUASB Strategy document at **Agenda Item 10.1** which has been developed based on input from the appointed AUASB Strategy Subcommittee members. NB: Due to the extensive changes from the previous AUASB Strategy a comparison document marking up the changes has not been provided.
2. Not all feedback from subcommittee members has been incorporated into the updated AUASB Strategy document presented with this Board Meeting Summary Paper. Some feedback received was more operational or detailed in nature, so this has instead been considered by the AUASB Technical group for the AUASB 2019-20 Technical Work Program.
3. In addition to the feedback from subcommittee members, the updated version of the AUASB Strategy incorporates feedback from discussions at the last board meeting, comments that were emailed by AUASB members subsequent to the September 2019 meeting and has been revised to more closely align to the 'Performance criteria' in the AUASB's 2019-20 Portfolio Budget Statements.
4. The revised format of the AUASB Strategy document separates the Strategic Objectives from the more operational performance measures into different columns (NB: the previous AUASB Strategy was a mixture of both), which is more consistent with other similarly sized Commonwealth Government agencies.
5. Feedback received from the FRC since the last AUASB meeting strongly encouraged the AUASB to continue to include an explicit reference to our alignment with the AASB on the Frameworks project in our Strategy document so this has been retained as a separate strategic objective, albeit with less emphasis on the AASB and more appropriate wording for the AUASB's broader focus on promoting consistency and understanding of the nature and extent of assurance reporting.
6. The revised AUASB Strategy still contains seven strategic priorities, with specific priorities relating to emerging auditing and assurance issues (specifically EER and Technology) now removed and replaced by new strategic priorities relating to Audit Quality and Thought Leadership (Strategic Priorities 4 & 5). NB: References to EER and Technology have not been removed however – they now appear in relation to Strategic Priority 5 relating to Thought Leadership.

Material Presented






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| Agenda Item 10.0 | AUASB Board Meeting Summary Paper |
| Agenda Item 10.1 | Updated AUASB Strategy Document – For AUASB approval |

Action Required

| No. | Action Item | Responsibility | Due Date | Status |
|-----|--|----------------|-----------------|--------|
| 1. | Approval of updated AUASB Strategy document at Agenda Item 10.1 | AUASB | 3 December 2019 | Final |

This table records the AUASB's activities in support of its strategic objectives and key performance indicators in the 2019-20 AUASB Corporate Plan, with a status report and update of activities for the reporting period for each high-level priority area provided.

Performance Measure One: Issue Australian Auditing and Assurance Standards based on IAASB equivalent standards in accordance with AUASB functions and mandate from the Financial Reporting Council (FRC).

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|--|---|---|---|
| Develop and issue Australian Auditing and Assurance Standards following the release of their IAASB equivalent, ensuring all Australian legislative and regulatory requirements are considered, including changes required by the AUASB's "compelling reason" test. | <ul style="list-style-type: none"> Issue all Australian IAASB equivalent Standards and Exposure Drafts within 3 months of PIOB clearance or 1 month of AUASB approval, as appropriate |  | <ul style="list-style-type: none"> The IAASB approved for issue ISA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i> at its September 2019 meeting. The AUASB is waiting for this to be formally issued by the IAASB after PIOB approval in November. |
| Coordinate and develop high quality responses from the AUASB to all IAASB exposure drafts, other IAASB pronouncements and invitations to comment, incorporating relevant feedback from AUASB members and Australian stakeholders. | <ul style="list-style-type: none"> Release Exposure Drafts/Discussion Papers via the AUASB Website within two weeks of approval by AUASB Stakeholder engagement plan developed and implemented for each IAASB pronouncement Responses developed with appropriate AUASB input and sent to the IAASB by the closing date |  | <ul style="list-style-type: none"> The AUASB submitted its response to the IAASB's Quality Management Exposure Drafts in July 2019. The AUASB developed a local survey to support the receipt of feedback on the IAASB's LCE Discussion Paper and then submitted its response to the IAASB in September 2019. |
| Develop and issue implementation support materials and activities for all new IAASB/AUASB standards. | <ul style="list-style-type: none"> AUASB implementation support materials and activities for all new IAASB/AUASB standards in place before effective date |  | <ul style="list-style-type: none"> AUASB Technical Staff presented a webinar for CPA Australia on revised ASA 540. Currently working on a Bulletin to support the implementation of this standard which is effective December 2019. AUASB Bulletin: Auditor's Responsibilities for the Financial Reporting Framework issued in July 2019. |
| Conduct post-implementation reviews of IAASB equivalent issued AUASB Standards, feeding into the IAASB's post-implementation review projects as required. | <ul style="list-style-type: none"> Obtain evidence appropriately evaluating implementation of IAASB equivalent AUASB Standards in Australia Provide feedback to IAASB as requested |  | <ul style="list-style-type: none"> Waiting on the IAASB's Auditor Reporting post implementation review project to commence. |
| Finalise and implement revised AUASB Due Process procedures and documentation for exposing and issuing International Exposure Drafts. | <ul style="list-style-type: none"> Revised AUASB Due Process for exposing and issuing International Exposure Drafts in place for all IAASB EDs issued in 2020 and beyond |  | <ul style="list-style-type: none"> To commence in second half of 2019-20. Work to be performed in collaboration with the NZAuASB. |



Completed / On track



In progress / Partially Completed / Delayed due to issues beyond AUASB control











Yet to commence






Delays / Issues encountered





Performance Measure Two: Develop, update and maintain Australian specific Standards and/or Guidance Statements for topics not specifically addressed by IAASB Standards as required.

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|--|--|---|---|
| Develop and issue Australian specific AUASB Standards and Exposure Drafts within one month of AUASB approval, in accordance with AUASB legislative drafting and registration requirements. | <ul style="list-style-type: none"> Issue all Australian specific AUASB Standards and Exposure Drafts within one month of AUASB approval Finalise conforming amendments and compilation standards as a result of changes to AUASB standards within one month of the AUASB standard being issued |  | <ul style="list-style-type: none"> ASRE 2410 being updated in conjunction with the NZAuASB. The AUASB considered feedback from Australian stakeholders at its September meeting. ASRE 2410 to be reconsidered by the AUASB at its December meeting ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> being updated for change to Ethics Code. |
| Update existing AUASB pronouncements, including identifying and revising AUASB Guidance Statements which are out of date or need revision determined by AUASB member and stakeholder feedback. | <ul style="list-style-type: none"> Complete project to review all AUASB Guidance Statements (GS) by December 2019 Develop and implement Project Plans for the update all GS identified as out of date over the next 3 year (i.e. from 2019-2022) Release updated GS within two weeks of approval by AUASB |  | <ul style="list-style-type: none"> AUASB Discussion Paper on Revision of AUASB Guidance Statements (GS) and survey issued in October 2019 seeking feedback from stakeholders on which GSs should be withdrawn, revised or where no change required. The following updated GS's to be considered by the AUASB for approval at its December 2019 meeting: <ul style="list-style-type: none"> GS 005 <i>Using the Work of a Management's Expert</i>. GS 008 <i>The Auditor's Report on a Remuneration Report Under 300A of the Corporations Act 2001</i> Update to GS 012 <i>Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions</i> in progress. Developed and updated project plan for GS 009 <i>Auditing Self-Managed Superannuation Funds</i>. |
| Determine where other AUASB Framework Pronouncements require updating. | <ul style="list-style-type: none"> Review and update other AUASB Framework Pronouncements, as required. |  | <ul style="list-style-type: none"> No AUASB Framework Pronouncements require updating at this time |
| Conduct post-implementation reviews of Australian specific AUASB Standards, as required. | <ul style="list-style-type: none"> Conduct post-implementation reviews of Australian specific AUASB Standards, within 2 years of their operative date. |  | <ul style="list-style-type: none"> To commence in second half of 2019-20. Work for ASAE 3100 <i>Compliance Engagements</i> to be performed in collaboration with the NZAuASB. |





| | | | |
|---|--|---|---|
|  Completed / On track |  In progress / Partially Completed / Delayed due to issues beyond AUASB control |  Yet to commence |  Delays / Issues encountered |
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

Performance Measure Three: Monitor the Assurance Environment (including the impact of regulatory inspection findings) and address any implications for Australian auditing and assurance standards and guidance.

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|---|---|---|--|
| Review and update the 2019-2023 AUASB Strategy and 2019-20 AUASB Technical Work Program based on feedback from AUASB members and key stakeholders and informed by the final 2020-2023 IAASB Strategy. | <ul style="list-style-type: none"> Update AUASB 2019-23 Strategy based on AUASB feedback Finalise 2019-20 Technical Work Program and align it to AUASB 2019-23 Strategy Produce quarterly update and reporting of progress against AUASB 2019-20 Technical Work Program for FRC and AUASB for each relevant FRC and AUASB meeting |  | <ul style="list-style-type: none"> 2019-23 Strategy currently being updated by AUASB subcommittee. To be discussed and approved by full Board at the December 2019 meeting. 2019-20 Technical Work Program has been finalised. |
| Work with the FRC to develop the FRC Audit Quality Plan and implement those elements that are the responsibility of the AUASB. | <ul style="list-style-type: none"> AUASB involvement in FRC Audit Quality Plan approved by FRC AUASB Audit Quality activities delivered as required by the updated FRC Audit Quality Plan |  | <ul style="list-style-type: none"> CFO Survey on Audit Quality issued and results being finalised. |
| Monitor developments associated with the Joint Parliamentary Inquiry on the regulation of Auditing, working across the profession to promote audit quality and the AUASB's role. | <ul style="list-style-type: none"> Develop submission for parliamentary inquiry Coordinate with other key stakeholders across the profession (e.g. FRC, APESB) as required Prepare and assist the AUASB Chair with any presentations to the parliamentary joint committee Work with respected academics to produce background papers on state of Australian auditing and NAS markets to aid evidence-informed decision making Monitor and respond to any recommendations relevant to the AUASB |  | <ul style="list-style-type: none"> AUASB Draft submission issued for AUASB review, with teleconference scheduled for 22 October 2019 to review and then finalise AUASB submission by 28 October 2019. |



| | | | |
|---|--|---|---|
|  Completed / On track |  In progress / Partially Completed / Delayed due to issues beyond AUASB control |  Yet to commence |  Delays / Issues encountered |
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


AUASB Technical Work Program – 2019-2020 Q1 Report for AUASB

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|---|---|---|--|
| Following on from the AUASB LCE Survey work with small and medium audit practitioners to determine implications for Australian Standard Setting. | <ul style="list-style-type: none"> Develop additional guidance and initiatives to support LCE auditors based on LCE survey outcomes Provide input to IAASB on proposed response to LCE Discussion Paper |  | <ul style="list-style-type: none"> AUASB issued its submission to the IAASB on its LCE Discussion Paper in September 2019. Plan for taking the LCE project forward in Australia currently in development and scheduled for presentation to AUASB in February 2019. |
| Monitor developments in public sector auditing and assurance issues by maintaining regular engagement with Auditors-General through the AUASB Public Sector Audit Issues Project Advisory Group (PAG) and the ACAG Auditing Standards Subcommittee. | <ul style="list-style-type: none"> Develop and have approved specific AUASB guidance (in a form to be determined) for public sector auditors on issues raised by the Public Sector Audit Issues PAG Provide ongoing input to FRC subcommittee on Public Sector Reporting and Assurance matters Positive engagement with Auditors-General and ACAG Auditing Standards Committee |  | <ul style="list-style-type: none"> AUASB Technical Group continuing to work on issues raised by ACAG through Public Sector Audit Issues PAG. AUASB to be provided update at the December 2019 meeting focusing on whether the approach taken by the PAG to issues identified by ACAG is appropriate. Guidance (likely in the form of an AUASB Guidance Statement) targeted for March/April 2020. AUASB Technical staff have provided input into FRC subcommittee papers on Public Sector Reporting and Assurance matters. |
| Working with regulators and auditing firms, assess and respond to implementation issues and issue AUASB guidance to address key inspection findings. | <ul style="list-style-type: none"> Analyse and respond to 2019 ASIC inspection Findings Identify and produce relevant guidance materials addressing common inspection findings in key audit areas Work with AASB to identify accounting and auditing issues impacting audit quality |  | <ul style="list-style-type: none"> GS 005 <i>Using the Work of a Management's Expert</i> has been updated and will be considered by the AUASB at its December 2019 meeting. Plan to develop AUASB guidance in relation to auditing of Revenue to be considered when next ASIC Audit Inspection Report is released in December 2019. |
| Monitor international auditing and assurance developments (including global audit inspection developments and trends) and consider the impact for the Australian auditing and assurance environment. | <ul style="list-style-type: none"> Engage with IAASB and NSS representatives to monitor international developments Consider issues arising from UK audit inquiries Review IFIAR and other global publications to determine impact on Australian standard setting environment |  | <ul style="list-style-type: none"> Regular meetings held with NSS representatives from NZ, Canada and the Netherlands which discuss regulatory and professional developments in each territory. AUASB Technical Staff continuing to monitor the UK audit inquiries. Through connection with the IAASB and IFAC the AUASB Technical Staff have not identified any other major international auditing and assurance developments impacting the Australian auditing and assurance environment |





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


AUASB Technical Work Program – 2019-2020 Q1 Report for AUASB

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|---|---|---|---|
| Hold regular formal meetings with the professional accounting bodies, other standard setting bodies and regulators to discuss trends in assurance environment and identify the impact on the AUASB Agenda and Technical Work Program. | <ul style="list-style-type: none"> Regular meetings (at least quarterly) to be held with key regulatory contacts and representatives from the professional bodies. Meeting with other key stakeholders to be held as necessary Maintain meeting register and report to AUASB at each meeting |  | <ul style="list-style-type: none"> Regular dialogue with CPA and CA ANZ representatives as a result of collaboration on Parliamentary Inquiry into the Regulation of Auditing. Formal meetings with each professional body, to update them on AUASB work program, still to be arranged. Regular formal meetings held with ASIC and APESB representatives on common areas of interest. AUASB Meeting Register to be updated for December 2019 meeting. |
| Support the development of research into the Australian auditing and assurance environment | <ul style="list-style-type: none"> Produce and publish AUASB research papers via the AUASB Research Centre and promote them with academics |  | <ul style="list-style-type: none"> Two AUASB Academic Scholars appointed and have commenced projects working in collaboration with the AUASB. AUASB Research Report 3 <i>Audit Market Structure and Competition in Australia</i> issued in October 2019, authored by AUASB scholar. Two additional AUASB Research Reports currently under development. |




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

Performance Measure Four: *Build, maintain and enhance key international relationships around key focus areas with both global and national standard-setters.*

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|---|---|---|--|
| AUASB to be represented at all IAASB meetings. | <ul style="list-style-type: none"> AUASB Chair and Technical Team member to attend all IAASB meetings Summary of each IAASB meeting prepared and presented to the AUASB |  | <ul style="list-style-type: none"> AUASB Chair and Technical staff member attended September 2019 IAASB meeting. |
| Arrange for AUASB review of relevant IAASB projects at each AUASB meeting and share feedback on key matters with regional IAASB members and relevant IAASB Task Force members before each IAASB meeting. | <ul style="list-style-type: none"> IAASB papers reviewed and papers prepared by AUASB staff for each AUASB meeting. Feedback on AUASB key issues prepared and sent to Australasian IAASB members and relevant Task Forces prior to each IAASB meeting |  | <ul style="list-style-type: none"> IAASB September 2019 papers were reviewed by the AUASB. Final version of ISA 315 was subjected to a 'fatal flaw' review by the AUASB, as this standard was being approved by the IAASB at its September 2019 meeting. |
| With the IAASB, Canadian AASB and NZAuASB, identify and implement initiatives to drive increased sharing and collaboration across the National Standards Setting (NSS) network, including attending and presenting relevant topics at regional and global IAASB NSS meetings. | <ul style="list-style-type: none"> Develop and share updated NSS vision and roadmap Collaboration and support from IAASB steering committee for NSS initiatives Increased influence of NSS on IAASB Agenda and Outcomes Identify and implement initiatives to collaborate on key international auditing and assurance focus areas with other key NSS. |  | <ul style="list-style-type: none"> Meetings held with new IAASB Chair to gain support for AUASB NSS involvement. Regular meetings held with NSS representatives from NZ, Canada and the Netherlands to identify common projects in NSS work programs and act on actions arising from last IAASB NSS meeting in May 2019. Initial planning with IAASB of NSS meeting to be held in May 2020 underway. Draft NSS Vision and Roadmap complete |
| Engage with relevant global standard setters and advisory groups (e.g. IAASB EER Project Advisory Panel, IIRC, GRI and WBCSD) on emerging forms of assurance. | <ul style="list-style-type: none"> Monitor and contribute to IAASB EER Project Advisory Panel meetings Support associated regional activities and local panel members Link in Australian EER initiatives where appropriate Valuable input into to IIRC, GRI and WBCSD calls and meetings on behalf of the AUASB |  | <ul style="list-style-type: none"> Monitored and contributed to IAASB EER PAP meetings held in July and September 2019. EER Assurance Survey issued to participants on 23 Sep 19. Collaborating with NZAuASB on EER Assurance Survey to share with NZ assurance practitioners. |




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Performance Measure Five: Maintain harmonisation of auditing and assurance standards in Australia and New Zealand in accordance with relevant agreements and protocols.

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|---|--|---|--|
| AUASB Chair to attend all NZAuASB meetings as a NZAuASB Member. | <ul style="list-style-type: none"> AUASB Chair input into NZAuASB meetings AUASB staff to review relevant NZAuASB board papers and provide feedback to AUASB Chair and NZAuASB staff where applicable Updates from the NZAuASB Chair to the AUASB at each meeting |  | <ul style="list-style-type: none"> AUASB Chair attended NZAuASB meetings on 24 July, 4 September and 24 October 2019. AUASB staff reviewed all relevant NZAuASB board papers and provided summary feedback to the AUASB Chair. |
| Ensure AUASB Standards are issued in accordance with the principles of harmonisation with New Zealand Standards. | <ul style="list-style-type: none"> All AUASB Standards are issued in accordance with the common set of principles in relation to the standards that each board issues |  | <ul style="list-style-type: none"> ASRE 2410 currently being developed in conjunction with the NZAuASB. NZAuASB submissions still being evaluated and the standard will be reconsidered by the AUASB at its December 2019 meeting. |
| Work collaboratively with NZAuASB Technical Staff to ensure co-operation and co-ordination between the AUASB and NZAuASB's activities, including on joint AUASB/NZAuASB projects where appropriate. | <ul style="list-style-type: none"> Identification and prioritisation of joint AUASB/NZAuASB projects AUASB and NZAuASB staff to ensure collaboration on the 'high' rated joint projects For other potential joint projects, the AUASB and NZAuASB Technical Director to build joint activities into each board's respective technical work programs |  | <ul style="list-style-type: none"> AUASB Technical Director visited NZ in October 2019 to meet with NZAuASB Technical Director and NZAuASB Chair and collaborate on joint Board projects and other NSS matters. Additional joint projects for current year identified and built into final 2019-20 AUASB Technical Work Program. |






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

Performance Measure Six: *Develop thought leadership by identifying and implementing strategic projects that address emerging issues in auditing and assurance.*

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|--|---|---|--|
| <p>Undertake strategic thought leadership projects in the following topical or emerging auditing and assurance areas:</p> <ul style="list-style-type: none"> - Audit quality - Assurance over Emerging Forms of External Reporting (EER) and other information in annual reports and other public reports - Assurance of Financial Reporting Frameworks - Audit and assurance of Charities and Not for Profit organisations - The Value of Audit and reducing the Audit Expectation Gap - Use of Technology in the Audit, including Data Analytics | <ul style="list-style-type: none"> ▪ Project plans developed and 2019-20 outputs identified for each strategic thought leadership project area ▪ Develop and implement outreach and engagement plans with subject matter experts and key stakeholders for each strategic thought leadership project area ▪ Regular updates provided to AUASB members at AUASB meetings |  | <ul style="list-style-type: none"> • Ongoing collaboration with the FRC on Audit Quality activities as outlined in the FRC Audit Quality Action Plan. • EER Survey in progress and other EER thought leadership activities currently under consideration. • AUASB staff have assisted in developing materials and taking part in AASB outreach events on Reforming the Australian Reporting Framework in October 2019, covering both 'For profit' and 'Not for Profit' sector reporting. • Three new or updated AUASB publications addressing how to apply the AUASB Assurance Framework effectively currently under development. • Initial scoping of AUASB specific guidance on the use of Technology in the Audit, including Data Analytics currently under development. |
| <p>In accordance with the AUASB Evidence Informed Standard Setting Strategy, support or conduct high quality research in these and other areas relevant to the AUASB's strategic thought leadership areas.</p> | <ul style="list-style-type: none"> ▪ Promote research opportunities in these strategic thought leadership projects through academic networks and conferences in accordance with the EISS strategy ▪ Ensure current and past research undertaken with the AUASB are published on the AUASB Research Centre and promoted across the profession |  | <ul style="list-style-type: none"> • AUASB Research Centre launched on the AUASB Website. • AUASB Academic Scholar role being advertised for 2020 appointments. • AUASB Research Report 3 '<i>Audit Market Structure and Competition in Australia</i>' by AUASB scholar Prof. Liz Carson of UNSW Sydney, issued in October 2019. Two additional reports under development. |
| <p>Author or contribute to publications on major auditing and assurance developments.</p> | <ul style="list-style-type: none"> ▪ Develop and publish articles or publications in selected strategic thought leadership project areas |  | <ul style="list-style-type: none"> • AUASB Chair featured in CPA Australia's 'In the Black' cover article and being interviewed for an upcoming CAANZ 'Acuity' magazine article. • AUASB Technical Staff developing an outline for a commentary piece for the Australian Accounting Review journal. |



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


Performance Measure Seven: Increase stakeholder satisfaction and engagement with AUASB activities, with a specific focus on assurance practitioners, regulators, the professional bodies and financial report users.

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
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| Develop and issue AUASB Publications (e.g. Bulletins, FAQs) to provide guidance to Stakeholders as required on AUASB Pronouncements and topical/emerging auditing and assurance issues and in conjunction with the release of all major AUASB standards and guidance statements. | <ul style="list-style-type: none"> Develop Bulletins based on evidence and existing AUASB requirements Engage with regulators, stakeholders, AUASB members and other stakeholders as required to develop content Promote availability of AUASB guidance through various communication channels |  | <ul style="list-style-type: none"> AUASB Bulletin: Auditor's Responsibilities for the Financial Reporting Framework issued in July 2019. ASA 540 Implementation Bulletin currently under development. |
| Implement and promote the AUASB Evidence Informed Standard Setting (EISS) Strategy. | <ul style="list-style-type: none"> Communicate benefits of EISS Strategy to academic community at conferences and technical forums Promote engagement with AUASB to attain research in thought leadership areas |  | <ul style="list-style-type: none"> AUASB Research Centre launched on website. AUASB Senior Project Manager appointed to Deakin University Integrated Reporting Steering Committee. |
| AUASB members or staff to attend and present at auditing or assurance related professional and academic events/conferences and regular professional and regulatory forums. | <ul style="list-style-type: none"> Identify appropriate local and international professional and academic events/conferences for the AUASB to present at or attend Attendance at local professional and regulatory forums |  | <ul style="list-style-type: none"> AUASB Chair and Technical staff members attended July 2019 AFAANZ conference, with AUASB Chair being a Keynote speaker. AUASB involvement in upcoming ANCAAR and ALLNEC Audit Conference under consideration. Planning commenced for AUASB involvement in CA ANZ 2021 Audit Conferences. |
| Obtain positive feedback from FRC members on AUASB activities. | <ul style="list-style-type: none"> Valuable engagement with FRC members at FRC meetings AUASB staff to develop auditing and assurance related papers for FRC meetings |  | <ul style="list-style-type: none"> AUASB Chair Update and AUASB Performance Report presented at FRC September 2019 meeting. AUASB Technical staff developing FRC response to JPC Inquiry into the regulation of Auditing. AUASB technical staff assisted in development of FRC papers on Public Sector Financial Report reform and Nominations Committee. |
| Develop and distribute a quarterly AUASB Update publication. | <ul style="list-style-type: none"> AUASB Newsletters developed and sent out every 3 months |  | <ul style="list-style-type: none"> First AUASB Newsletter for 2019-20 issued on 30 Sep 19. |

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|  Completed / On track |  In progress / Partially Completed / Delayed due to issues beyond AUASB control |  Yet to commence |  Delays / Issues encountered |
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AUASB Technical Work Program – 2019-2020 Q1 Report for AUASB

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
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| Conduct a regular AUASB Stakeholder Satisfaction Survey and respond to results. | <ul style="list-style-type: none"> Evaluate results from and develop actions in response to inaugural AUASB Stakeholder Satisfaction Survey completed in July 2019 Consider need for additional survey in 2020. |  | <ul style="list-style-type: none"> Results from the AUASB Stakeholder Satisfaction Survey currently being evaluated by AUASB Technical Staff. |
| Implement initiatives to support and grow stakeholder engagement, measured via increased media mentions, social media activity and level of participation at AUASB events. | <ul style="list-style-type: none"> Develop AUASB Communications Strategy Develop AUASB Message Calendar process Greater use of on-line tools to communicate AUASB projects (e.g. Webinars) Improved processes and communications to drive attendance and promotion of AUASB meetings and events |  | <ul style="list-style-type: none"> Current AUASB communications processes operating as intended. Updates to AUASB Communications Strategy and review of other AUASB Communications processes yet to commence. |

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **10.0**

Meeting Date: 3 & 4 December 2019
Subject: AUASB Technical Work Program Update
Date Prepared: 19 November 2019
Prepared by: Matthew Zappulla

☐ Action Required

☒ For Information Purposes Only

Agenda Item Objectives

1. To provide the AUASB with a status update of the 2019-20 AUASB Technical Work Program.

Background

2. The AUASB Technical Group prepared the final 2019-20 AUASB Technical Work Program and it was approved by the AUASB Chair in September 2019 (after the last AUASB meeting). A public version of the 2019-20 AUASB Technical Work Program has now been posted on the AUASB Website.
3. The AUASB Technical Group has produced a status update of the 2019-20 AUASB Technical Work Program for the AUASB to review. The format of this update aligns to the reporting we are required to present to the FRC to ensure consistency and reduce duplication. This is provided to the board at the first meeting following the end of each quarter.

Matters to Consider

4. The status update of the 2019-20 AUASB Technical Work Program is provided to board members for review at **Agenda Item 10.1**.
5. The Final 2019-20 AUASB Technical Work Program will be used as the basis for information that populates our AUASB Performance Report in the AASB-AUASB 2019-20 Annual Report.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

AUASB Technical Group Recommendations






- 6. Provide feedback to the AUASB Technical Group on the status update of the Q1 2019-20 AUASB Technical Work Program presented at **Agenda Item 10.1**.
- 7. Provide suggestions to the AUASB Technical Group about additions and changes AUASB members would like included in the 2019-20 AUASB Technical Work Program document.

Material Presented

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| Agenda Item 10.0 | AUASB Board Meeting Summary Paper |
| Agenda Item 10.1 | 2019-20 AUASB Technical Work Program – Q1 Status Update |

This table records the AUASB's activities in support of its strategic objectives and key performance indicators in the 2019-20 AUASB Corporate Plan, with a status report and update of activities for the reporting period for each high-level priority area provided.

Performance Measure One: Issue Australian Auditing and Assurance Standards based on IAASB equivalent standards in accordance with AUASB functions and mandate from the Financial Reporting Council (FRC).

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|--|---|---|---|
| Develop and issue Australian Auditing and Assurance Standards following the release of their IAASB equivalent, ensuring all Australian legislative and regulatory requirements are considered, including changes required by the AUASB's "compelling reason" test. | <ul style="list-style-type: none"> Issue all Australian IAASB equivalent Standards and Exposure Drafts within 3 months of PIOB clearance or 1 month of AUASB approval, as appropriate |  | <ul style="list-style-type: none"> The IAASB approved for issue ISA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i> at its September 2019 meeting. The AUASB is waiting for this to be formally issued by the IAASB after PIOB approval in November. |
| Coordinate and develop high quality responses from the AUASB to all IAASB exposure drafts, other IAASB pronouncements and invitations to comment, incorporating relevant feedback from AUASB members and Australian stakeholders. | <ul style="list-style-type: none"> Release Exposure Drafts/Discussion Papers via the AUASB Website within two weeks of approval by AUASB Stakeholder engagement plan developed and implemented for each IAASB pronouncement Responses developed with appropriate AUASB input and sent to the IAASB by the closing date |  | <ul style="list-style-type: none"> The AUASB submitted its response to the IAASB's Quality Management Exposure Drafts in July 2019. The AUASB developed a local survey to support the receipt of feedback on the IAASB's LCE Discussion Paper and then submitted its response to the IAASB in September 2019. |
| Develop and issue implementation support materials and activities for all new IAASB/AUASB standards. | <ul style="list-style-type: none"> AUASB implementation support materials and activities for all new IAASB/AUASB standards in place before effective date |  | <ul style="list-style-type: none"> AUASB Technical Staff presented a webinar for CPA Australia on revised ASA 540. Currently working on a Bulletin to support the implementation of this standard which is effective December 2019. AUASB Bulletin: Auditor's Responsibilities for the Financial Reporting Framework issued in July 2019. |
| Conduct post-implementation reviews of IAASB equivalent issued AUASB Standards, feeding into the IAASB's post-implementation review projects as required. | <ul style="list-style-type: none"> Obtain evidence appropriately evaluating implementation of IAASB equivalent AUASB Standards in Australia Provide feedback to IAASB as requested |  | <ul style="list-style-type: none"> Waiting on the IAASB's Auditor Reporting post implementation review project to commence. |
| Finalise and implement revised AUASB Due Process procedures and documentation for exposing and issuing International Exposure Drafts. | <ul style="list-style-type: none"> Revised AUASB Due Process for exposing and issuing International Exposure Drafts in place for all IAASB EDs issued in 2020 and beyond |  | <ul style="list-style-type: none"> To commence in second half of 2019-20. Work to be performed in collaboration with the NZAuASB. |



Completed / On track



In progress / Partially Completed / Delayed due to issues beyond AUASB control











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


Performance Measure Two: Develop, update and maintain Australian specific Standards and/or Guidance Statements for topics not specifically addressed by IAASB Standards as required.

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
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| Develop and issue Australian specific AUASB Standards and Exposure Drafts within one month of AUASB approval, in accordance with AUASB legislative drafting and registration requirements. | <ul style="list-style-type: none"> Issue all Australian specific AUASB Standards and Exposure Drafts within one month of AUASB approval Finalise conforming amendments and compilation standards as a result of changes to AUASB standards within one month of the AUASB standard being issued |  | <ul style="list-style-type: none"> ASRE 2410 being updated in conjunction with the NZAuASB. The AUASB considered feedback from Australian stakeholders at its September meeting. ASRE 2410 to be reconsidered by the AUASB at its December meeting ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> being updated for change to Ethics Code. |
| Update existing AUASB pronouncements, including identifying and revising AUASB Guidance Statements which are out of date or need revision determined by AUASB member and stakeholder feedback. | <ul style="list-style-type: none"> Complete project to review all AUASB Guidance Statements (GS) by December 2019 Develop and implement Project Plans for the update all GS identified as out of date over the next 3 year (i.e. from 2019-2022) Release updated GS within two weeks of approval by AUASB |  | <ul style="list-style-type: none"> AUASB Discussion Paper on Revision of AUASB Guidance Statements (GS) and survey issued in October 2019 seeking feedback from stakeholders on which GSs should be withdrawn, revised or where no change required. The following updated GS's to be considered by the AUASB for approval at its December 2019 meeting: <ul style="list-style-type: none"> GS 005 <i>Using the Work of a Management's Expert</i>. GS 008 <i>The Auditor's Report on a Remuneration Report Under 300A of the Corporations Act 2001</i> Update to GS 012 <i>Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions</i> in progress. Developed and updated project plan for GS 009 <i>Auditing Self-Managed Superannuation Funds</i>. |
| Determine where other AUASB Framework Pronouncements require updating. | <ul style="list-style-type: none"> Review and update other AUASB Framework Pronouncements, as required. |  | <ul style="list-style-type: none"> No AUASB Framework Pronouncements require updating at this time |
| Conduct post-implementation reviews of Australian specific AUASB Standards, as required. | <ul style="list-style-type: none"> Conduct post-implementation reviews of Australian specific AUASB Standards, within 2 years of their operative date. |  | <ul style="list-style-type: none"> To commence in second half of 2019-20. Work for ASAE 3100 <i>Compliance Engagements</i> to be performed in collaboration with the NZAuASB. |





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

Performance Measure Three: Monitor the Assurance Environment (including the impact of regulatory inspection findings) and address any implications for Australian auditing and assurance standards and guidance.

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|---|---|---|--|
| Review and update the 2019-2023 AUASB Strategy and 2019-20 AUASB Technical Work Program based on feedback from AUASB members and key stakeholders and informed by the final 2020-2023 IAASB Strategy. | <ul style="list-style-type: none"> Update AUASB 2019-23 Strategy based on AUASB feedback Finalise 2019-20 Technical Work Program and align it to AUASB 2019-23 Strategy Produce quarterly update and reporting of progress against AUASB 2019-20 Technical Work Program for FRC and AUASB for each relevant FRC and AUASB meeting |  | <ul style="list-style-type: none"> 2019-23 Strategy currently being updated by AUASB subcommittee. To be discussed and approved by full Board at the December 2019 meeting. 2019-20 Technical Work Program has been finalised. |
| Work with the FRC to develop the FRC Audit Quality Plan and implement those elements that are the responsibility of the AUASB. | <ul style="list-style-type: none"> AUASB involvement in FRC Audit Quality Plan approved by FRC AUASB Audit Quality activities delivered as required by the updated FRC Audit Quality Plan |  | <ul style="list-style-type: none"> CFO Survey on Audit Quality issued and results being finalised. |
| Monitor developments associated with the Joint Parliamentary Inquiry on the regulation of Auditing, working across the profession to promote audit quality and the AUASB's role. | <ul style="list-style-type: none"> Develop submission for parliamentary inquiry Coordinate with other key stakeholders across the profession (e.g. FRC, APESB) as required Prepare and assist the AUASB Chair with any presentations to the parliamentary joint committee Work with respected academics to produce background papers on state of Australian auditing and NAS markets to aid evidence-informed decision making Monitor and respond to any recommendations relevant to the AUASB |  | <ul style="list-style-type: none"> AUASB Draft submission issued for AUASB review, with teleconference scheduled for 22 October 2019 to review and then finalise AUASB submission by 28 October 2019. |



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


AUASB Technical Work Program – 2019-2020 Q1 Report for AUASB

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|---|---|---|--|
| Following on from the AUASB LCE Survey work with small and medium audit practitioners to determine implications for Australian Standard Setting. | <ul style="list-style-type: none"> Develop additional guidance and initiatives to support LCE auditors based on LCE survey outcomes Provide input to IAASB on proposed response to LCE Discussion Paper |  | <ul style="list-style-type: none"> AUASB issued its submission to the IAASB on its LCE Discussion Paper in September 2019. Plan for taking the LCE project forward in Australia currently in development and scheduled for presentation to AUASB in February 2019. |
| Monitor developments in public sector auditing and assurance issues by maintaining regular engagement with Auditors-General through the AUASB Public Sector Audit Issues Project Advisory Group (PAG) and the ACAG Auditing Standards Subcommittee. | <ul style="list-style-type: none"> Develop and have approved specific AUASB guidance (in a form to be determined) for public sector auditors on issues raised by the Public Sector Audit Issues PAG Provide ongoing input to FRC subcommittee on Public Sector Reporting and Assurance matters Positive engagement with Auditors-General and ACAG Auditing Standards Committee |  | <ul style="list-style-type: none"> AUASB Technical Group continuing to work on issues raised by ACAG through Public Sector Audit Issues PAG. AUASB to be provided update at the December 2019 meeting focusing on whether the approach taken by the PAG to issues identified by ACAG is appropriate. Guidance (likely in the form of an AUASB Guidance Statement) targeted for March/April 2020. AUASB Technical staff have provided input into FRC subcommittee papers on Public Sector Reporting and Assurance matters. |
| Working with regulators and auditing firms, assess and respond to implementation issues and issue AUASB guidance to address key inspection findings. | <ul style="list-style-type: none"> Analyse and respond to 2019 ASIC inspection Findings Identify and produce relevant guidance materials addressing common inspection findings in key audit areas Work with AASB to identify accounting and auditing issues impacting audit quality |  | <ul style="list-style-type: none"> GS 005 <i>Using the Work of a Management's Expert</i> has been updated and will be considered by the AUASB at its December 2019 meeting. Plan to develop AUASB guidance in relation to auditing of Revenue to be considered when next ASIC Audit Inspection Report is released in December 2019. |
| Monitor international auditing and assurance developments (including global audit inspection developments and trends) and consider the impact for the Australian auditing and assurance environment. | <ul style="list-style-type: none"> Engage with IAASB and NSS representatives to monitor international developments Consider issues arising from UK audit inquiries Review IFIAR and other global publications to determine impact on Australian standard setting environment |  | <ul style="list-style-type: none"> Regular meetings held with NSS representatives from NZ, Canada and the Netherlands which discuss regulatory and professional developments in each territory. AUASB Technical Staff continuing to monitor the UK audit inquiries. Through connection with the IAASB and IFAC the AUASB Technical Staff have not identified any other major international auditing and assurance developments impacting the Australian auditing and assurance environment |





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


AUASB Technical Work Program – 2019-2020 Q1 Report for AUASB

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|---|---|---|---|
| Hold regular formal meetings with the professional accounting bodies, other standard setting bodies and regulators to discuss trends in assurance environment and identify the impact on the AUASB Agenda and Technical Work Program. | <ul style="list-style-type: none"> Regular meetings (at least quarterly) to be held with key regulatory contacts and representatives from the professional bodies. Meeting with other key stakeholders to be held as necessary Maintain meeting register and report to AUASB at each meeting |  | <ul style="list-style-type: none"> Regular dialogue with CPA and CA ANZ representatives as a result of collaboration on Parliamentary Inquiry into the Regulation of Auditing. Formal meetings with each professional body, to update them on AUASB work program, still to be arranged. Regular formal meetings held with ASIC and APESB representatives on common areas of interest. AUASB Meeting Register to be updated for December 2019 meeting. |
| Support the development of research into the Australian auditing and assurance environment | <ul style="list-style-type: none"> Produce and publish AUASB research papers via the AUASB Research Centre and promote them with academics |  | <ul style="list-style-type: none"> Two AUASB Academic Scholars appointed and have commenced projects working in collaboration with the AUASB. AUASB Research Report 3 <i>Audit Market Structure and Competition in Australia</i> issued in October 2019, authored by AUASB scholar. Two additional AUASB Research Reports currently under development. |




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

Performance Measure Four: *Build, maintain and enhance key international relationships around key focus areas with both global and national standard-setters.*

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
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| AUASB to be represented at all IAASB meetings. | <ul style="list-style-type: none"> AUASB Chair and Technical Team member to attend all IAASB meetings Summary of each IAASB meeting prepared and presented to the AUASB |  | <ul style="list-style-type: none"> AUASB Chair and Technical staff member attended September 2019 IAASB meeting. |
| Arrange for AUASB review of relevant IAASB projects at each AUASB meeting and share feedback on key matters with regional IAASB members and relevant IAASB Task Force members before each IAASB meeting. | <ul style="list-style-type: none"> IAASB papers reviewed and papers prepared by AUASB staff for each AUASB meeting. Feedback on AUASB key issues prepared and sent to Australasian IAASB members and relevant Task Forces prior to each IAASB meeting |  | <ul style="list-style-type: none"> IAASB September 2019 papers were reviewed by the AUASB. Final version of ISA 315 was subjected to a 'fatal flaw' review by the AUASB, as this standard was being approved by the IAASB at its September 2019 meeting. |
| With the IAASB, Canadian AASB and NZAuASB, identify and implement initiatives to drive increased sharing and collaboration across the National Standards Setting (NSS) network, including attending and presenting relevant topics at regional and global IAASB NSS meetings. | <ul style="list-style-type: none"> Develop and share updated NSS vision and roadmap Collaboration and support from IAASB steering committee for NSS initiatives Increased influence of NSS on IAASB Agenda and Outcomes Identify and implement initiatives to collaborate on key international auditing and assurance focus areas with other key NSS. |  | <ul style="list-style-type: none"> Meetings held with new IAASB Chair to gain support for AUASB NSS involvement. Regular meetings held with NSS representatives from NZ, Canada and the Netherlands to identify common projects in NSS work programs and act on actions arising from last IAASB NSS meeting in May 2019. Initial planning with IAASB of NSS meeting to be held in May 2020 underway. Draft NSS Vision and Roadmap complete |
| Engage with relevant global standard setters and advisory groups (e.g. IAASB EER Project Advisory Panel, IIRC, GRI and WBCSD) on emerging forms of assurance. | <ul style="list-style-type: none"> Monitor and contribute to IAASB EER Project Advisory Panel meetings Support associated regional activities and local panel members Link in Australian EER initiatives where appropriate Valuable input into to IIRC, GRI and WBCSD calls and meetings on behalf of the AUASB |  | <ul style="list-style-type: none"> Monitored and contributed to IAASB EER PAP meetings held in July and September 2019. EER Assurance Survey issued to participants on 23 Sep 19. Collaborating with NZAuASB on EER Assurance Survey to share with NZ assurance practitioners. |




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Performance Measure Five: *Maintain harmonisation of auditing and assurance standards in Australia and New Zealand in accordance with relevant agreements and protocols.*

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|---|--|---|--|
| AUASB Chair to attend all NZAuASB meetings as a NZAuASB Member. | <ul style="list-style-type: none"> AUASB Chair input into NZAuASB meetings AUASB staff to review relevant NZAuASB board papers and provide feedback to AUASB Chair and NZAuASB staff where applicable Updates from the NZAuASB Chair to the AUASB at each meeting |  | <ul style="list-style-type: none"> AUASB Chair attended NZAuASB meetings on 24 July, 4 September and 24 October 2019. AUASB staff reviewed all relevant NZAuASB board papers and provided summary feedback to the AUASB Chair. |
| Ensure AUASB Standards are issued in accordance with the principles of harmonisation with New Zealand Standards. | <ul style="list-style-type: none"> All AUASB Standards are issued in accordance with the common set of principles in relation to the standards that each board issues |  | <ul style="list-style-type: none"> ASRE 2410 currently being developed in conjunction with the NZAuASB. NZAuASB submissions still being evaluated and the standard will be reconsidered by the AUASB at its December 2019 meeting. |
| Work collaboratively with NZAuASB Technical Staff to ensure co-operation and co-ordination between the AUASB and NZAuASB's activities, including on joint AUASB/NZAuASB projects where appropriate. | <ul style="list-style-type: none"> Identification and prioritisation of joint AUASB/NZAuASB projects AUASB and NZAuASB staff to ensure collaboration on the 'high' rated joint projects For other potential joint projects, the AUASB and NZAuASB Technical Director to build joint activities into each board's respective technical work programs |  | <ul style="list-style-type: none"> AUASB Technical Director visited NZ in October 2019 to meet with NZAuASB Technical Director and NZAuASB Chair and collaborate on joint Board projects and other NSS matters. Additional joint projects for current year identified and built into final 2019-20 AUASB Technical Work Program. |






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

Performance Measure Six: *Develop thought leadership by identifying and implementing strategic projects that address emerging issues in auditing and assurance.*

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
|--|---|---|--|
| <p>Undertake strategic thought leadership projects in the following topical or emerging auditing and assurance areas:</p> <ul style="list-style-type: none"> - Audit quality - Assurance over Emerging Forms of External Reporting (EER) and other information in annual reports and other public reports - Assurance of Financial Reporting Frameworks - Audit and assurance of Charities and Not for Profit organisations - The Value of Audit and reducing the Audit Expectation Gap - Use of Technology in the Audit, including Data Analytics | <ul style="list-style-type: none"> ▪ Project plans developed and 2019-20 outputs identified for each strategic thought leadership project area ▪ Develop and implement outreach and engagement plans with subject matter experts and key stakeholders for each strategic thought leadership project area ▪ Regular updates provided to AUASB members at AUASB meetings |  | <ul style="list-style-type: none"> • Ongoing collaboration with the FRC on Audit Quality activities as outlined in the FRC Audit Quality Action Plan. • EER Survey in progress and other EER thought leadership activities currently under consideration. • AUASB staff have assisted in developing materials and taking part in AASB outreach events on Reforming the Australian Reporting Framework in October 2019, covering both 'For profit' and 'Not for Profit' sector reporting. • Three new or updated AUASB publications addressing how to apply the AUASB Assurance Framework effectively currently under development. • Initial scoping of AUASB specific guidance on the use of Technology in the Audit, including Data Analytics currently under development. |
| <p>In accordance with the AUASB Evidence Informed Standard Setting Strategy, support or conduct high quality research in these and other areas relevant to the AUASB's strategic thought leadership areas.</p> | <ul style="list-style-type: none"> ▪ Promote research opportunities in these strategic thought leadership projects through academic networks and conferences in accordance with the EISS strategy ▪ Ensure current and past research undertaken with the AUASB are published on the AUASB Research Centre and promoted across the profession |  | <ul style="list-style-type: none"> • AUASB Research Centre launched on the AUASB Website. • AUASB Academic Scholar role being advertised for 2020 appointments. • AUASB Research Report 3 '<i>Audit Market Structure and Competition in Australia</i>' by AUASB scholar Prof. Liz Carson of UNSW Sydney, issued in October 2019. Two additional reports under development. |
| <p>Author or contribute to publications on major auditing and assurance developments.</p> | <ul style="list-style-type: none"> ▪ Develop and publish articles or publications in selected strategic thought leadership project areas |  | <ul style="list-style-type: none"> • AUASB Chair featured in CPA Australia's 'In the Black' cover article and being interviewed for an upcoming CAANZ 'Acuity' magazine article. • AUASB Technical Staff developing an outline for a commentary piece for the Australian Accounting Review journal. |



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


Performance Measure Seven: Increase stakeholder satisfaction and engagement with AUASB activities, with a specific focus on assurance practitioners, regulators, the professional bodies and financial report users.

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
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| Develop and issue AUASB Publications (e.g. Bulletins, FAQs) to provide guidance to Stakeholders as required on AUASB Pronouncements and topical/emerging auditing and assurance issues and in conjunction with the release of all major AUASB standards and guidance statements. | <ul style="list-style-type: none"> Develop Bulletins based on evidence and existing AUASB requirements Engage with regulators, stakeholders, AUASB members and other stakeholders as required to develop content Promote availability of AUASB guidance through various communication channels |  | <ul style="list-style-type: none"> AUASB Bulletin: Auditor's Responsibilities for the Financial Reporting Framework issued in July 2019. ASA 540 Implementation Bulletin currently under development. |
| Implement and promote the AUASB Evidence Informed Standard Setting (EISS) Strategy. | <ul style="list-style-type: none"> Communicate benefits of EISS Strategy to academic community at conferences and technical forums Promote engagement with AUASB to attain research in thought leadership areas |  | <ul style="list-style-type: none"> AUASB Research Centre launched on website. AUASB Senior Project Manager appointed to Deakin University Integrated Reporting Steering Committee. |
| AUASB members or staff to attend and present at auditing or assurance related professional and academic events/conferences and regular professional and regulatory forums. | <ul style="list-style-type: none"> Identify appropriate local and international professional and academic events/conferences for the AUASB to present at or attend Attendance at local professional and regulatory forums |  | <ul style="list-style-type: none"> AUASB Chair and Technical staff members attended July 2019 AFAANZ conference, with AUASB Chair being a Keynote speaker. AUASB involvement in upcoming ANCAAR and ALLNEC Audit Conference under consideration. Planning commenced for AUASB involvement in CA ANZ 2021 Audit Conferences. |
| Obtain positive feedback from FRC members on AUASB activities. | <ul style="list-style-type: none"> Valuable engagement with FRC members at FRC meetings AUASB staff to develop auditing and assurance related papers for FRC meetings |  | <ul style="list-style-type: none"> AUASB Chair Update and AUASB Performance Report presented at FRC September 2019 meeting. AUASB Technical staff developing FRC response to JPC Inquiry into the regulation of Auditing. AUASB technical staff assisted in development of FRC papers on Public Sector Financial Report reform and Nominations Committee. |
| Develop and distribute a quarterly AUASB Update publication. | <ul style="list-style-type: none"> AUASB Newsletters developed and sent out every 3 months |  | <ul style="list-style-type: none"> First AUASB Newsletter for 2019-20 issued on 30 Sep 19. |

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|  Completed / On track |  In progress / Partially Completed / Delayed due to issues beyond AUASB control |  Yet to commence |  Delays / Issues encountered |
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AUASB Technical Work Program – 2019-2020 Q1 Report for AUASB

| Current Priorities | Targeted Outputs/Outcomes/Process | Status | Comments (Changes since last report are highlighted in Bold) |
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| Conduct a regular AUASB Stakeholder Satisfaction Survey and respond to results. | <ul style="list-style-type: none"> Evaluate results from and develop actions in response to inaugural AUASB Stakeholder Satisfaction Survey completed in July 2019 Consider need for additional survey in 2020. |  | <ul style="list-style-type: none"> Results from the AUASB Stakeholder Satisfaction Survey currently being evaluated by AUASB Technical Staff. |
| Implement initiatives to support and grow stakeholder engagement, measured via increased media mentions, social media activity and level of participation at AUASB events. | <ul style="list-style-type: none"> Develop AUASB Communications Strategy Develop AUASB Message Calendar process Greater use of on-line tools to communicate AUASB projects (e.g. Webinars) Improved processes and communications to drive attendance and promotion of AUASB meetings and events |  | <ul style="list-style-type: none"> Current AUASB communications processes operating as intended. Updates to AUASB Communications Strategy and review of other AUASB Communications processes yet to commence. |

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **12.0**

Meeting Date: 4 December 2019

Subject: *GS 008 The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001*

Date Prepared: 19 November 2019

Prepared By: See Wen Ewe

☒ Action Required

☐ For Information Purposes Only

A. Agenda Item Objectives

1. For the AUASB to provide input into the matters to consider section of this paper. The following matters are raised for AUASB consideration and input:
 - (a) Materiality (Section C, Issue 1);
 - (b) Content of opinion (Section C, Issue 2); and
 - (c) Other matters

B. Background

2. A revised GS 008 was presented to the AUASB as part of the September 2019 AUASB meeting papers. Owing to time constraints, this topic was held over from the September 2019 AUASB meeting for consideration at the December 2019 AUASB meeting.
3. There are three areas that the ATG seek AUASB input:
 - (a) Consideration on whether there is sufficient guidance and clarity in paragraph 10 of the extant Guidance Statement, on whether and how materiality should be applied when performing an audit on a remuneration report. It appears that the *Corporations Act 2001* uses the same language on both the “Report on a Remuneration Report” and the “Report on the Audit of the Financial Report”. We understand that there may be inconsistent practice across the accounting firms when applying materiality to the audit of the remuneration report under ASAE 3100 *Compliance Engagements* and the audit of the financial report under ASAs [refer Section C, Issue 1 for more detail].

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

- (b) The remuneration report has expanded over the years and may be treated by some practitioners as a 'separate piece of work'. The remuneration report is complex and is effectively a multi-scope engagement encompassing both the audit of historical financial information and compliance with the *Corporations Act 2001* (compliance engagement) [refer Section C, Issue 2 for more detail].
- (c) The extant Appendix 1 of GS 008 is a replica of ASA 700 [Aus] Illustration 1A which has been referenced in paragraph 12 of the extant Guidance Statement, this duplication may not be necessary and adds to the length of the Guidance Statement [refer Section C, Other Matters for more detail].

C. Matters to Consider

Issue 1: Materiality

Background

- 4. The *Corporations Act 2001* uses the word "complies with" in the context of the audit of remuneration report, which is consistent with the language used in the context of the audit of financial statement in the *Corporations Act 2001*. There is omission of the language "in all material respects".
- 5. The auditors' requirements in the *Corporations Act 2001* Section 308(3C) states:
"If the directors' report for the financial year includes a remuneration report, the auditor must also report to members on whether the auditor is of the opinion that the remuneration report complies with section 300A. If not of that opinion, the auditor's report must say why."
- 6. When GS 008 was first drafted in 2008, the same issue was raised and at that time the following paragraph was included in the extant to address this concern.

"Materiality

- 10. The suggested form of opinion on the Remuneration Report, included in the Appendices to this Guidance Statement, does not make reference to materiality. An auditor exercises professional judgement in considering reporting responsibilities under the Act, including considering additional regulatory reporting obligations, such as under section 311 of the Act, for significant breaches of the Act."
- 7. It has been brought to the attention of the ATG that there may be inconsistency in practice in terms of applying materiality in the audit of the remuneration report. We understand that some practitioners:
 - are of the view that the remuneration report is by its nature material; and accordingly there is no determination of quantitative and qualitative materiality, with everything in the remuneration report considered to be material other than 'clearly trivial';
 - while others apply quantitative and qualitative materiality to the audit of the remuneration report.
- 8. The ATG met with ASIC and raised this matter, however, nothing has come to their attention causing concern with practice in the area and ASIC is not aware of inconsistencies in practice.

AASB Accounting Standards and Materiality

9. The following paragraphs have been extracted from AASB 2018-7 and AASB Practice Statement 2:

“Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

When assessing whether information is material to the financial statements, an entity applies judgement to decide whether the information could reasonably be expected to influence decisions that primary users make on the basis of those financial statements. When applying such judgement, the entity considers both its specific circumstances and how the information provided in the financial statements responds to the information needs of primary users. Because an entity’s circumstances change over time, materiality judgements are reassessed at each reporting date in the light of those changed circumstances.”

10. While the Accounting Standards apply to the financial statements and the remuneration report resides in the director’s report, it is expected that preparers make reference to the Accounting Standards while preparing the content of the remuneration report and accordingly consider whether the content ‘could reasonably be expected to influence decisions that primary users make on the basis of those financial statements’.
11. Users of financial reports pay particular attention to and make decisions in relation to the remuneration report which is subject to a ‘two-strikes’ rule introduced by the *Corporations Act 2001 in Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Bill 2011*.

“The ‘first strike’ will occur where a company’s remuneration report receives a ‘no’ vote of 25 per cent or more. Where this occurs, the company’s subsequent remuneration report must include an explanation of the board’s proposed action in response to the ‘no’ vote or an explanation of why no action has been taken.

The ‘second strike’ occurs where a company’s subsequent remuneration report receives a ‘no’ vote of 25 per cent or more. Where this occurs, shareholders will vote at the same AGM to determine whether the directors will need to stand for re-election. If this spill resolution passes with 50 per cent or more of eligible votes cast, then the ‘spill meeting’ will take place within 90 days. A company will still need to provide the minimum notice period for holding a meeting, as required by the Corporations Act. A company will also need to comply with any minimum notice period set out in its constitution for the nomination of candidates for the board. This will ensure that shareholder nominated candidates can seek endorsement at the spill meeting.”

12. The ATG recognises that there are two possible actions to address this issue and would like to bring to the AUASB’s attention some of the benefits and considerations associated to each action below.

| Actions | Benefits | Considerations |
|--|---|---|
| Include additional guidance around materiality within GS 008 | <ul style="list-style-type: none"> • Provide improved guidance to audit practitioners, • Resulting in improved consistency in practice. | <ul style="list-style-type: none"> • Change in practice for some firms; • Change in some firms’ methodology; • Potential cost uplift for no corresponding improvement to audit quality; • Consultation time and cost to facilitate amended wording; and • Other unintended consequences. |

| Actions | Benefits | Considerations |
|---|---|---|
| Status quo: no amendment to GS 008 in relation to materiality | <ul style="list-style-type: none"> No change in practice | <ul style="list-style-type: none"> Possible inconsistent practice across firms |

Considerations for the AUASB

The ATG seeks the AUASB's feedback on the following options and suggested wording to address this matter (options presented are in no preferential order):

1. This matter does not require further consideration in the revision of GS 008; and accordingly, no amendments to be made to the GS 008 on this issue; OR
2. If the remuneration report is regarded as material by nature other than clearly trivial matters. Possible guidance on materiality to be included in GS 008:

“The auditor considers materiality when determining the nature, timing and extent of audit procedures on the remuneration report. The objectives of setting materiality are to establish:

- (a) *A tolerable level of misstatement in relation to financial requirements, or non-compliance with the requirements of Section 308 of the Act, including considering additional regulatory reporting obligations, such as under section 311 of the Act, for significant breaches of the Act;*
- (b) *The scope of assurance work to be performed; and*
- (c) *A reasonable basis for evaluating identified misstatements, deficiencies, or non-compliance.”*

The assessment of materiality and the relative importance of qualitative factors and quantitative factors is a matter of professional judgement. In considering materiality, the auditor understands and assesses what factors may influence the decisions of intended users. As such, disclosures in the remuneration report may be considered to be material by nature, other than “clearly trivial” deficiencies or matters of non-compliance, as the remuneration report is perceived to influence the decisions of users. Furthermore, application of the concept of materiality is neither specifically permitted nor forbidden by the Corporations Act 2001 and remuneration reporting is required principally for accountability purposes and materiality by nature may be considered in that light.

Issue 2: Wording of Auditor's Report on the Remuneration Report

13. Remuneration reporting has expanded extensively over years and the ATG understands that some audit practitioners may be treating the audit of the remuneration report as a ‘separate piece of work’. Technically, the underlying audit work performed on the remuneration report is a multi-scope engagement including a compliance engagement that falls under the scope of ASAE 3100 as well as the audit of historical financial information.
14. It was brought to the ATG's attention that the extant Report on the Remuneration Report may be too simplistic in meeting the requirements of ASAE 3100 and an expansion of the opinion or scope should be considered.

15. The ATG recognises that any changes in reporting will require industry consultation and careful consideration as this may have unintended consequences in practice. Additionally, the ATG raises the issue of user needs, and whether it is in the public interest to revise the content of reporting.
16. The ATG recognises that there are two possible actions to address this issue and would like to bring to the AUASB's attention some of the benefits and considerations associated to each action below.

| Actions | Benefits | Considerations |
|--|---|--|
| Carry out further investigation and seek consultation on a change to reporting | <ul style="list-style-type: none"> Technically, an expanded opinion could be considered more accurate as this is a multi-scope engagement Users may understand in greater detail the nature of work undertaken Improve consistency in practice | <ul style="list-style-type: none"> Change in practice; Change in firms' methodology; Potential uplift in audit effort resulting in a cost uplift with no improvements to audit quality; Confusion of users; Consultation time and cost; and Other unintended consequences. |
| Status quo: no change to reporting | <ul style="list-style-type: none"> Auditor's report on Remuneration Report currently understood by users No change in practice | <ul style="list-style-type: none"> Technically the audit of the remuneration report is a multi-scope engagement |

Considerations for the AUASB

The ATG seeks feedback from the AUASB on the following options to address this matter (options presented are in no preferential order):

1. The ATG further investigates the expansion of the Report on the Remuneration Report. Investigation would involve consultation of practitioners, regulators and users. Potentially a Project Advisory Group may need to be formed; OR
2. Status quo – no further investigation on this matter.

(Please note that the wording of a change to reporting has yet to be drafted. Depending on the outcome of the AUASB's discussions, the ATG will work with a consultation group on the proposed wording.)

Other Matters

17. The extant Appendix 1 of GS 008 is a replica of ASA 700 [Aus] Illustration 1A which has been referenced in paragraph 12 of the extant Guidance Statement.
18. The duplication of [Aus] Illustration 1A may not be useful to the users of GS 008 and creates the risk of information mismatch in future if [Aus] Illustration 1A of ASA 700 gets updated.

Considerations for the AUASB

1. With regards to the Appendix 1 Unmodified Opinion, the AUASB is requested to consider two options (options presented are in no preferential order):
 - (a) Example of unmodified audit report and remuneration report to be excluded and referenced to ASA 700 in paragraph 10 of **Agenda Item 12.1**. (This option prevents duplication of content.)
 - (b) Example of unmodified audit report and remuneration report to be included as shown in **Agenda Item 12.1**. (This option duplicates content but may be user friendly containing the example report within the revised GS 008.)

D. Way Forward

19. Depending on the decisions made by the AUASB at the December 2019 AUASB meeting, the ATG may seek consultation on the revised wording regarding materiality and the content of the Report on the Remuneration Report.
20. Subject to timing of consultation, the ATG intends to present the revised GS 008 to the AUASB in the February 2020 meeting.

Material Presented

| | |
|------------------|--|
| Agenda Item 12.0 | AUASB Board Meeting Summary Paper |
| Agenda Item 12.1 | Revision of GS 008 <i>The Auditor's Report on a Remuneration Report Under Section 300A of the Corporation Act 2001</i> (mark-up) |

Action Required

| No. | Action Item | Responsibility | Due Date | Status |
|-----|--|----------------|-----------------|---------|
| 1. | Please refer to the matters raised under the section heading Matters to Consider | AUASB | 4 December 2019 | Pending |

GS 008

(~~October~~ February 2019~~20~~)

Guidance Statement GS 008

The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001

Issued by the Auditing and Assurance Standards Board

Draft

DISCLAIMER

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



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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Draft

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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 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* 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.

Draft

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* 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 008

The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors reporting pursuant to section 308(3C) of the *Corporations Act 2001* ("the Act") regarding the Remuneration Report required to be included in the annual directors' report pursuant to section 300A of the Act ("the Remuneration Report").

Issuance Date

2. This Guidance Statement is issued on 1 October 2019 by the AUASB and replaces GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* issued in March 2010.

Introduction

3. Section 300A of the Act specifies information to be provided by listed companies¹ in the annual directors' report. This information includes a Remuneration Report. The auditor's objective is to express an opinion on whether the Remuneration Report complies with section 300A of the Act.

Auditor's Reporting Requirements

Responsibility to Express an Opinion on the Remuneration Report

4. Section 308(3C) of the Act requires that, if the directors' report for the financial year includes a Remuneration Report, the auditor must also report to members on whether the auditor is of the opinion that the Remuneration Report complies with section 300A of the Act. If not of that opinion, the auditor's report must state why.
5. The requirement to express a distinct opinion on the Remuneration Report in the directors' report is additional to the auditor's responsibility to express an opinion on the financial report. In accordance with Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report*, the auditor is required to address other reporting responsibilities in a separate section of the auditor's report that under the section with the heading of "Report on the Audit of the Financial Report" follows the opinion paragraph on the financial report, in order to clearly distinguish them from the auditor's primary responsibility to express an opinion on the financial report.²
6. Where a listed company has included a Remuneration Report in the annual directors' report pursuant to section 300A of the Act, the auditor's report identifies clearly the paragraph numbers or pages or other identifying characteristics specific to the subject matter being audited of the directors' report that have been audited pursuant to section 308(3C) of the Act. This is necessary to avoid any misunderstanding by users as to which part of the directors' report has been subjected to audit.

¹ Listed companies is defined in the *Corporations Act 2001*.
² See ASA 700, paragraph ~~38~~43 to 45.

7. Furthermore, the auditor's report describes the respective responsibilities of the directors and the auditor in relation to the Remuneration Report. See Appendix 1 for an illustrative example of an unmodified report.

Materiality

8. The suggested form of opinion on the Remuneration Report, included in the Appendices to this Guidance Statement, does not make reference to materiality. An auditor exercises professional judgement in considering reporting responsibilities under the Act, including considering additional regulatory reporting obligations, such as under section 311 of the Act, for significant breaches of the Act.

Modifications

9. Modifications to the auditor's report in relation to the Remuneration Report are made in accordance with ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*. See Appendix 2 for an illustrative example of a modified report.

The Auditor's Report

10. The example of an unmodified auditor's report, included as [Aus] Illustration 1A in Appendix 1 of ASA 700 incorporates the audit reporting requirements of the Act and the Auditing Standards. This auditor's report format has been used in the Appendices to this Guidance Statement to illustrate example wording regarding the auditor's reporting responsibilities over the Remuneration Report, pursuant to section 308(3C) of the Act.

Conformity with International Pronouncements

11. As this Guidance Statement relates to Australian legislative requirements under the Act, there is no equivalent International Standard on Auditing or Auditing Practice Statement to this Guidance Statement.

Appendix 1

(Ref: Para. 9)

ILLUSTRATIVE EXAMPLE OF AN UNMODIFIED AUDITOR'S REPORT ADDRESSING THE AUDITOR'S ADDITIONAL REPORTING RESPONSIBILITIES PURSUANT TO SECTION 308(3C) OF THE *CORPORATIONS ACT 2001*

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of the financial report of a single listed company. The audit is not a group audit (i.e. ASA 600 does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

The auditor's reporting requirements over the Remuneration Report are additional to the auditor's reporting requirements regarding the financial report and, accordingly, are contained in a separate section of the auditor's report following the opinion paragraph on the financial report—see ASA 700, paragraphs 43-45.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 20X1, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

[A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. This description forms part of our auditor's report.]

Paragraph 41(b) of ASA 700 explains that the shaded material below can be located in an Appendix to the auditor's report.

Paragraph 41(c) of ASA 700 explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. When the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the Auditing and Assurance Standards Board and the website address is <http://www.auasb.gov.au/Home.aspx> (Ref: Para. Aus A57.1 of ASA 700)

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in [paragraphs a to b or pages x to y] of the directors' report for the year ended 30 June 20X1.

In our opinion, the Remuneration Report of ABC Company Ltd., for the year [period] ended 30 June 20X1, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

[Auditor's name and signature]*

[Name of Firm]

[Date of the auditor's report]#

[Auditor's address]

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.
The date of the auditor's report is the date the auditor signs the report.

Appendix 2

(Ref: Para. 11)

ILLUSTRATIVE EXAMPLE OF A MODIFIED AUDITOR'S REPORT ADDRESSING THE AUDITOR'S ADDITIONAL REPORTING RESPONSIBILITIES PURSUANT TO SECTION 308(3C) OF THE *CORPORATIONS ACT 2001*—QUALIFIED OPINION

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of the financial report of a single listed company. The audit is not a group audit (i.e. ASA 600 does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e. "clean") opinion on the financial report is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.
- The auditor's reporting requirements regarding the Remuneration Report are additional to the auditor's reporting requirements regarding the financial report and, accordingly, are contained in a separate section of the auditor's report following the opinion paragraph on the financial report—see ASA 700, paragraphs 43-45.
- The auditor has concluded a qualified opinion on the remuneration report is necessary based on the audit evidence obtained.

Note: As the example below relates to a qualified opinion, the report on the Remuneration Report will need to be amended accordingly where an adverse or disclaimer of opinion is required.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720.]

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

~~The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 20X1, but does not include the financial report and our auditor's report thereon.~~

~~Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.~~

~~In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.~~

~~If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.~~

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

[A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. This description forms part of our auditor's report.]

Paragraph 41(b) of ASA 700 explains that the shaded material below can be located in an Appendix to the auditor's report.

Paragraph 41(c) of ASA 700 explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. When the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the Auditing and Assurance Standards Board and the website address is <http://www.auasb.gov.au/Home.aspx> (Ref: Para. Aus A57.1 of ASA 700)

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Qualified Opinion on the Remuneration Report

We have audited the Remuneration Report included in [paragraphs a to b or pages x to y] of the directors' report for the year ended 30 June 20X1.

In our opinion, except for the effect(s) on the Remuneration Report of the matter(s) referred to in the following paragraph, the Remuneration Report of ABC Company Ltd., for the [period] ended 30 June 20X1, complies with section 300A of the *Corporations Act 2001*.

Basis for Qualified Opinion on the Remuneration Report

[Include a clear description of all the substantive reasons for the modification].

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

[Auditor's name and signature]*

[Name of Firm]

[Date of the auditor's report]#

[Auditor's address]

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.
The date of the auditor's report is the date the auditor signs the report.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **13.0.0**

Meeting Date: 3 December 2019

Subject: GS 009 – Auditing Self-Managed Superannuation Funds (September 2015)

Date Prepared: 18 November 2019

☐ Action Required

☒ For Information Purposes Only

Agenda Item Objectives

1. To update the AUASB on the progress to revise GS 009 – *Auditing Self-Managed Superannuation Funds* (September 2015).

Matters to Consider

Part A – General

1. Earlier this year the AUASB received correspondence from both the ATO and CPA Australia / CA ANZ on potential areas for consideration in the revision of GS 009. These areas have been considered as part of the project plan.
2. The detailed project plan is provided at agenda item 13.0.1. The project plan has been discussed and agreed with the Board sponsor Justin Reid.
3. The AUASB have secured an external contractor to complete the detailed revision of GS 009 working in tandem with a senior project manager to oversee the updates to the Board and to ensure due process is met.
4. The AUASB is anticipating that the review group will meet to discuss a first draft of the revised GS 009 in early/mid December.

Part B – NZAuASB

1. N/A

Part C – “Compelling Reasons” Assessment

1. N/A

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

The proposed changes conform with IAASB modification guidelines for NSS?

Y ☐ N ☐

Material Presented

| | |
|--------------------|-----------------------------------|
| Agenda Item 13.0.0 | AUASB Board Meeting Summary Paper |
| Agenda Item 13.0.1 | GS009_Project_Plan |
| Agenda Item 13.0.2 | Suggested Amendments to GS 009 |



Project Plan

| | |
|--|---|
| Project Title: | GS 009 Auditing Self-Managed Superannuation Funds |
| Project ID: | XXX |
| Project Objective(s): | To revise GS 009 |
| Priority: | High |
| Issue/Reason: | To revise GS 009 <i>Auditing Self-Managed Superannuation Funds</i> (September 2015) that covers the financial and compliance audits of Self-Managed Superannuation Funds. |
| Date Prepared: | 24 September 2019 |
| Date To Be Approved: | 21 April 2020 (or earlier by out of session vote) |
| Date Updated: (if applicable) | 7 October 2019 |

Project Objectives

To revise GS 009 *Auditing Self-Managed Superannuation Funds* (September 2015) to accommodate ATO changes, changes to relevant legislation and address the experience of practitioners in using the Guidance Statement since it was re-issued in 2015. Furthermore, the AUASB has had a number of meetings with key stakeholders regarding the need for a revision GS 009. This update is not expected to involve a major revision.

Stakeholders

- (a) Self-Managed Superannuation Fund (SMSF) auditors
- (b) Relevant regulatory bodies (ie ATO and ASIC):
- (c) Professional Bodies (CPA Australia, CAANZ, IPA and SMSF Association)

Background

GS 009 requires updating to accommodate:

- the Australian Taxation Office (ATO) guidance on reciprocal auditing arrangements and recent litigation cases;
- changes to the *Superannuation Industry (Supervision) Act 1993* (SISA) and the *Superannuation Industry (Supervision) Regulations 1994* (SISR);
- the experience of practitioners in using GS 009.

ATO requirements

GS 009 is heavily referenced to the ATO, the main regulatory body of SMSFs. The ATO updates the SMSF audit report and the Auditor Contravention report on an annual basis. It also issues rulings and interpretative decisions to assist stakeholders with complex areas of the SISA and SISR.

Scope

To revise the guidance statement that covers the financial and compliance audits of Self-Managed Superannuation Funds.

Refer to detailed spreadsheet at Attachment 13.0.2 that outlines some of the key areas of focus for the revision as discussed with key stakeholders – ATO and CPA & CAANZ. This is by no means an exhaustive list.

Risks/Issues

- (a) To ensure that the changes to GS 009 are minimised so that no unnecessary costs are incurred by practitioners in modifying the engagement approach to address any amendments.
- (b) To ensure that the experience of auditors in using GS 009 is considered in revisions recommended for the revised guidance statement.
- (c) Use of external contractor while still required to meet AUASB deadlines and due process.

Action Plan

- (a) Develop a project plan and distribute to AUASB out of session.
- (b) Establish a review group (including the 3 Accounting Bodies, ATO, Tax Payers Association, practitioners and Self-Managed Superannuation Association) to provide feedback to revised GS 009.
- (c) Revise guidance statement in light of the project objectives.
- (d) Obtain OBPR clearance
- (e) Obtain AUASB approval for revised GS 009
- (f) Issue GS 009

Resources

1. External contractor – SMSF assurance practitioner / compliance expertise
2. AUASB Senior Project Manager – to provide review of changes and present update and revised guidance to AUASB for approval.

Timetable

| Date | Description |
|----------|--|
| Dec 2019 | Updated Project Plan distributed to AUASB |
| Nov 2019 | Research amendments to GS 009 |
| | Revise GS 009 and prepare 1 st draft, circulate to review group for comment |

| Date | Description |
|---------------|--|
| Dec 2019 | Meet with review group to discuss suggested amendments to GS 009 |
| 3 March 2019 | AUASB Meeting – present 1 st draft GS 009 for consideration |
| March 2020 | Further revisions of GS 009 |
| | Further draft to review group |
| 21 April 2020 | AUASB Meeting – present 2nd draft GS 009 for review and approval (or earlier by way of an out-of-session approval) |
| | QA GS 009 |
| | Obtain OBPR clearance |
| | Issue GS |

| Topic | Reference | Update to be considered (may not be complete) | Comments |
|---|--|--|--|
| Independence examples | Appendix 5 | Review scenarios provided to ensure they reflect the intent of the Code of Ethics and ATO’s approach to independence. | Given the AASB/JAB independence guide is being updated for the new international independence standard then I believe it might be worthwhile having one source of commentary about independence for SMSF auditors. It would good to have agreement about this between the AASB, AUASB and accounting bodies about this. |
| Independence examples | Appendix 5 | Reconsider the wording of scenario 2 & 4 regarding “reciprocal arrangements” as the ATO’s expectations are that SMSF auditors will apply more sophisticated approach to independence and consider whether such arrangements create a self-interest threat to independence if they are reliant on reciprocal audits from one firm/sole practitioner. Existing wording: "The resultant loss of work by withdrawing may be overcome by entering a reciprocal arrangement with an independent practitioner or firm for referral of SMSF audit engagements." | The guidance itself already reflects this concern - GS 009 para. 37 states that a self-interest threat “will also occur if the auditor or the audit firm relies on a single SMSF audit referral source for a significant amount of revenue”. - GS 009 para. 46 states “Where the audit firm or an individual partner is unduly reliant on the audit fees from a particular group of SMSFs, such as those SMSFs referred by a single referral source, the concern about the possibility of losing the referrals may create a self-interest, advocacy or intimidation threat. Safeguards include diversifying the client base to spread the source of revenue so that the potential for undue influence is removed.” |
| ASAE 3402 Type 1 & 2 Reports on Controls at Service Organisations | | Cover more thoroughly the difference between type 1 & 2 reports | |
| ASAE 3402 Type 1 & 2 Reports on Controls at Service Organisations | | Clarify that to rely on material data feeds a type 2 report is needed | |
| ASAE 3402 Type 1 & 2 Reports on Controls at Service Organisations | | Clarify what to expect from different service providers by expanding on para.25 and addressing IT controls in more detail in addition to the guidance provided in paras 119-123 and 172-177. | |
| ASAE 3402 Type 1 & 2 Reports on Controls at Service Organisations | | Consider providing some practical tips on IT security | |
| Documentation | Appendix 4 | Highlight the documentation requirements to support the work done in the audit by including the need for documentation and possibly the type of documentation to be retained for each of the sections of the financial audit procedures listed in Appendix 4. | |
| Appendix 3 - checklist - E1 contributions | Appendix 3 | Need to ensure all information is correct and add downsizer contributions. | |
| Revisions to AUASB Standards | Throughout the GS | The vast majority of the AUASB Standards have been revised since GS 009 was last amended in 2015, so references, approach and terminology need reviewing against the current suite of standards. | References and changes in approach and terminology to AUASB standards need to be checked and updated where required. |
| Independence | Appendix 5 | The independence examples included in Appendix 5 do not all reflect the intent of the Code of Ethics and ATO’s regulatory approach to independence, including their expectations regarding “reciprocal arrangements” between auditors. | Please see comment above. |
| Changes to the Superannuation legislation | Throughout the GS | Legislative changes, particularly the changes effective from 1 July 2017, need to be reflected in GS 009 and the audit implications considered. | Paragraph 4 - This may need to be changed if the legislation is passed that increases members from four to six. This also affects paragraph 11. Paragraph 5 – currently states that audits should be carried out on a yearly basis. This may need to be changed if the 3 year audit cycle proposal is introduced. |
| New and amended ATO views and interpretations | Throughout the GS | The ATO communicates its interpretation of how the SMSF and their auditor should meet their obligations from time to time and so the guidance statement needs to be consistent with the ATO’s expressed views. | |
| Reports on Controls at Service Organisations | | Clarification of the difference and appropriate use of ASAE 3402 Type 1 and 2 reports on Controls at Service Organisations and when those reports can enable reliance on material data feeds could assist auditors. | |
| Investment strategy and valuations | | Clarification of the nature and extent of work necessary with respect to the SMSF’s investment strategy and asset values, particularly in light of the recent court decisions in Cam & Bear Pty Ltd v. McGoldrick [2018] NSWCA 110 and Ryan Wealth Holdings Pty Ltd v. Baumgartner [2018] NSWSC 1502. | |
| Documentation | para 22 e | Highlight the documentation requirements to support the work done in the audit. | Could we add how important it is for auditors to make notes in their audit files about the conclusions they reached and provide an example eg. if you consider that rental income received by a fund is at arm’s length record this conclusion in your file. |
| Reference to special purpose financial reports | para. 1, 22(ff), 134, 140(c), 163, 176, 214, 254, Appendix 2 | If SPFR option withdrawn by AASB commencing 1/7/20 or 1/7/21, need to amend. | |
| Taxable/tax free splits based on contributions or benefits transferred or rolled over | | There is no consistent reference to taxable/tax-free splits. | |
| Continuing Professional Development requirements | para 16, 17 | Ensure consistency bet GS009, Prof assoc regs (eg CA ANZ Reg CR 7) and JAB publication (competency of SMSF auditors) | CPA/CAANZ to discuss ongoing need for JAB publication |
| Immediate reporting vs ATO interpretations | para.18(c) | SISA requires reporting contraventions as soon as practicable but ATO interpretation 28 days. | |
| Update history and plan for adjustments | para. 22 | Reference to revised AUASB standards | Refer to CPA point above |
| Re-word for clarity | para. 22(g) | Not all SIS law breaches will lead to penalties that will lead to additional tax liabilities. Need to re-word for greater clarity | |
| Communication with those charged with Governance | Paragraph 22 (h) | It could be worth mentioning <i>McGoldrick</i> and <i>Baumgartner</i> in this paragraph as both cases are examples of why it is important for auditors to directly communicate with the trustees, especially with respect to significant issues. | |
| Re-word for clarity | para. 22(n) | Clarify if transaction data-feeds and source fall into GS007 or another standard | |
| Audit Evidence | para 22(p) | Further guidance here on importance of obtaining and keeping evidence in the audit files as this is an ongoing issue and ATO are consistently refering it to ASIC. | Clarification required with respect to the ATO’s comment about the importance of obtaining and keeping the evidenced in the audit file i.e. source documents. For the AUASB this highlights issues around electronic access to banking information or the retention of hard copy bank statements as an example. |
| Access previous auditor's papers | para.28 | Clarify how to access previous papers. | Under CA ANZ public practise regs the previous auditor is not obliged to provide access to documentation (but is encouraged to do so as a professional courtesy). |
| Independence subsection | pars 33 to 49 | Refer to comment above about revised AASB independence guide | |
| Actuarial certificate requirement | para. 130 | ATO interpretation: Actuarial certificate needed for period fund in retirement phase. This paragraph talks about the requirement to have an actuarial certificate, as there are changes to these requirements from 1 July 2017 this para will need re-wording. | Requires revision for ATO interpretation and 2016 legislative amendments |
| Communication with prior auditor, seems highly problematic | para.145 | Clarify challenges | Refer above re: CAANZ public practise regs |
| Risk of fraud, how determined? | para 153 | | |
| Confirmation requests | para. 154 & 155 | | Provision of bank account data and confirmation of balances |
| Receivables and Prepayments | para 179 | Include a reference to SMSFR 2009/3 <i>Self-Managed Superannuation Funds: application of the SISA to unpaid trust distributions payable to an SMSF</i> . | |
| Liabilities | para 184 | Could include an extra bullet point ‘Loan documents for LRBAs do not specify the loan is limited in recourse’ | |
| Reserves | para 192 to 200 and 352 | In response to the new measures and the potential to circumvent the caps through the use of reserves, the ATO published | |
| ATO view on reserves? | Para 193 onwards | SMSF Regulator’s Bulletin SMSFRB 2018/1 The use of reserves by self-managed superannuation funds http://ato.gov.au/law/view/document?DocID=SRB/SRB20181/NAT/ATO&PiT=99991231235958 | |

| | | | |
|--|-------------------------------|---|--|
| Valuation and Allocation of Assets | | This relates to valuation of assets. Given the Baumgartner case, can we add something here to remind auditors that if they do not get evidence from the trustees to support the market value reported in the financials that they should report (if it meets the reporting criteria) this to the trustees in writing and to the ATO in an Auditor/Actuary Contravention Report (ACR). | Paragraph 169 – consider adding an example such as ‘For example, where a fund has an unlisted share or trust investment, the auditor should modify their opinion if they are unable to obtain satisfactory confirmation of the value of the investment’. (relevant in light of the recent <i>Baumgartner</i> and <i>McGoldrick</i> cases). |
| Unallocated contributions | para 163-171 | ATO website documentation and required reporting | |
| Anti-detriment payments | Par 199 & 338 | Update to take into account new legislation | There will no longer be a need for a SMSF to have an anti-detriment reserve. This is because the deduction is no longer available in relation to super lump sums paid to a spouse, former spouse or child of the deceased member on or after 1 July 2019 or where the deceased member died on or after 1 July 2017. |
| Downsizer | Para. 204 | Downsizer contribution needs to be added | Some of these contributions such as directed termination payments are no longer available and there are new contribution such as the downsizer housing contribution that could be added here. |
| Non-resident super funds | Para. 212 | Taxed at top marginal rate - needs mentioning | |
| Classification: Allocated to members correctly? | Para. 212 | Add this to bullet points | |
| TSB references | Para. 218 | Total super balance thresholds from 1/7/17 | |
| Non-arm's length expenses (NALE) | Para. 221 | ATO guidance on NALE | What to do about proposed legislation amendment (lapsed due to 2019 election)? Likely to be reintroduced in late 2019. |
| Insert reference to ATO ruling on subject | Footnote 81 | | |
| Update | Para.226 & 227 | 1/7/17 legislative amendments | What to do about proposed 2019 budget announcement? |
| Treatment of revisionary pensions | Para. 233 | 1/7/17 legislative amendments | |
| Fund's financial position | Para. 238 | Could this item be deleted here given it is referred to in par 361 | |
| Tax liabilities | Para. 246 | Add to bullet points | |
| ASA 705 - check for changes | para 253 | | |
| Standardise wording | Footnotes 100 & 102 | Inconsistent | |
| Delivery of auditor's report to TCWG | Para. 261-265 | Update for new standards | |
| Check Government Gazette | para.275 | Another source of information on trustee to mention. | |
| Investment Strategy | para 280-283 | Consider whether it could be worthwhile making reference to Baumgartner's Case here as highlighting the importance of the need for an auditor to verify that the Fund's investments are in line with its strategy. | |
| Aussiegolfa v. ATO test case in Supreme Court | Para.286 & 288 | ATO lost case re sole purpose test - consider impact. | |
| Reference to investment strategy | Para. 293 | Revise wording - discussion here is about sole purpose test not investment strategy | |
| Comments here can also apply to related companies | Para. 294 | Revise wording | |
| In house assets exemption | Para. 305 & 306 | Improve wording | |
| Non-arm's length income par | Para. 308 | Consider amendment for NALE rules | What to do about proposed legislation amendment (lapsed due to 2019 election)? Likely to be reintroduced in late 2019. |
| Add: "or other appropriate and verifiable documentation" | Para. 309 | | |
| Through a closely held entity | Para. 312-314 | Clarify - lending through interposed entities | |
| Safe harbour rules & NALE | Para 323 | ATO limited recourse borrowings, safe harbour and NALE | Required further explanation and that safe harbour rules are updated every year |
| Inspecie benefits paid, Cash only for ... | Para.331 & 332 | Update for first home savers benefits, financial hardship | ATO admininstration of some early release rules |
| Unsuitable asset valuation to determine min & max pension payment | Para.333; Footnote 177 | Not using market valuations - issue to be addressed | Need to work out best way to refer to ATO document (assuming it is still being published) |
| Correct grammar | Para. 336 | | |
| Incorrect description of regs | Para. 337 | Current legislation re conditions of release | Trustee determines invalidity |
| Incorrect: Control of fund, Validity of Binding Death Benefit Nomination (BDBN), Endurig Power of Attorney (EPoA) valid? | Para. 338 | Current legislation re conditions of release | Many other issues in relation to death benefits need to be explained |
| Requires re-write | para.340 | Generally insurance benefits need to be paid out of fund | But to whom varies depending on type of insurance |
| Contribution Restrictions | para 342-347 | Will need updating if law is passed relaxing the work test for those over 65 years of age. | |
| TSB rules about acceptance of NCCs | para. 343 & 350 | 1/7/17 legislative amendments | |
| Change in contribution rules | para. 343 | 2018 & 2019 Federal budget announcements | 2018 announcement regulated; How do we handle proposed 2019 changes? |
| ATO webpages keep moving | Footnotes 175, 177, 188 & 189 | | |
| Downsizer; Contributions for new retirees | Para. 343 | Add to contributions types | |
| TSB issues | Para. 344 | Total Super Balance interaction with non-consessionary contribution cap | |
| Use of reserves | para. 351 | Re-word: contributions are not held in reserves; counted as concessional contribution | |
| Solvency | Para. 353-354 | Does this need to be repeated here? | |
| Rep letter provided before or after audit? | Appendix 2 | Before audit | Revise to take into account recent negligence court cases - in one case draft rep letter and engagement letters were provided with draft annual accounts. This was used against auditors in particular case. Should GS009 detail ideal workflow however this will be against typical industry practise? |
| Asset valuation | Appendix 2 point 7 | Appendix | Should the draft wording be tightened to make it crystal clear that the trustee accepts all responsibility for the valuation of assets? |
| Uncorrected misstatements | Appendix 2 point 10 | | Should this be removed? |
| Pension provisions in trust deed | Appendix 3, G.1 | 1/7/17 Super changes | |
| Reserves | Appendix 3 | Current ATO interpretations and reserve strategy not inconsistent with funds overall investment strategy | |
| Super Transfer balance account report (TBAR) | Appendix 3 | | |
| Arm's length rule | Appendix 4 | ATO interpretation tightens arm's length rule up. | |
| Asset valuations | Appendix 4 F.5 & L.1 | | Does procedure need to change for different asset classes esp closely held entities? |
| Do you need this? Asset valuations | Appendix 4 N.1 | Medical certs etc of incapacity benefits | |
| Tax calcs | Appendix 4 O.1 | Is auditor expected to complete this level of analysis of tax work? | |
| New terms to be introduced | Throughout the GS | The superannuation new measures introduced new terms and rules about Transfer Balance Caps, Total Superannuation Balance, Commutation authorities, Transfer Balance Account Reporting, and release authorities for Excess Transfer Balance Determinations. These new terms should be introduced at relevant parts of the Guidance Statement. | |



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **14.0**

Meeting Date: 3-4 December 2019

Subject: GS 012 *Prudential Reporting Requirements for Auditors of ADIs* – Project Update

Date Prepared: 15 November 2019

☐ Action Required

☒ For Information Purposes Only

Agenda Item Objectives

1. To provide the AUASB an update on progress with the GS 012 revision project.

Background

1. The AUASB approved a Project Plan to review and update AUASB Guidance Statement GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs)* at its December 2018 meeting.
2. Since the December 2018 AUASB meeting, APRA has issued:
 - a) updated Reporting Standards to incorporate changes arising from the implementation of the modernised Economic and Financial Statistics (EFS) data collection. The updated Reporting Standards impact both ADIs and Registered Financial Corporations (RFCs) required to submit EFS data to APRA from 1 July 2019;
 - b) a revised ADI Prudential Standard APS 310 *Audit and Related Matters*, effective from 1 July 2019. The revised APS 310 reflect consequential amendments from the implementation of the modernised EFS data collection and introduction of the new AASB 9 *Financial Instruments*; and
 - c) a new Reporting Standard RRS 710 *ABS/RBA Audit Requirements for Registered Financial Corporations – EFS Collection*, effective from 1 July 2019, which is based on APS 310 and directed at RFCs not currently included under the APS 310 framework.
3. An updated Project Plan was approved by the AUASB Chair in September 2019, after consultation with APRA and review by the AUASB sponsor for the project (refer attachment: Agenda Item 14.1).

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Project update

GS 012 Working Group

1. A working group consisting of practitioners with relevant technical knowledge and experience undertaking ADI and RFC regulatory reporting engagements, was established to provide input into the revision of GS 012.
2. Membership of the GS 012 Working Group was confirmed early in October 2019, consisting of practitioners representing the Big 6, with the AUASB sponsor for the project acting as Chair.
3. The initial purpose of the Working Group was to assist with scoping of the project and to identify issues, and then to act in an advisory capacity to the AUASB Technical Group (ATG), providing specific technical and practical expertise as well as practitioners' and their firms' perspective on the issues relating to the project.
4. The GS 012 Working Group held its first meeting on 30 October 2019 in Sydney, with Melbourne and Brisbane based practitioners joining by teleconference.
5. The purpose of the first meeting was to:
 - agree the scope of the project
 - identify issues
 - agree the timeline of the project and key milestones
 - identify areas where practitioner input will be required
 - agree the best way forward to engage with APRA and the Agencies.
6. Practitioners (and APRA) were also asked to provide formal feedback, in response to a request for information by the ATG, by 15 November 2019.
7. APRA accepted the ATG's invitation to attend the first GS 012 Working Group meeting but could not attend on the day.
8. The GS 012 Working Group decided that the best way forward will be to share the final draft of the updated GS 012 with APRA and the Agencies (RBA and ABS) in January 2020, for review and formal feedback. This draft will include all the feedback from practitioners to date and will reflect the consensus view of the GS 012 Working Group in relation to potential contentious issues.

GS 012 Scope

9. The GS 012 Working Group expressed a need for the scope of GS 012 to be broadened to also include:
 - Level 3 ADI Conglomerate Groups.
 - RFCs required to report to APRA under the EFS Collection.
10. Currently, APS 310 only applies to ADIs on a Level 1 (the ADI) and Level 2 (group) basis.
11. During 2017, APRA implemented its framework for the supervision of Conglomerate Groups (Level 3). APRA has issued a new Prudential Standard 3PS 310 *Audit and Related Matters*, which came into effect 1 July 2017. The audit and assurance requirements specified in 3PS 310 for Level 3 groups mirror the requirements set out in APS 310.
12. APRA's new Reporting Standard RRS 710 *ABS/RBA Audit Requirements for Registered Financial Corporations – EFS Collection*, effective from 1 July 2019, mirrors APS 310 requirements and is directed at RFCs not currently included under the APS 310 framework.

13. Implications:
- (a) The title of GS 012 will need to be changed to reflect the broadened scope and the fact that RFCs are not ‘prudentially regulated’ entities, but only ‘registered’ under the *Financial Sector (Collection of Data) Act 2001*.
 - (b) Illustrative Examples will need to be developed for RFCs to include in the Appendices to GS 012, including: Engagement Letter, Management Representation Letter and Auditor’s Prudential Assurance Report (pursuant to RRS 710.0).
 - (c) Other Illustrative Examples included in the Appendices to GS 012 will need to be updated to incorporate Level 3 Conglomerate Groups
14. The Working Group noted that GS 012 guidance material will need to be tailored to assist RFC auditors who may be undertaking these types of regulatory audits for the first time. Although the requirements for appointed auditors will be very similar under RRS 710 and APS 310, differences will need to be clearly articulated in the Guidance Statement [for example, PART D (reporting on compliance) will not be applicable and PART C requirements (reporting on internal controls) may be less in scope].

Materiality

15. The GS 012 Working Group identified a need for further guidance and application material on materiality to be developed for inclusion in the Guidance Statement, including practical examples, to provide clarity to practitioners.
16. In particular, the Group discussed the applicability of APRA Reporting Practice Guide *RPG 702.0 RBA/ABS Data Quality for the EFS Collection*, which was issued by APRA in 2018. RPG 702.0 provides guidance to ADIs and RFCs as to the Agencies’ (RBA and ABS) expectations for data accuracy in EFS Reporting Forms, by specifying quantitative data quality benchmarks calibrated according to the size of the reporting entity, data priority and type of data item.
17. Members noted that although RPG 702.0 is primarily directed at reporting entities, APRA and the Agencies expected auditors to take account of this guidance in determining materiality thresholds for prudential engagements.
18. The initial sentiment of the Group was that application of RPG 702.0 benchmarks may be more relevant in relation to Part C of the engagement (reporting on internal controls) and that the strategy for Parts A and B of the engagement (reporting on data included in specified reporting forms) will be very similar to that followed in the past, where auditors, to a large extent, leveraged off work already performed as part of the statutory audit. Practitioners to provide further input/feedback.

Other Matters

19. Other issues raised by the Working Group for consideration in the revision of GS 012 included:
- a. Relevance of APRA Prudential Standard *APS 910 Financial Claims Scheme Engagements?*
 - b. Need for inclusion of guidance on using the work of internal auditors?

APS 310/RRS 710.0 includes a requirement that the scope of internal audit includes a review of the policies, processes and controls put in place by management for compliance with APRA Prudential Standards/EFS reporting standards.
 - c. Need for further guidance and examples in relation to projections/forecasts and management estimates? Consideration of the relevance of ASA 540 and ASAE 3450.

This is especially relevant in relation to new Liquidity Reporting Forms added to the scope of APS 310.

- d. APRA breach reporting requirements and the impact on the Auditor's Prudential Assurance Report?

Practitioners identified different practical scenarios and discussed whether modification of the opinion/conclusion in the assurance report versus reporting as part of general/specific observations (for example, as attachment to the auditor's report) will be appropriate. The group also considered the timeliness of such reporting – during the year or more formally at year end? Practitioners agreed to provide further guidance and illustrative examples to reflect what happens in practice.

Way Forward

1. It was agreed that further informal consultation will occur via email or telephone, for example by circulating drafts and asking for input/feedback, as well as teleconference where group discussion and consensus is needed.
2. The plan is to:
 - table a first draft of the revised GS 012 at the planned 4 February 2020 AUASB meeting for Board consideration and feedback; and
 - seek Board approval of the final proposed Guidance Statement at the 3 March 2020 AUASB meeting.
3. In order to meet the above target dates, the ATG is working towards the following milestones:

| | |
|-------------------|--|
| 13 December 2019: | Circulate a first draft of revised GS 012 (updated to include 15 November feedback from practitioners) to Working Group for review |
| 13 January 2020: | Working Group feedback to the ATG |
| 21 January 2020: | Provide first draft of revised GS 012 (which will include 13 January practitioner feedback) to AUASB for review, as part of the first mail out for the February 2020 meeting |
4. The first draft of the revised GS 012, which will be tabled at the AUASB's February 2020 meeting, will be circulated to APRA, the Agencies, and other relevant stakeholders in January for review and formal feedback.

Material Presented

| | |
|------------------|-----------------------------------|
| Agenda Item 14.0 | AUASB Board Meeting Summary Paper |
| Agenda Item 14.1 | GS 012 Project Plan (Revised) |

Project Plan (Revised)

| | |
|-----------------------|---|
| Project Title: | Revision of AUASB Guidance Statement GS 012 <i>Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions</i> |
| Priority: | High |
| Date Prepared: | 9 September 2019 |

Project Objective

1. To review and update Guidance Statement GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions* to reflect new and updated requirements for appointed auditors of Authorised Deposit-taking Institutions (ADIs) and Registered Financial Corporations (RFCs) who are required to provide assurance in relation to information provided to the Australian Prudential Regulation Authority (APRA), Reserve Bank of Australia (RBA) and Australian Bureau of Statistics (ABS) (together, 'the Agencies').

Actions required from AUASB Chair

2. Approval to proceed with the revision of GS 012 in accordance with the revised 'Action Plan' below.

Background

3. GS 012 was released in June 2009 to provide guidance to the appointed auditor of an ADI, reporting in accordance with the prudential reporting requirements specified by APRA in its Prudential Standard APS 310 *Audit and Related Matters*.
4. Subsequent to the issuance of 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 APS 310, as well as minor amendments to definitions and references to other standards.
5. During 2017, APRA implemented its framework for the supervision of conglomerate groups (Level 3 Framework). APRA may determine a Level 3 conglomerate group where it considers that material activities are performed within the group across more than one prudentially regulated industry e.g. banking, general insurance and/or life insurance.

APRA issued a new Prudential Standard 3PS 310 *Audit and Related Matters*, which came into effect 1 July 2017. 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.

6. In March 2018, amendments to *the Financial Sector (Collection of Data) Act 2001* broadened the scope of entities required to report information to APRA, to also include certain non-ADI lenders.
7. During 2017 and 2018, the Agencies commenced work to modernise Australia's Economic and Financial Statistics (EFS) data collection. The EFS collection will be 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 to compile key

macroeconomic indicators for Australia for publication, analysis and policy purposes. This information may also be used by APRA for prudential supervision purposes.

8. During 2018, the Agencies introduced new data quality guidance for ADIs and RFCs through 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' expectations, by 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. At its December 2018 meeting, the AUASB approved a Project Plan to review and update GS 012. Klynton Hankin (PwC) was nominated as the AUASB member to act as project sponsor.
10. Since the December 2018 AUASB meeting, APRA has issued:
 - a) updated Reporting Standards to incorporate changes arising from the implementation of the EFS Collection. The updated Reporting Standards impact both ADIs and RFCs required to submit EFS data to APRA from 1 July 2019;
 - b) a revised APS 310, effective from 1 July 2019. The revised APS 310 reflect consequential amendments from the implementation of the modernised EFS data collection and introduction of the new AASB 9 *Financial Instruments*; and
 - c) a new Reporting Standard RRS 710 *ABS/RBA Audit Requirements for Registered Financial Corporations – EFS Collection*, effective from 1 July 2019, which is based on APS 310 and directed at RFCs not currently included under the APS 310 framework.

Stakeholders

11. Stakeholders impacted by the update of GS 012 are:
 - (a) Approved auditors of ADIs and RFCs (NB: Predominantly 'Big 4' and other 'Mid-Tier' Firms who audit entities in this market segment)
 - (b) APRA and the Agencies (RBA and ABS)
 - (c) ADIs and RFCs
 - (d) Relevant financial services industry associations (e.g. Australian Bankers Association, Australian Financial Markets Association)

Scope

12. Review and update GS 012 to reflect changes in reporting requirements issued by APRA in relation to APS 310, and new requirements relating to the audit of EFS for ADIs, including, but not limited to:
 - (a) Update the GS 012 Illustrative Example Engagement Letter and Management Representation Letter to reflect new EFS reporting and assurance requirements, and revisions to APS 310 and other related Prudential Standards (e.g. CPS 220 *Risk Management* and other cross-industry (CPS) standards) since 2009.
 - (b) Update the GS 012 Illustrative Example Auditor's Report to reflect new ADI and EFS reporting and assurance requirements.
 - (c) Consider data accuracy and materiality requirements stipulated by APRA and the Agencies in respect of data submitted in APRA Reporting Forms (RPG 702.0).

- (d) Address any issues identified by practitioners using the existing GS 012 since it was released in June 2009.
 - (e) Broaden the scope of GS 012 to now also include Level 3 Conglomerate Groups.
 - (f) Consider potentially broadening the scope of GS 012 to also address APRA's audit and assurance requirements for appointed auditors of RFCs.
 - (g) Consider any other updates to modernise GS 012, which has not been updated since it was released in June 2009.
13. Finally, APRA has requested that the project plan include reference to the forthcoming Basel III (b) changes. APRA has indicated that this will be a 'major piece of work' and that APRA will be seeking assurance on data prepared on a Basil III basis.

The impact of Basel III changes on GS 012 will be discussed with practitioners during the consultation process. However, as Basel III implementation is still 2 to 3 years away, it is not anticipated that these changes will impact on the current revision of GS 012.

Action Plan

14. Steps to update GS 012:
- (a) Obtain AUASB Chair approval for the updated GS 012 Project Plan (this document).
 - (b) Identify relevant industry experts from APRA stakeholder representative groups, to form an informal project working group to assist the AUASB Technical Group (ATG) to:
 - (i) Determine the scope of the GS 012 revision;
 - (ii) Determine a detailed list of updates required to GS 012 in light of new reporting and prudential requirements;
 - (iii) Gather feedback from practitioners who have been using GS 012 since its release in June 2009; and
 - (iv) Gather feedback across relevant financial services industry representatives in relation to proposed GS 012 changes.
 - (c) In consultation with the GS 012 Working Group, develop changes required to GS 012 and its Appendices, to address the project objectives.
 - (d) Consult with APRA and, where applicable, the Agencies, on the proposed revisions.
 - (e) Limited exposure of final draft GS 012 to relevant stakeholders for final review.
 - (f) Obtain OBPR clearance.
 - (g) Obtain AUASB approval for revised GS 012.
 - (h) Issue revised GS 012.
 - (i) Develop associated educative materials and communications to support the implementation of the revised GS 012.

Resources

15. The following AUASB and stakeholder resources will be engaged to update GS 012:
- (a) AUASB Senior Project Manager to lead and coordinate the project.
 - (b) AUASB Technical Director to review and supervise project.
 - (c) AUASB member with relevant financial services expertise to act as project sponsor: Klynton Hankin.
 - (d) Stakeholder representatives from the Agencies, approved auditor firms, ADI's/RFCs and relevant financial services industry associations to form members of the GS 012 Working Group.

Timetable

| Date | Description |
|-------------------|--|
| Sept – Oct 2019 | <ul style="list-style-type: none">• Approval of revised project plan• Discuss scope and timeline with APRA and, where applicable, the Agencies• Identify GS 012 Working Group members• Conduct introductory meeting with GS 012 Working Group• Commence consultation with GS 012 Working Group and start updating GS 012 |
| Nov 2019-Jan 2020 | <ul style="list-style-type: none">• Develop changes to GS 012 and its Appendices• Consult with GS 012 Working Group and, where applicable, APRA and the Agencies• Update the AUASB at its December meeting on progress |
| Feb 2020 | <ul style="list-style-type: none">• Table first draft revised GS 012 at February AUASB Meeting• Continue development of revised GS 012 with GS 012 Working Group• Finalise draft GS 012 and circulate to relevant stakeholders for final review |
| March 2020 | <ul style="list-style-type: none">• AUASB approval of revised GS 012• Obtain OBPR clearance• Issue revised GS 012 on AUASB Website• Finalise communications and implementation guidance materials associated with the revised Guidance Statement |



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **15**

Meeting Date: 3 & 4 December 2019
Subject: Public Sector Audit Issues PAG Update
Date Prepared: 27 November 2019
Prepared By: Matthew Zappulla

☐ Action Required

☒ For Information Purposes Only

Agenda Item Objectives

1. Report to AUASB on the progress of the Public Sector Audit Issues Project Advisory Group (PAG).
2. Seek endorsement from the AUASB on the methodology the PAG has developed to produce its proposed guidance for Public Sector Audits.

Background

3. The PAG has now held four meetings over 2019, with the latest meeting occurring on 23 October 2019. This update follows the last update provided to AUASB members at the June 2019 AUASB meeting, where the AUASB Technical Group (ATG) committed to providing AUASB members with a more fulsome overview of the PAG's progress and output at a future AUASB meeting.
4. The first three PAG meetings covered the scope and objective of the PAG, focusing on the following three topics as they relate to public sector audits:
 - (a) Terms of Engagement – ASA 210
 - (b) Engagement Leader responsibilities – ASA 220
 - (c) Going Concern – ASA 570
5. The progress to date of the PAG has been slower than hoped, due to both the complexity of some of the technical issues generated from the research required by the ATG and the PAGs deliberations, other priorities and commitments of the relevant ATG members taking precedence, as well as the inability to engage with PAG members from July to early October due to the A-G offices audit season commitments.
6. The level of engagement and quality of the input by PAG members, who represent each of the Auditor-General's office in Australia has been very good.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

7. The main objective of the PAG is to develop AUASB approved guidance which supports Public Sector auditors to either comply with the requirements in the 3 ASA's that are in scope or identify appropriate alternative procedures so Public Sector auditors can still achieve the objective of an ASA when performing their audit work. Whilst the PAG is yet to form a definitive view on this matter, initial consensus is that we are working towards the development of a Public Sector specific Guidance Statement that analyses the approaches that Public Sector Auditors can undertake to ensure they are addressing the ASA objectives as effectively as possible, taking into account the structural or legal barriers that exist in the public sector. PAG members expressed a strong desire for the development of an AUASB Pronouncement to address the issues the PAG are focusing on, to assist in the credibility of their responses to these issues and act as a counterpoint to any issues they have when subject to quality review. The ATG has proceeded to drive the agenda and outputs of the PAG meetings on this basis.
8. This update for the AUASB focuses on how the AUASB Technical Group (ATG), under the guidance of the PAG Chair (Julie Crisp – NT Auditor-General and AUASB member) has sought to develop a methodology to develop the Public Sector specific guidance in accordance with the AUASB framework; how this methodology has initially been applied to the PAG's first topic area (Terms of Engagement – ASA 210); and the way forward.
9. As AUASB Due Process will require the PAG to deliberate on the content of any proposed AUASB Guidance Statement or other type of pronouncement targeted at Public Sector Audit Issues and then have this reviewed and approved by the AUASB, the whole AUASB is being kept informed of progress by the PAG at every second AUASB meeting. Additionally, to facilitate the future work of the PAG at this meeting the ATG and PAG Chair seek the endorsement of the methodology the PAG has developed to produce its proposed guidance for Public Sector Audits, as outlined in the 'Matters to Consider' section below.

Matters to Consider

10. At the first 2 meetings of the Public Sector Audit Issues PAG the initial approach of the ATG was to have PAG members provide feedback on the current work practices each A-G office undertook to address the audit issues identified by the Australasian Council of Auditors-General (ACAG) in their original submission to the AUASB on this topic. The initial intention was to identify common practices and determine what may be the best way forward for all Public Sector Audit engagements. The ATG developed a specific template to capture this input from each office which was completed by each PAG member.
11. However, rather than any common trends this process highlighted the varying responses and levels of understanding that existed, with none of the 3 subject matter areas indicating a strong consensus of approach across most A-G offices. The responses also highlighted the number of different alternative procedures the various A-G offices had implemented so they were not deliberately avoiding compliance with the relevant ASAs in these areas. This contrasted with the original intended objective of the PAG to develop guidance which supports Public Sector auditors to either comply with the ASA requirements or identify appropriate alternative procedures so they can still achieve the objective of an ASA when performing their audit work based on existing practice.
12. Consequently an alternative approach to developing the necessary guidance for Public Sector Auditors specified in the PAG's Terms of reference was required. At the PAG's June 2019 meeting the ATG developed and presented a technical paper addressing where or how an auditor can meet a requirement in a standard if it is not applicable without having to document this explicitly in each audit file why it is not applicable, based primarily on ASA 101 and ASA 200. This was helpful in clarifying when PAG members can determine where it is appropriate to identify and implement alternative procedures. The technical paper has subsequently been used as the basis for the ATG's analysis of ASA 210 in relation to the Terms of Engagement for Public Sector Audit engagements as described in more detail below. This paper was further clarified and updated for the October PAG meeting following discussions with the AUASB Chair and PAG Chair in July and August 2019.

13. The ATG's technical paper for the PAG summarises the principles in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* that apply to complying with relevant requirements in the auditing standards. ASA 200 outlines that a requirement in an auditing standard must be followed unless the:
 - (a) Whole auditing standard is not relevant (ASA 200.22(a));
 - (b) Requirement is conditional and the condition does not exist (ASA 200.22(b)); or
 - (c) Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement..... (ASA 200 Aus23.1).
14. Based on this paper and the feedback from PAG members the ATG then further explored whether, in a public sector context:
 - (a) Certain requirements in the ASAs could be considered conditional under ASA 200.22(b); and
 - (b) The 'rare and exceptional' clause in paragraph Aus23.1 of ASA 200 could provide some relief from explicitly complying with certain ASA requirements.
15. This analysis was done by the ATG initially based on the requirements of ASA 210, with each requirement individually analysed to assess whether they are either:
 - (a) Conditional, and whether the necessary condition is not present for a public sector audit engagement; and/or
 - (b) Whether the circumstances for a public sector audit engagement are generally considered 'rare and exceptional'.
16. To provide a practical example of this - ASA 210 paragraph 7 requires the auditor to not accept an engagement if a limitation of scope is imposed by management, but this is conditional on this not being precluded by law or regulation. However, the legislative mandates each Auditor-General may have meant that it is either obligatory or at the discretion of an Auditor-General to perform an audit of a public sector entity despite any scope limitations which may exist.
17. The ATG prepared a paper addressing all the requirements of ASA 210 for the October 2019 PAG meeting. There was some feedback on the ATG's analysis, and this has now been addressed in an updated version of the paper sent to PAG members in late November 2019.
18. After analysing each requirement in the ASA (as described in paragraph 13 above) the ATG has, in consultation with PAG members, identified possible solutions or alternative procedures where a requirement cannot be met because of its conditionality. For these requirements, the proposed Public Sector Auditing Guidance Statement will outline the circumstances where this conditionality generally exists and how the auditor must document this in the audit working papers or as a Firm-wide/office-wide policy.
19. Where a requirement in an ASA is considered rare and exceptional for the public sector, the auditor must, under ASA 200 Paragraph Aus23.1 "*perform alternative procedures and document the circumstances around the inability to comply, the reasons for inability to comply and why the alternative procedure is appropriate*". The proposed Public Sector Auditing Guidance Statement will, based on the ATG's analysis and feedback from PAG members, outline what alternative procedures are possible and any associated documentation requirements for Public Sector auditors.

Questions

1. Do AUASB Members support the methodology the ATG and PAG Chair have applied to developing the proposed Guidance for Public Sector Auditors?
2. In particular, the AUASB's views are sought on whether the proposed approach addresses requirements which are considered either 'conditional' and 'rare and exceptional' in accordance with ASA 200.22(b) and ASA 200 Aus23.1, as described in paragraph 11 above.

Next Steps/ Way Forward

20. Having performed this analysis initially on ASA 210, the process described above, subject to the feedback and endorsement from the AUASB, will now be applied consistently across the other standards in the scope of this project (ASA 220 and ASA 570). The details relating to each relevant requirement in all 3 standards will then form the basis for the proposed Guidance Statement.
21. The next PAG meeting is proposed for late January or early February 2020. This meeting will be targeted at developing the proposed guidance based on analysis of the existing requirements of ASA 570, which particularly will be targeted to address the risk of reduced or withdrawn funding for a public sector entity/agency and the sale, transfer or discontinuance of a public sector entity/agency after reporting date.
22. To assist in improving the timeliness of the analysis of ASA 570 for the next PAG meeting, now that the methodology and associated templates to address the requirements of this standard have been established by the ATG, the ATG will seek assistance from PAG members to assist with the analysis of this standard (previously for ASA 210 this was exclusively performed by the ATG).
23. A further update and a more detailed plan for the development of the proposed AUASB Guidance Statement for this PAG will be provided to the AUASB at its March 2020 meeting.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **16.3**

Meeting Date: 5 December 2019

Subject: ISQM 1

Date Prepared: 27 November 2019

☒ **Action Required**

☐ **For Information Purposes Only**

A. Background

- 1 The IAASB issued ED-ISQM 1 in February 2019, with a comment period ending 1 July 2019.
- 2 The AUASB did extensive outreach on this Exposure Draft and submitted a response to the IAASB.
- 3 The ISQM 1 Taskforce commenced their review of comments received for the September 2019 IAASB. The direction of the taskforce was shared with the AUASB at the September 2019 AUASB meeting. A summary of key action items arising from the September 2019 IAASB is provided below includes agreement to:
 - (a) raise the required quality objectives to higher, more overarching type objectives – refer paragraph 11 below;
 - (b) introduce quality risk considerations into the standard – refer paragraph 9 and 10 below;
 - (c) revise the required responses to adjust them to be more high level, less detailed and less repetitive of the quality objectives – refer paragraph 9(b)(iv) below;
 - (d) simplify the approach to the firm’s risk assessment process – refer paragraph 10 below; and
 - (e) consider the threshold for the identification of quality risks with the IAASB leaning towards retaining “reasonable possibility” – refer paragraph 10 below.
- 4 At the December IAASB meeting, the taskforce will seek input from the IAASB as to the way in which the matters included in paragraph 3 have been addressed. Additionally, the taskforce will be addressing and will be seeking feedback on:

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- (a) Restructure of the standard, including drafting and presentation – refer paragraph 9 below;
 - (b) Evaluating the System of Quality management – refer paragraph 12 below;
 - (c) Monitoring and remediation – refer paragraph 13 below; and
 - (d) Networks – refer paragraph 14 below.
- 5 A summary of how the IAASB considers how the proposals in section C address the key areas of concern being scalability, complexity and prescriptiveness is contained in paragraph 85, section B.10 of the IAASB issues paper [[found here](#)].

B. What the Audit Technical Group (ATG) is seeking from the AUASB at the December 2019 AUASB meeting

- 6 The purpose of this Agenda Item is to update the AUASB as to the taskforces proposed way forward on issues raised by stakeholders.
- 7 In section C.9 – C.14 the ATG has highlighted the AUASBs and other respondents’ key concerns and the taskforces current thinking. Where considered appropriate, the ATG has highlighted (in a box) the questions that the IAASB will consider at the forthcoming December 2019 IAASB meeting. In line with the AUASB international influencing strategy, AUASB members are encouraged to comment on any of these questions to inform the AUASB Chair of their views. The AUASB is specifically directed to the questions under paragraphs 9(d), 10(a)(iii), 10(a)(vii), 11(b)(iv), 12(b), 13(b)(ii), 13(c)(iv), 13(d).
- 8 A link to the clean proposed ISQM-1 is provided [[here](#)]. This summary paper references paragraphs of this document.

C. Proposals in the December 2019 IAASB meeting papers:

- 9 Restructure of Standard
- (a) Overall comments from the AUASB in the submission on ED-ISQM 1 highlighted concerns with complexity, prescriptiveness, repetitiveness of information and general length of the standard. This feedback was consistent with feedback received generally from respondents to ED-ISQM 1.
 - (b) To aid with the complexity, prescriptiveness and length of the standard, ISQM- 1 has been restructured so that:
 - (i) The RAP 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.

- (iii) Monitoring and Remediation and the RAP are explicitly referred to as processes not components. A risk approach will be adopted to M&R but not in the same form as the RAP is applied to other components.
- (iv) There will be a separate section dealing with ‘specified responses’ – that is all required responses to address quality risks will be contained within one section of the standard and not within each component. The perceived benefits of this are:
 - Improving integration of components (some responses overlap);
 - Level of responses across components now not inconsistent;
 - Reduce perceived prescriptiveness of standard.
- (c) Drafting and presentation
 - (i) Example boxes have been used, with specific signposting to scalable examples.
 - (ii) Duplicate information removed e.g.: explanations in the introduction, appendix, repetitive AM.
 - (iii) Removal of AM that may only be relevant for a first time through – separate guide.
- (d) The IAASB will be asked for their views on these matters at the December IAASB meeting.

Question 1: Does the AUASB support the restructure of the standard; and the changes to drafting and presentation as outlined above?

10 Risk Assessment process

- (a) Overall comments from the AUASB in the submission on ED-ISQM 1 was consistent with the general responses from stakeholders to the ED. The AUASB was not supportive of the RAP in its current form. The concerns raised by the AUASB were that quality objectives were too prescriptive, there was no specific quality risks identified in the requirements, yet the standard has prescriptive responses to achieve quality objectives. Additionally, there was concern regarding the threshold for identification of quality risks. To address these concerns the following changes have been made to ISQM 1:
 - (i) To address quality risks, the standard has introduced quality risk considerations (QRC) that reside in the RAP. These considerations are at the front end of the standard and are not repeated within components.
 - (ii) As part of identifying and assessing quality risks, the firm considers the following QRCs:
 - Nature and circumstances of the firm; and

- Nature and circumstances of the engagements performed by the firm.
- (iii) AM included to explain how the QRC applies to each component.

Question 2: Does the AUASB support the introduction of quality risk considerations in the RAP process, paragraph 22E?

- (iv) A requirement that requires the firm to modify the quality objectives, quality risks and responses if deficiencies indicate that they are not appropriate was moved from monitoring and remediation to the RAP; and a new requirement for the firm to establish policies or procedures to identify information that may indicate changes affecting the system
- (v) New AM to clarify when additional quality objectives should be established including an explicit statement that additional quality objectives not always required.
- (vi) Emphasis that responses specified in the standard will alone not be sufficient to achieve a SOQM.
- (vii) Definition changes to quality risks¹, specific application material to quality risks including the threshold for identifying quality risks² and a new definition of quality risk considerations³.

Question 3: Does the AUASB support the definitional changes?

11 Quality objectives and responses

- (a) Overall comments from the AUASB in the submission on ED-ISQM 1 was consistent with other stakeholders' feedback. The AUASB considered that the quality objectives were too prescriptive and too granular. Additionally, owing the granularity of the objectives, the AUASB did not consider it to be appropriate to require objectives to be established beyond those set by the standard.
- (b) To address these issues, the task force has modified ISQM 1:
 - (i) Quality objectives have been streamlined by combining objectives and responses into a response, reorganising the quality objectives, some quality objectives have been replaced by QRC, some quality objectives have been moved to other sections; and moving the more granular aspects of the requirements to application material;

¹ Quality risks – Risks arising from conditions, events, circumstances, actions or inactions that could, individually or in combination with other quality risks, adversely affect the achievement of a quality objective(s)

² For the purposes of this ISQM, a quality risk exists when there is a reasonable possibility of:

- The risk occurring (i.e., its likelihood); and
- The risk adversely affecting the achievement of a quality objective if the risk were to occur (i.e., its magnitude).

³ Quality risk considerations – Factors that are indicative of, or that affect, the conditions, events, circumstances, actions or inactions that may give rise to quality risks and affect the assessment of the quality risks.

- (ii) Responses that have not been combined with an objective or have not been replaced by QRC have been moved to separate section ‘specified responses’ (refer above).
- (iii) New AM to clarify when additional quality objectives should be established including an explicit statement that additional quality objectives not always required.
- (iv) For the December 2019 IAASB meeting, the taskforce has implemented these changes in 2 components: G&L (paragraph 23, ISQM 1) and Engagement performance (paragraph 36, ISQM 1). The taskforce will seek IAASB feedback on these changes.

Question 4: Does the AUASB support how the quality objectives have been adjusted and refined and does the AUASB support relocating responses for all components to a separate section of the standard ‘specified responses’?

12 Evaluating the System of Quality Management (SOQM)

- (a) The AUASB did not raise any concerns in relation to evaluating the SOQM, however, in order to emphasises that leadership is responsible and accountable for the SOQM as a whole, the ISQM 1 task force has proposed:
 - (i) Separating requirements for evaluating the SOQM (reasonable assurance that the objectives of the SOQM have been achieved) from M&R and having this as a stand-alone section (refer paragraph 65A-65C); and to reinforce that the outcome of the evaluation may reflect on how leadership has performed (refer paragraph 65D).
 - (ii) Relocated the requirement addressing the performance evaluations of leadership to this stand-alone section (refer paragraph 65D).
- (b) There is debate by the taskforce as to whether the evaluation of the SOQM should be backward (whether the objectives of the system have been achieved over a period of time) or forward looking (whether the objectives of the system will be achieved) and the taskforce is seeking IAASB input on this.

Question 5: Does the AUASB support the evaluation of SOQM to be backward or forward looking?

13 Monitoring and Remediation

- (a) Overall comments from the AUASB in the submission on ED-ISQM 1 was consistent with other stakeholders’ feedback. The comments raised by the AUASB were:
 - The requirement to inspect completed files was supported, but the AUASB considered that the requirement and application material could be more principles focused.

- The differences between findings and deficiencies was unclear with findings not being defined.
- Lack of clarity around when root-cause analysis is required and the lack of ‘flexing’ of such analysis.

To address comments above and other comments received from stakeholders the ISQM 1 taskforce have made the following changes:

- (b) M&R has now been categorised as a process. Responses on ED were mixed as to whether the RAP should be applied to the M&R process. The task force recognises that on ED, the M&R component did not appropriately reflect a risk-based approach. To this end the task force has proposed changes to ISQM 1 as follows
 - (i) Paragraph 45, ISQM 1 directly states the quality risk for monitoring activities through stating that monitoring activities are designed and performed to ‘to identify deficiencies that, individually or in aggregate, could result in the system of quality management not providing reasonable assurance that the objectives of the system have been achieved’.
 - (ii) Risk is incorporated through the consideration of the severity and pervasiveness of the identified deficiencies i.e. the nature and severity of deficiencies drives the nature, timing and extent of the root cause procedures and how the firm responds. There is AM and examples included to demonstrate

Questions 6:

a. Does the AUASB support the taskforce directly stating the quality risk for monitoring objectives and does the AUASB agree with the risk identified in (b)(i) above?

b. Does the AUASB support how the concept of risk has been embedded in the root cause analysis through focusing on severity and pervasiveness of identified deficiencies.

- (c) Additionally, feedback from ED indicated confusion around the terms finding and deficiency, how to assess whether a finding is a deficiency and whether root cause analysis applies to findings and/or deficiencies and how scalable root cause analysis was. To this end the task force have proposed changes to ISQM-1 as follows:
 - (i) The definition of deficiency⁴ has been simplified and findings⁵ has now been defined.
 - (ii) There is extensive AM on how the firm determines whether a finding is a deficiency and examples of quantitative and qualitative factors that a find may consider.

⁴ Deficiency in the firm’s system of quality management (referred to as “deficiency” in this ISQM) – This exists when an aspect of the firm’s system of quality management is absent, inappropriately designed, or not operating effectively.

⁵ Findings – Information accumulated from the performance of monitoring activities or derived from other information sources, including the results of external inspection, which indicates that one or more deficiencies may exist.

- (iii) AM indicates that not all findings will result in a deficiency and therefore not all findings are subject to root cause analysis.
- (iv) There is AM to demonstrate with examples, the scalability of root cause analysis i.e. that the nature, timing, extent of procedures undertaken to understand root cause of deficiencies may vary based on nature and severity of deficiency.

Questions 7: Does the AUASB support the definitions of deficiency and findings and is the difference between a deficiency and a finding clear?

- (d) Feedback from the ED indicated support for retaining the requirement addressing engagement inspections but considered this could be more principles based. To this end, the task force has proposed the following:
 - (i) The concept of in-process inspections is optional as has been moved to application material
 - (ii) Paragraph 45 has been adjusted to reflect a focus on engagement risk, the appropriate combination of selecting engagements and engagement partners and considering how other monitoring activities may affect the selection of engagements.
 - (iii) The task force has retained the reference to a cyclical basis, but the basis is now more principles based with the removal of the reference to 3 years.

Question 8: Does the AUASB support the proposals above?

14 Networks

- (a) Overall comments from the AUASB in the submission on ED-ISQM 1 was consistent with other stakeholders' feedback. The comments raised by the AUASB were related to the granularity of requirements for networks, concern around the consistency in application across networks and the extent of documentation required to demonstrate compliance with ISQM 1.
- (b) To address network concerns, the ISQM 1 taskforce have made the following proposals:
 - (i) The task force considers that the standard shouldn't only focus on consistency across networks as this may conflict with the notion that the firm's SOQM should be tailored for the circumstances of the firm; rather the focus should be on whether the network activities have been appropriately implemented across the network. A new requirement (paragraph 61) has been introduced for the firm to obtain information from the network about how the network determines that network requirements have been appropriately implemented across network firms.

- (ii) Differentiated between network requirements and network services. The former being mandated by the firm for use in the SOQM, the later being optional for the firm. Paragraph 59 has been amended to demonstrate this.
- (c) Additionally, 2 monitoring group members suggested that the requirements of ISQM 1 should be imposed at the network level and that network level QM systems and processes should be in scope of audit inspections. The PIOB has also raised networks as a concern and suggested the taskforce focuses on consistent quality across the network.
- (d) To address these concerns, the taskforce will be conducting further outreach with the largest 6 global networks to understand the extent to which they have started implementation activities, how networks will support network firms in implementation, expected impact. The task force will also conduct further outreach with regulators to understand whether these regulators' have concerns regarding networks.

D. The way forward:

The IAASB has indicated that the timing for approval of these QM standards is expected June 2020.

**IAASB Project – Agreed-Upon Procedures
AUASB Technical Group Feedback**

| IAASB Project Objective | AUASB SMEs |
|--|-------------|
| <p>(i) Redraft the standard using the clarity drafting conventions so that this standard is consistent with other IAASB International Standards.</p> <p>(ii) Revise the standard to better reflect practice in Agreed-Upon Procedures (AUP) engagements being undertaken.</p> | Rene Herman |
| AUASB Key Points | |
| <p>A. <u>Agenda Item Objectives</u></p> <p>1. The objectives of this Agenda Item are to:</p> <ul style="list-style-type: none"> a) update the AUASB on the status of ISRS 4400 Agreed-Upon Procedures Engagements; b) receive comments on the questions raised under paragraphs 6(c), 7(c) and 8(c); and c) receive any other fatal flaw comments on the final draft ISRS 4400 from the AUASB to feed back to the AUP IAASB taskforce (clean copy of final draft ISRS 4400 – Agenda Item 16.1.1). <p>B. <u>Background</u></p> <p>2. In November 2018, the IAASB issued Exposure Draft ISRS 4400 (Revised) <i>Agreed-Upon Procedures Engagements</i>, with comments due by 15 March 2019.</p> <p>3. In December 2018, the AUASB issued a Consultation Paper seeking feedback on the IAASB’s Exposure Draft on ISRS 4400 and in March 2019, the AUASB made a written submission to the IAASB in response to ED ISRS 4400.</p> <p>4. ISRS 4400 will be approved for issue at the December 2019 IAASB meeting.</p> <p>C. <u>Update on key areas in Revised ISRS 4400</u></p> <p>5. The AUASB technical group (ATG) has been tracking the progress of the revision of ISRS 4400 in relation to the AUASB’s 3 main areas (brought forward from the AUASB submission to the IAASB and from previous meetings with no new additions). A summary of where ISRS 4400 is expected to settle is described in paragraphs 6-8 below. Additionally, Appendix 1 to this paper summarises where the IAASB has settled on other areas raised by the AUASB in their submission to the IAASB Exposure Draft – ISRS 4400.</p> <p>6. <i>Professional Judgement</i></p> <p>a) <i>The basis for original AUASB issue</i></p> <p>One of the differentiating factors between an agreed-upon procedures engagement and an assurance engagement is the extent to which the assurance practitioner’s professional judgement is exercised in selecting procedures. The major distinguishing feature between assurance engagements and AUPs, widely agreed, is that:</p> <ul style="list-style-type: none"> • in an agreed-upon procedures engagement, professional judgement may be exercised in assisting the engaging party to identify procedures when agreeing the terms of the engagement, but only professional competence and skill is exercised in conducting the procedures and in this way adds value to the engagement; while • in an assurance engagement, professional judgement is exercised in both selecting and conducting procedures. | |

Therefore, one of the most significant attributes of an agreed-upon procedures engagement is the lack of subjectivity in both the procedures and the resultant factual findings. Applying judgement requires a level of subjectivity, so the AUASB in extant ASRS 4400 considers that it is not be appropriate for the practitioner to exercise professional judgement when conducting agreed-upon procedures.

b) AUASB technical group comment on where Revised ISRS 4400 is 'settling':

On a close reading of the revised standard (ISRS 4400), the AUASB technical group can see a logical build to ISRS 4400 in relation to the exercise of professional judgement. To build up to what ASRS 4400 currently has in its paragraph 25¹ requires a complete read of paragraphs 13(b), 13(j), 18, 21(c), 22(h), A14-A16A of ISRS 4400.

To clarify where, and how, professional judgment is exercised in an AUP engagement without implying that professional judgment is ever “suspended” or “prohibited”, ISRS 4400 contains the following in relation to professional judgment:

- Examples and subheadings to application material to demonstrate how professional judgment may be exercised when accepting, conducting and reporting on the AUP engagement (to mirror proposed requirement).
- Clarifying, in the examples in the application material, that professional judgment is exercised in determining an appropriate action or response **resulting from performing the procedures**.
- Application material explaining why professional judgment is not expected to be exercised in the performance of the procedures.

c) Overall view of the AUASB Technical Group:

While the extant ASRS 4400 requirement comes out with a clear statement in paragraph 25 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, ISRS 4400 is much more subtle in this respect, but eventuates in a similar outcome. On this basis, the ATG supports ISRS 4400 in relation to the drafting of professional judgement and does not propose asking any additional questions on the Australian exposure of this standard - to be further discussed and considered at the February 2020 AUASB meeting.

Question for the AUASB: Is the AUASB in agreement with the view of the ATG? Are there any other comments the AUASB has in relation to the exercise of professional judgement?

7. *Independence:*

a) The basis for original AUASB issue

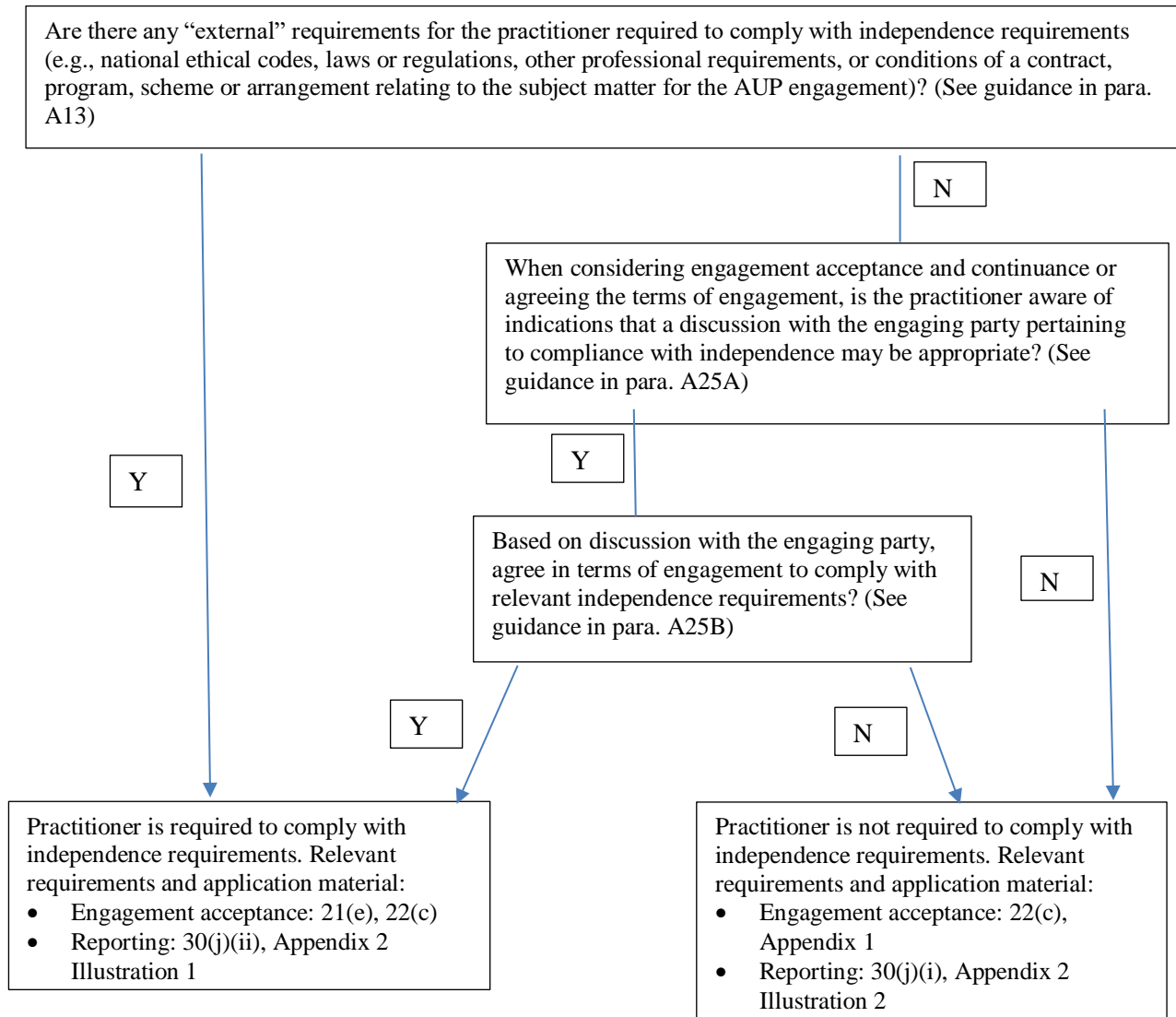
ASRS 4400 has an independence requirement equivalent to that applicable to “other assurance engagements”, unless the engaging party has explicitly agreed to modified independence requirements. If modified independent is agreed, the level of independence applied is described in the AUP report. ISRS 4400 does not require independence for an AUP engagement and the AUP report includes statements addressing circumstances when the practitioner is or is not independent.

The AUASB in its submission to the IAASB was supportive of this position, so while the AUASB did not raise a concern with this difference between the international ED and the extant ASRS 4400, the difference is significant.

¹ Paragraph 25 of ASRS 4400: *The nature, timing and extent of procedures shall be specified in the terms of the engagement in sufficient detail such 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.*

b) *AUASB technical group comment on where Revised ISRS 4400 is 'settling':*

The ISRS 4400 requirements and application material in relation to independence and independence disclosures is represented as follows:



c) *Overall view of the AUASB Technical Group:*

While the ATG agrees with the position of ISRS 4400, the principles and practices and benchmark in ASRS 4400 is currently higher than in ISRS 4400 and the ATG recommend that the AUASB raises this matter on Australian Exposure and specifically seeks stakeholder feedback on this area – to be further discussed and considered at the February 2020 AUASB meeting.

Question for the AUASB: Is the AUASB in agreement with the view of the ATG? Are there any other comments the AUASB has in relation to the Independence?

8. *Restriction on use/distribution of reports*

a) *The basis for original AUASB issue*

ASRS 4400/paragraph 42² restricts the 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 engagement letter. Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report. ISRS 4400 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.

b) *AUASB technical group comment on where Revised ISRS 4400 is 'settling':*

ISRS 4400 does not require a restriction to be placed on the AUP report. To provide further guidance on factors that the practitioner may consider in deciding whether to restrict the AUP report ISRS 4400 contains:

- application material explaining why neither a restriction on use nor a restriction on distribution can be mandated (i.e., In some jurisdictions, it may be possible to restrict the use of the AUP report but not its distribution. In other jurisdictions, it may be possible to restrict the distribution of the AUP report but not its use; and
- application material on factors that the practitioner may consider in deciding whether to restrict the AUP report. The application material also clarifies that the decision on whether to restrict the AUP report belongs to the practitioner (if the restriction is permitted by law or regulation).

c) *Overall view of the AUASB Technical Group:*

The ATG acknowledges that practically, the requirement of ASRS 4400/paragraph 42 may be difficult to implement and accordingly the proposal under ISRS 4400 may be considered more suitable. The ATG recommends that the AUASB raises this matter on Australian Exposure and specifically seeks stakeholder feedback on this area – to be further discussed and considered at the February 2020 AUASB meeting.

Question for the AUASB: Is the AUASB in agreement with the view of the ATG? Are there any other comments the AUASB has in relation to restriction of use?

D. Matters to Consider

Next Steps

9. ATG to prepare briefing notes (if considered necessary) for distribution to Australasian IAASB members, AUASB Chair and AUP taskforce.
10. It is expected that the IAASB will approve to issue ISRS 4400 at the December 2019 IAASB meeting.
11. ATG to prepare an Explanatory Memorandum and Exposure Draft for the AUASBs consideration for the 4 February 2020 AUASB meeting. The Explanatory Memorandum to include questions on exposure considering recommendations from paragraphs 6(c) and 7(c) above.
12. Following the 4 February 2020 AUASB meeting, issue ED ASRS 4400 for a 60- day comment period.

² ASRS 4400/Paragraph 42: Use of the report shall be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results.

| | |
|--|---|
| 13. | Disposition of comments and Proposed Final Standard to be brought to 21 April 2020 AUASB meeting for consideration of disposition and vote on the issuance of the final standard. |
| IAASB Timeline | |
| 1. | Approval of Standard – December 2019 IAASB meeting. |
| AUASB influencing activities | |
| ATG to prepare briefing notes for distribution to Australasian IAASB members including the AUASB Chair as well as the AUP taskforce (if considered necessary). | |
| Next steps / milestones for this project | |
| Refer timeline under matters to consider | |

Appendix 1

In the AUASB's submission to the IAASB on ED-ISRS 4400, in addition to the 3 key areas of concern addressed in section C6-C8 above; the AUASB raised several other matters for IAASB consideration. These matters have largely been addressed by the IAASB and a summary of points is included in the table below:

| | Matter raised by the AUASB | Disposition by the IAASB |
|---|--|---|
| 1 | <p><i>Findings</i></p> <p>The AUASB did not agree with the change in definition from 'factual findings' to 'findings'.</p> | <p>The word "<i>findings</i>" was retained in ISRS 4400 (Revised). To help engaging parties and other intended users understand that findings are factual in nature, additional paragraphs were included (22(e)(iA) and 30(e)(iA)) to require the engagement letter and the AUP report to include an explanation that findings are the factual results of the AUP performed and are capable of being (can be) objectively verified.</p> |
| 2 | <p><i>Practitioners' consideration of whether an assurance engagement may be required</i></p> <p>The AUASB considered that the standard should apply the concept in paragraph 21 of the Australian Standard ASRS 4400 Agreed-Upon Procedures Engagements, that the practitioner shall not accept an agreed-upon procedures engagement if, in the professional judgement of the assurance practitioner the circumstances of the engagement indicated that the intended users are likely to construe the outcome of the engagement as providing an assurance conclusion about the subject matter.</p> <p>The AUASB considered that the standard could also benefit from an introduction like the Australian Standard's ASRS 4400 paragraphs 4-6 which articulate how an AUP engagement is different to assurance, consulting, compilation and business services.</p> <p>The AUASB considered that more should be done to differentiate an AUP engagement from an assurance engagement, and that the practitioner should apply their judgement not to accept an AUP if the intended user/engaging party might misconstrue the nature of this service.</p> | <p>The IAASB has done the following to address these suggestions:</p> <ul style="list-style-type: none"> • Added paragraph A19A to introduce the concept of "rational purpose" in the context of an AUP engagement. Including considering where facts or circumstances indicate that an assurance engagement may better serve the needs of the engaging party or intended users. • The introduction section was specifically discussed by the IAASB at the June 2019 IAASB meeting, however the IAASB did not support such introductory paragraphs as it was viewed that this may create confusion for practitioners who do not ordinarily perform assurance engagements. • The AUP taskforce has committed to a comparison document (separate to the standard) to demonstrate the differences between an AUP engagement and an assurance engagement – this will sit outside the standard. |
| 3 | <p><i>Understanding the needs of intended users</i></p> <p>It would be helpful to include a precondition to consider whether there is a rational purpose to the engagement. This would relate to the exercise of professional judgement in considering whether to accept, and to plan the engagement, regarding the consideration of the purpose of the engagement</p> <p>The AUASB notes that the standard contemplates the practitioner's report being made more widely available, e.g. to the general public on a website. In such situations, the practitioner may have difficulty</p> | <p>The term "rational purpose" has not been used as it is linked to assurance engagements. However, the IAASB has added paragraph A19A to introduce the concept of "rational purpose" in the context of an AUP engagement.</p> <p>The standard now consistently uses the term 'intended users'. Additionally, paragraph A37B has now been included which highlights that practitioners may wish to restrict the report where there is an elevated risk of users other than intended users misunderstanding the purpose of the AUP or misinterpreting the results.</p> |

| | Matter raised by the AUASB | Disposition by the IAASB |
|---|---|---|
| | identifying the intended users, and there may be user groups that are not intended users – it is unclear what the practitioner’s responsibility would be towards such groups. In this regard, we also note a lack of clarity in terminology between “users” and “intended users”, as the IAASB appears to use these terms interchangeably. We believe the practitioner, together with the engaging party, should attempt to identify and meet the needs of intended users, but that the standard should clarify that they do not have a responsibility towards additional users who are not intended users. | |
| 4 | <p><i>Practitioners Expert</i></p> <p>The wording of paragraph 28 may be seen as an outsourcing arrangement and it is not clear that the expert’s role is to assist the practitioner. Accordingly, we suggest the following revised wording for paragraph 28: “When the practitioner involves a practitioner’s expert <u>to assist</u> in performing the agreed-upon procedures, the practitioner shall:”</p> | <p>The wording of paragraph 28 has not changed, however the definition of practitioner’s expert (para 13(i)) has been amended to reflect this and application material (A34A) now uses the term ‘to assist’.</p> |
| 5 | <p><i>Content of AUP Report</i></p> <p>It may be useful to require or acknowledge in the application material that when circumstances impose restrictions on the performance of the procedures (and those restrictions are considered appropriate), the restrictions are described in the AUP report. For example, when the agreed-upon procedures are set forth in regulation and a procedure is not applicable in the circumstances of the engagement, the practitioner may describe the reason that the procedure was not performed in the AUP report.</p> | <p>Paragraph A40B has been included in ISRS 4400 that reads:</p> <p><i>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 the procedures agreed in the original terms of the engagement which could not be performed or were modified, and why that has arisen.</i></p> |

This paper presents the clean version of proposed ISRS 4400 (Revised) and is numbered to correspond to paragraphs in Agenda Item 4-A – therefore there may be numbers that are missing as they have been deleted or moved. In the final standard, the standard will be re-numbered, and all cross references updated accordingly.

INTERNATIONAL STANDARD ON RELATED SERVICES 4400 (REVISED) AGREED-UPON PROCEDURES ENGAGEMENTS

(Effective for agreed-upon procedures engagements
for which the terms of engagement are agreed on or after December 31, 2021)

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Appendix 1: Illustrative Engagement Letter for an Agreed-Upon Procedures Engagement

Appendix 2: Illustrations of Agreed-Upon Procedures Reports

International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*, should be read in the context of the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

The grey shaded materials are adapted from ISRS 4410 (Revised), *Compilation Engagements*, and relate to International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*.

Introduction

Scope of this ISRS

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

Relationship with ISQC 1¹

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

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, and 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 appropriateness of the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.
- 4A. The value of an agreed-upon procedures engagement performed in accordance with this ISRS 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.

¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

5. In an agreed-upon procedures engagement, the practitioner does not perform an audit, review or other assurance engagement. The agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or conclusion in any form.
6. [Moved to A13C]

Authority of this ISRS

7. This ISRS contains the objectives of the practitioner in following the ISRS, which provide the context in which the requirements of this ISRS 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 ISRS contains requirements, expressed using “shall,” that are designed to enable the practitioner to meet the stated objectives.
9. In addition, this ISRS contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of this ISRS.
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 ISRS that assists in the application of the requirements.

Effective Date

11. This ISRS is effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after December 31, 2021.

Objectives

12. The practitioner’s objectives in an agreed-upon procedures engagement under this ISRS 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 ISRS.

Definitions

13. For purposes of this ISRS, 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. A8B)
 - (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. A8B)
 - (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. A9)
- (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 ISRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. (Ref: Para. A10–A11)
- (g) Intended users – The individual(s) or organization(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. A8B)
- (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 ISRS 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 organization 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 judgment - The application of relevant training, knowledge and experience, within the context provided by this ISRS 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 International Ethics Standards Board for Accountants (IESBA)'s *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA 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 ISRS

14. The practitioner shall have an understanding of the entire text of this ISRS, 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 ISRS 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 ISRS unless the practitioner has complied with all requirements of this ISRS relevant to the agreed-upon procedures engagement.

Relevant Ethical Requirements

17. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A12–A13G)

Professional Judgment

18. The practitioner shall exercise professional judgment in accepting, conducting and reporting on an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A14-A16A)

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. A17)
 - (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. A18)
 - (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. A19)
 - (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.

Engagement Acceptance and Continuance

20. 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. A19A-A19D)

21. The practitioner shall accept or continue the agreed-upon procedures engagement only when: (Ref: Para. A19A-A19D)
- (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. A20-A25)
 - (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. (Ref: Para. A25A-A25B)
- 21A. 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. A19C-A19D)
- 21B. 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

22. 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. A29A-A29B)
- (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) Acknowledgement of the relevant ethical requirements with which the practitioner will comply in conducting the agreed-upon procedures engagement;
 - (d) A statement as to whether the practitioner is required to comply with independence requirements and, if so, the relevant independence requirements; (Ref: Para. A25A-A25B)
 - (e) 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. A8B)
 - (iA) Findings are the factual results of the agreed-upon procedures performed and are capable of being objectively verified; and

- (ii) An agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or conclusion;
 - (f) 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. A8B)
 - (g) Identification of the addressee of the agreed-upon procedures report;
 - (h) 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. A29C-A29D)
 - (i) Reference to the expected form and content of the agreed-upon procedures report.
23. 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. A30)
24. [*Moved to para. 22*]

Recurring Engagements

25. 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. A32)

Performing the Agreed-Up Upon Procedures

26. The practitioner shall perform the procedures as agreed upon in the terms of the engagement.
27. The practitioner shall consider whether to request written representations. (Ref: Para. A34)

Using the Work of a Practitioner's Expert

28. If the practitioner uses the work of a practitioner's expert, the practitioner shall: (Ref: Para. A34A–A34B, A36A)
- (a) Evaluate the competence, capabilities and objectivity of the practitioner's expert;
 - (a1) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; (Ref: Para. A35A-A35B);
 - (b) Determine whether the practitioner will be able to be involved in the work of the practitioner's expert to an extent that is sufficient to take responsibility for the findings included in the agreed-upon procedures report; (Ref: Para. A36)
 - (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 reported by the practitioner's expert adequately describe the results of the work performed.

The Agreed-Upon Procedures Report

30. The agreed-upon procedures report shall be in writing and shall include: (Ref: Para. A36B)
- (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. A37)
 - (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. A37A-A37B)
 - (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. A8B)
 - (iA) Findings are the factual results of the agreed-upon procedures performed and can be objectively verified;
 - (ii) The engaging party (and if relevant, other parties) has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement, and that the practitioner makes no representation regarding their appropriateness; and (Ref: Para. A8B)
 - (iii) The responsible party is responsible for the subject matter on which the agreed-upon procedures are performed; (Ref: Para. A38)
 - (f) A statement that the engagement was performed in accordance with ISRS 4400 (Revised);
 - (g) A statement that the agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or conclusion;
 - (h) A statement that, had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported;
 - (i) A statement that the practitioner complies with the ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;
 - (j) 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 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 term 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;

- (k) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 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 ISQC 1;
 - (l) 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. A40A-A40C)
 - (m) The findings from each procedure performed, including details on exceptions found; (Ref: Para. A40A-A40B)
 - (n) The practitioner's signature;
 - (o) The date of the agreed-upon procedures report; and
 - (p) The location in the jurisdiction where the practitioner practices.
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. A44-A44A)
- 31A. If the practitioner provides a summary of findings in addition to the description of findings as required by paragraph 30(m) in the agreed-upon procedures report, the agreed-upon procedures report shall include a statement indicating that reading the summary is not a substitute for reading the complete report.
32. 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 ISRS.

Undertaking an Agreed-Upon Procedures Engagement Together with another Engagement

33. The agreed-upon procedures report shall be clearly distinguished from reports on other engagements. (Ref: Para. A45)

Documentation

34. The practitioner shall include in the engagement documentation: (Ref: Para. A46)
- (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 of this ISRS (Ref: Para. 2)

- A1. Reference to “subject matters” in this ISRS 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 statements or specific classes of transactions, account balances or disclosures within the financial statements.
 - 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 ISQC 1 (Ref: Para. 3)

- A3. ISQC 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 ISQC 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 ISQC 1, paragraph 11

A5. A jurisdiction that has not adopted ISQC 1 in relation to agreed-upon procedures engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ISRS 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 ISQC 1. This is achieved when those requirements impose obligations on the firm to achieve the aims of the requirements of ISQC 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.

Definitions

Engaging Party and Other Intended Users (Ref: Para. 13(a), 13(b), 13(d), 13(g), 22(e)(i), 22(f), 30(e)(i), 30(e)(ii))

A8B. 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.

A9. The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user. References to the engaging party in this ISRS include multiple engaging parties when relevant.

Findings (Ref: Para. 13(f))

- A10. 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.
- A11. 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.

Relevant Ethical Requirements (Ref: Para. 17)

Objectivity and Independence

- A12. A practitioner performing an agreed-upon procedures engagement is required to comply with relevant ethical requirements. Relevant ethical requirements ordinarily comprise the IESBA Code, together with national requirements that are more restrictive. The IESBA Code requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgment 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.
- A13. The IESBA 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, scheme 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

A13C. 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.³

A13D. 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.

A13E. 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 judgment and expertise in responding to identified or suspected non-compliance. Whether an act

³ See, for example, paragraphs R360.36 to 360.36A3 of the IESBA Code.

constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

A13F. 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.⁴

A13G. 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).⁵

Professional Judgment (Ref: Para. 18)

A14. Professional judgment is exercised in applying the requirements of this ISRS and ethical requirements, and in making informed decisions about courses of action throughout the agreed-upon procedures engagement, as appropriate.

A15. In accepting, conducting and reporting on an agreed-upon procedures engagement, professional judgment 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:
 - 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.

⁴ See, for example, paragraphs R114.1, 114.1A1 and R360.37 of the IESBA Code.

⁵ See, for example, paragraph 360.39 A1 of the IESBA Code.

Reporting on the engagement

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

A16. In conducting the engagement, the need for the practitioner to exercise professional judgment when performing agreed-upon procedures is limited for reasons including:

- An agreed-upon procedures engagement involves the performance of the specific procedures that have been agreed upon with 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)

A17. 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, emphasize 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 ISRS.

A18. ISQC 1 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.

A19. ISQC 1 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 ISRS sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements.

Engagement Acceptance and Continuance (Ref: Para. 20–21B)

A19A. 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.

A19B. Other actions that may satisfy the practitioner that the conditions in paragraphs 20 and 21 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.

A19C. If the conditions in paragraphs 20-21A 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.

A19D. All the conditions in paragraphs 20 to 21A 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. 21(c))

A20. 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 21(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.

A22. Agreed-upon procedures that are described objectively, in terms that are clear, not misleading, and not subject to varying interpretations 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 recognize 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.
- Inquire.
- Recalculate.
- Observe.

A23. 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 IAASB'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," "analyze" 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."

A24. 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."

A25. 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 21(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. 21(e), 22(d))

A25A. Paragraph 21(e) applies when the practitioner is required to comply with independence requirements for reasons such as those set out in paragraph A13. Paragraph 21(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 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),

may indicate that a discussion with the engaging party pertaining to the practitioner's compliance with certain identified independence requirements is appropriate.

A25B. The practitioner may be the auditor of the financial statements 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 decide that it is appropriate to discuss with the engaging party whether the practitioner's compliance with the independence requirements applicable to audits of financial statements is appropriate for the purpose of conducting and reporting on the agreed-upon procedures engagement. Based on the discussion with the engaging party, the practitioner may agree to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial statements for the purpose of the agreed-upon procedures engagement.

Agreeing the Terms of the Engagement (Ref: Para. 22-23)

A29A. 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.
- Identification of the responsible party (if different from the engaging party).

A29B. An illustrative engagement letter for an agreed-upon procedures engagement is set out in Appendix 1.

- A29C. Quantitative thresholds for determining exceptions may be agreed with the engaging party. If so, these quantitative thresholds are an integral part of the descriptions of the agreed-upon procedures.
- A29D. In some circumstances, law or regulation may prescribe only the nature of the procedures to be performed. In such circumstances, in accordance with paragraph 22(h), 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.
- A30. 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 23 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. 25)

- A32. 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. 27)

- A34. The practitioner may decide to request written representations in some circumstances, for example:
- If the agreed-upon procedures involve inquiries, 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. 28)

- A34A. 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.

A34B. 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 ISRS.

A35A. 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 28(a1) 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 28(a1), 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.

A35B. The matters noted in paragraph A34B 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.

A36. If the practitioner is unable to meet the requirement in paragraph 28(b), 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.

A36A. 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 28 at the engagement acceptance or continuance stage.

The Agreed-Upon Procedures Report (Ref: Para. 30–32)

A36B. Appendix 2 contains illustrations of agreed-upon procedures reports.

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

A37. 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 statements taken as a whole.

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

A37A. 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. 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. Depending on the law or regulation of the particular jurisdiction, the restriction of the agreed-upon procedures report may be achieved by restricting the distribution or use of the agreed-upon procedures report.

A37B. Factors that the practitioner may consider in deciding whether to restrict the agreed-upon procedures report (if permitted to do so) include, for example whether:

- 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.
- 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.
- The agreed-upon procedures or findings involve confidential information.

Responsible Party (Ref: Para. 30(e)(iii))

A38. If the responsible party is not the engaging party, the practitioner may consider obtaining the responsible party's agreement to include the name of the responsible party in the agreed-upon procedures report.

Agreed-Upon Procedures and Findings (Ref: Para. 30(l)-30(m))

A40A. 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.

A40B. 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 the procedures agreed in the original terms of the engagement which could not be performed or were modified, and why that has arisen.

A40C. The practitioner may wish to refer to the date when the agreed-upon procedures are agreed in the terms of the engagement.

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

A44. 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-Up Procedures Engagement Together with another Engagement (Ref: Para. 33)

A45. 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 33 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. 34)

A46. 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 matters on which the agreed-upon procedures are performed. Identifying characteristics will vary depending on the nature of the agreed-upon procedure and the subject matters 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 inquiries of specific personnel, the practitioner may record the dates of the inquiries, the names and job designations of the personnel and the specific inquiries 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.
- If applicable, who reviewed the agreed-upon procedures performed, and the date and extent of such review.

Appendix 1

(Ref: Para. A29B)

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 ISRS. 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 ISRS. 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 ISRS. 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 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 International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. In performing the agreed-upon procedures engagement, we will comply with [relevant ethical requirements], which does not require us to be independent.

An agreed-upon procedures engagement performed under ISRS 4400 (Revised) involves our performing the procedures agreed with you [and if relevant, other parties], and communicating the findings in the agreed-upon procedures report. Findings are the factual results of the agreed-upon procedures performed and can be objectively verified. 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 is not an assurance engagement. Accordingly, we do not express any opinion or 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.⁶ 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:

- Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X8] and [December 31, 20X8] for [xyz] products ("listing") and identify contracts valued at over \$25,000.
- For each identified contract valued at over \$25,000 on the listing, compare the contract to 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 each contract valued at over \$25,000 in 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.

⁶ In this case, the engaging party is also the intended user.

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].

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]

Appendix 2

(Ref: Para. A36B)

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.
- The practitioner is not required to comply with any independence requirements.
- Quantitative threshold of \$100 for reporting exceptions in Procedure 3 have been agreed with the engaging party.

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

To [Addressee]

Purpose of this Agreed-Upon Procedures Report

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.

Responsibilities of the Engaging Party [and if relevant, other parties] and the Responsible Party

[Engaging Party] [and if relevant, other parties] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[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 International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed upon with [Engaging Party] [and if relevant, other parties], and reporting the findings, which are the factual results of the agreed-upon procedures performed and can be objectively verified. 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 any opinion or 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 [relevant ethical requirements]. In conducting this engagement, there are no independence requirements with which we are required to comply.

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance 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 [Engaging Party] a listing of all contracts signed between [January 1, 20X8] and [December 31, 20X8] for [xyz] products ("listing") and identify contracts valued at over \$25,000. | We obtained from management a listing of contracts for [xyz] products which were signed between January 1, 20X8 and December 31, 20X8. 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 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." | 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 [Engaging Party]'s "Pre-qualified Contractors List." |
| 3 | For each contract valued at over \$25,000 in 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 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 [Engaging Party] to the supplier. We found that the amounts ultimately paid were within \$100 of the agreed amounts in the 37 contracts with no exceptions noted. |

[Practitioner's signature]

[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 and distribution of the report.
- The practitioner is the auditor of the financial statements of the engaging party (who is the responsible party). The practitioner has discussed with the engaging party that the practitioner's compliance with the independence requirements applicable to audits of financial statements is appropriate for the purpose of conducting and reporting on 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 statements for the purpose of the agreed-upon procedures engagement.
- The practitioner included a reference to the date when the agreed-upon procedures are agreed in the terms of the engagement.

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

To [Addressees]

Purpose of this Agreed-Up On 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.

Responsibilities of the Engaging Party [and if relevant, other parties]

[Engaging Party] [and if relevant, other parties] 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 International We have conducted the agreed-upon procedures engagement in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Up On Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed upon with

[Engaging Party] [and if relevant, other parties], and reporting the findings, which are the factual results of the agreed-upon procedures performed and can be objectively verified. 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 any opinion or 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 [relevant ethical requirements] and the independence requirements in accordance with [relevant independence requirements].⁷

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance 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, 20X8] and [December 31, 20X8] for [xyz] products ("listing") and identify contracts valued at over \$25,000. | We obtained from management a listing of contracts for [xyz] products which were signed between January 1, 20X8 and December 31, 20X8. Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000. |

⁷ 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: "We have complied 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."

| | | |
|---|---|--|
| 2 | <p>For each identified contract valued at over \$25,000 on the listing, compare the contract to 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> | <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 subjected to competitive bidding. Management has represented to us that the reason that this contract was not subject to competitive bidding was due to a pressing 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 | <p>For each contract valued at over \$25,000 in 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> | <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, we found that the different amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that was effective in September 20X8.</p> |

[Practitioner’s signature]

[Date of practitioner’s report]

[Practitioner’s address]



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **16.2.0**

Meeting Date: 3 December 2019

Subject: ISA 600

Date Prepared: 25 November 2019

☒ **Action Required**

☐ **For Information Purposes Only**

A. Background

- 1 In December 2016 and following on from the IAASB's Invitation to Comment, the IAASB approved a project proposal to revise ISA 600.
- 2 The key points raised by the AUASB in the invitation to comment included the following:
 - (a) Broadening to ISA to include all types of structures including for example branches, divisions, joint ventures;
 - (b) At the time of the ITC, the AUASB supported a combination of a top down/bottom up approach to scoping of group audits. Since the progression of ISA 315, the AUASB supports a top down risk-based approach – with audit effort responsive to the risk of material misstatement;
 - (c) Explanation on elements of ISA 600 applicability where the component auditor is the group auditor;
 - (d) Guidance on practical access issues;
 - (e) The ability of the group engagement team (GET) to direct and supervise the component teams work
 - (f) Greater clarity around the extent of involvement of the GET on component auditors;
 - (g) Guidance required in relation to component materiality, component performance materiality and component trivial thresholds, particularly in relation to the concept of aggregation risk;
 - (h) Guidance as to extent of documentation of the GETs involvement in the work of component auditors.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

3 At the June IAASB meeting, the IAASB agreed the following principles to the revision to ISA 600:

- (a) a risk-based approach to ISA 600 aligned to ISA 315– to this end, the current drafting of ISA 600 has removed the definition and concepts behind significant components.
- (b) making the drafting specific to special considerations for a group audit and not repeating the requirements of the foundational standards, that is draft requirements to address the special considerations (incremental to requirements of other ISAs).

B. What the Audit Technical Group (ATG) is seeking from the AUASB at the December 2019 AUASB meeting

4 The IAASB is expected to vote on ED-ISA 600 at the March 2020 IAASB meeting, accordingly, the December 2019 IAASB meeting is an important meeting in the progression of ISA 600. In line with the AUASB international influencing strategy, AUASB members are encouraged to comment on the specific questions contained in the body of this board paper (under paragraphs 14, 20, 21, 23 and 24); as well as on the full revised draft ISA 600 to inform the AUASB Chair of their views.

5 The purpose of this Agenda Item is to update the AUASB as to progress made by the ISA 600 taskforce particularly in the areas of:

- (a) Structure of the standard, C1 below, (addressing AUASB comment in 2(c) above);
- (b) Definitional changes, C2 below, (addressing AUASB comments in 2(a) above);
- (c) Access, C3 below, (addressing AUASB comments in 2(d) above);
- (d) Materiality, C4 below, (addressing AUASB comments in 2(g) above);
- (e) Role of component auditors, C5 below, (addressing AUASB comments in 2(e) and 2(f) above);
- (f) Quality management when component auditors are involved (addressing AUASB comments in 2(e) and 2 (f) above);
- (g) documentation (addressing AUASB comments in 2(h) above).

6 A link to a clean copy of ISA 600 can be found [\[here\]](#).

C. Proposed Revisions by the IAASB task force

C.1 Structure of the revised standard

7 The standard has been structured so that requirements applicable only where a component auditor has been used has been kept together. This way, where the group auditor is the component auditor, there are elements of the standard that will not be applicable, for example, assessment of competency, communications etc.

8 The ATG raises no concerns in relation to the structure of the revised standard.

C.2 Definitions

- 9 The standard applies to the audit of group financial statements and special considerations when component auditors are involved. The following revised definitions are relevant to the scope of the standard:
- (i) Group – entity with more than one component
 - (ii) Group financial statements – Financial statements that include the financial information of more than one component through a consolidation process.
 - (iii) Component – a separate entity or business unit
 - (iv) Consolidation process – for purposes of ISA 600 this includes proportionate consolidation, equity methods accounting, the aggregation of branches, division, other operating units
- 10 The Audit Technical Group raises no concerns with these definitions or the implications of the use of the definitions through the standard. The ATG supports that these definitions greatly assist with the scoping of standard and considers that the requirements and application material address the AUASB matters raised at the time of the Invitation to Comment.

C.2 Access

- 11 The special considerations for the terms of engagement for a group audit, relates to group management acknowledging and understanding its responsibility to provide the engagement team with unrestricted access to people or information.
- 12 There is new application material that:
- highlights that access to people and/or information can be restricted;
 - focuses on how the GET may overcome such issues;
 - focuses on the effects when the GET cannot overcome restrictions and ultimately explains that access restrictions do not alleviate the requirement for the GET to obtain sufficient appropriate audit evidence; and
 - highlights where there are access restrictions related to an equity-accounted investment and guidance on how the GET may overcome such restrictions
- 13 The AUASB is referred to requirements of paragraphs 11B and 11C and associated guidance particularly paragraphs A12C – A12F of ISA 600. The ATG raises no concerns with reference to the access requirements and associated application guidance and considers that the requirements and application material addresses the AUASB matters raised at the time of the Invitation to Comment.

C.3 Materiality

- 14 Feedback from the ITC indicated that there is confusion and variation in practice relating to the auditor's understanding of the concepts of component materiality, component performance materiality and clearly trivial thresholds and that aggregation risk is not well understood. To address this, the following changes have been proposed to ISA 600:

- (a) Aggregation Risk:
 - New definition included at paragraph 9(aA) of ISA 600
 - Paragraph A29C has been included to demonstrate that in a group engagement there is a greater likelihood that audit procedures will be performed on accounts, classes of transactions or disclosures that are disaggregated across components – essentially aggregation risk increases as the number of components increases
- (b) Component materiality
 - Component materiality has been replaced with component performance materiality including a definition change. Materiality used in performing audit procedures on disaggregated component financial information is better described as component performance materiality and is expected to cause less confusion.
 - The requirement of paragraph 17B(a) is clear that component performance materiality is less than group performance materiality. There is application material in paragraph A29E that describes the factors that the GET may take into account in setting component performance materiality – focussing on aggregation risk and expectations about nature, frequency and magnitude of misstatements.
- (c) Clearly trivial threshold
 - To address regulator concerns the requirement of paragraph 17B(b) indicates that clearly trivial thresholds at the component level shall not exceed the threshold at the group level.

| |
|--|
| Question 1: The AUASB is asked for its views on how materiality has been addressed. |
|--|

C.4 Responsibility and Involvement of Component Auditors

- 15 The over-riding principle of ISA 600 is that the GET is responsible for:
 - Understanding the entity and its environment, the applicable reporting framework and the entity's system of internal control;
 - Identification and assessment of risks of material misstatement; and
 - Responses to risk of material misstatement
- 16 ISA 600 clarifies that depending on the facts and circumstances of the engagement, the component auditor may be involved in the elements described in paragraph 15 above, particularly where they have a more in-depth knowledge of the components.
- 17 Where component auditors are involved, the GET needs to direct, supervise and review the work of the component auditor.
- 18 Involvement of the component auditor in the understanding the entity and its environment, the applicable reporting framework and the entity's system of internal control:
 - (a) Paragraph 17(b) requires communication with the CA about component business activities that may give rise to a ROMM.

- (b) The application material on instructions issued by a group management to components (A24) is changed to focus on how the instructions may affect the GETs identification and assessment of ROMM and less on specifics of what the instructions cover.
 - (c) At the September 2019 IAASB meeting, the Board agreed to delete the definition to group wide controls and rather discuss the testing of controls more broadly. New application material is included (A26A) providing guidance on how the GET may determine the commonality of a control across the group and that testing the effectiveness of controls at selected components may corroborate or contradict the conclusion that the controls are implemented and operating effectively.
 - (d) New guidance on shared service centres (A26C-D); and that obtaining an understanding is important for the identification and assessment of ROMM.
- 19 Involvement of the component auditor in the identification and assessment of risks of material misstatement:
- (a) Application material (A29A-A29B) highlights that the GET may assign the performance of risk assessment procedures to component auditors, particularly where the component auditor has more in-depth knowledge of the component. Application material also highlights where risk assessment procedures may be done with no input from component auditors, for example where processes and activities are similar across components/centralised processes.
- 20 Responding to the assessed ROMM – the GET is responsible for the nature, timing and extent of further processes (i.e. the what, when, where and who); but may get assistance from the component auditor. The GET is responsible for determining the sufficiency and appropriateness of procedures and for the direction, supervision and review of the component auditor’s work.
- (a) Extensive application material (A30A – A30M) has been added to explain the different factors that the GET may consider in determining who will perform further audit procedures and how this involvement will transpire (i.e. in scoping the group audit).
 - (b) Requirements included (paragraph 24A) where an audit has been performed on a component for statutory or other reasons and the GET may plan to use the work as audit evidence for the group audit.
 - (c) New requirements to clarify GETs responsibility to determine nature and extent of direction, supervision and review where the component auditor performs procedures on sub-consolidation process.

Question 2: The AUASB is asked for its views on the requirements and application material in relation to the responsibilities and involvement of component auditors

- C5. *Quality management when component auditors are involved*
- 21 This section of the standard deals with the special considerations when the GET uses component auditors. This section of the standard covers:

- Ethical considerations
- Competency and capability considerations (including monitoring and remediation results)
- Considerations when determining nature, timing, extent of direction and supervision and review of component auditor's work including where there are higher risk/significant risk areas and/or significant judgements
- Two-way communication considerations including extensive application material (largely drawn from application material in ISA 260) on:
 - Matters that may contribute to effective two-way communication
 - Form of communication
 - Timing of communications
 - Co-operation with GET
 - NOCLAR considerations
 - Considerations when determining extent of review of component auditor's audit documentation

Question 3: The AUASB is asked for its views on the requirements and application material in relation to the quality management when component auditors are used.

C6. *Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained*

- 22 The stand-back paragraphs 44-45 were raised at the September 2019 IAASB meeting and the September 2019 AUASB meeting. At that meeting, the ISA 600 taskforce were considering including guidance for the auditor to consider whether, in responding to assessed risks of material misstatement of the group financial statements, sufficient work has been done, including at components that are individually financially significant. This concept of financially significant considerations has been 'dropped' by the taskforce, as it may have been viewed as an unnecessary catch all, that with an appropriate risk approach to group audits, should not be necessary.

Question 4: The AUASB is asked for its views on the stand-back paragraphs 44-45.

D. Other aspects of the standard

D.1 *Fraud, Related Parties, Subsequent Events*

- 23 Under the new risk-based approach, there is a level of concern by stakeholders that there will not be sufficient work on these areas. To address this, the requirements and application material have been strengthened/improved to clarify and strengthen the GETs responsibilities.

D.2 *Going Concern*

- 24 New requirements added on Going concern – paragraph 41C.

Question 5: The AUASB is asked for its views on the requirements and application material in relation to fraud, related parties, subsequent events and going concern.

D.3 Documentation

- 25 The requirements and application material in relation to documentation have been expanded. The ATGs view is that application material could still be extended to address the regulators concerns regarding the extent of inclusion of component auditor's work papers retained on audit files.

Question 6: The AUASB is asked for its views and suggestions on the requirements and application material in relation to documentation.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **16.4.0**
Meeting Date: 4 December 2019
Subject: ISQM 2
Date Prepared: 27 November 2019

☒ Action Required

☐ For Information Purposes Only

A. Background

- 1 99 and 92 comment letters from diverse stakeholder groups across different regions of the world were received in response to ED-ISQM 1 (question 11) and ED-ISQM 2, respectively. In general, there was strong support for EQ reviews as a response, among others, designed and implemented by the firm to address assessed quality risks. Respondents agreed that while the performance of an EQ review is undertaken at the engagement level, it is a response that is implemented by the EQR on behalf of the firm (i.e., a firm-level response).

B. What the Audit Technical Group (ATG) is seeking from the AUASB at the December 2019 AUASB meeting

- 2 The objectives of this Agenda Item are to:
- (a) Obtain the AUASB's views about the revised proposals of the ISQM 2 Task Force (TF) relating to the following key issues:
- (i) Engagements subject to an engagement quality (EQ) review in accordance with paragraph 41A(c) of proposed ISQM 1 (previously paragraph 37(e) in the Exposure Draft of ISQM 1 (ED-ISQM 1)); and
 - (ii) The objectivity of the EQR, including a mandatory cooling-off period for individuals moving into the role of EQR after having served as the engagement partner.
 - (iii) Whether and, if so, how proposed ISQM 2 should address the exercise of professional scepticism by the EQR.
 - (iv) Considerations for EQ reviews for group audit engagements.
- (b) Obtain other feedback from the AUASB on the [draft of proposed ISQM 2](#).
- 3 In section D.1 – D.4 the ATG has highlighted the taskforces current thinking on the above areas. The ATG have highlighted (in a box) the questions that the IAASB will consider at the forthcoming December 2019 IAASB meeting. In line with the AUASB international influencing strategy,

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

AUASB members are encouraged to comment on any of these questions to inform the AUASB Chair of their views.

C. Matters Raised at the September IAASB Meeting

Scope of Engagements subject to an EQR

- 4 With respect to the scope of engagements subject to an EQ review, the Board generally supported the TF's proposal to remove 'significant public interest' entities but sought further refinements about the recommendation to replace the requirement to perform an EQ review for audits of entities that the firm determines are of 'significant public interest' (SPI) with engagements for which the firm determines an EQ review is appropriate due to the 'nature of the entity.' Refer D.1 for further discussion.

Objectivity and Cooling-Off Period

- 5 With respect to objectivity, including a cooling-off period for individuals moving into the role of EQ reviewer after having served as the engagement partner:
- The Board generally supported the TF's proposal to address matters of objectivity and cooling-off in ISQM 2.
 - Some Board members also supported a mandatory cooling-off period in ISQM 2.
 - While Board members noted a preference for objectivity and cooling-off period to be addressed in the IESBA Code and applauded the IESBA's willingness to address it, Board members, however, expressed views about the respective timelines of the two Boards (i.e., whether IESBA's due process would result in changes to the IESBA Code being finalised by the time the IAASB's quality management standards are expected to be finalised in June 2020).
 - Hence, Board members supported the IAASB moving forward based on the task force's initial recommendations, with a clear understanding of the need for close coordination and cooperation to make sure that the two Boards are not moving down separate paths on this issue (the hope is to keep the paths aligned as closely as possible to ensure that the IAASB standards and the IESBA Code are complementary and not inconsistent).
 - Board members also raised concerns regarding jurisdictions where the IESBA Code is not adopted, but the ISAs are, and why this may necessitate ISQM 2 to address cooling-off.
 - There was also support for the task force to further consider extending the cooling-off requirement to all engagements for which an EQ review is required (i.e., not just for listed entities or PIEs), and to consider whether a cooling-off period should also extend to other individuals in the engagement (e.g., key audit partners).

Refer to D.2 for further discussion.

D. The way forward:

- 6 The IAASB has indicated that the timing for approval of these QM standards has been pushed out to June 2020.
- 7 In general, there was support for establishing a system of quality management, including the new quality management approach (QMA), and strong support for EQRs as a response, among others, that is designed and implemented by the firm to address quality risks.

D.1 Scope of Engagements subject to an EQR

8 (New) Paragraph 41A(c) Requirement (ISQM 1)

41A. In designing and implementing responses, the firm shall, at a minimum, include the following specific responses:

...

(c) [Moved from 37(e)] The firm establishes policies or procedures addressing engagement quality reviews in accordance with proposed ISQM 2, and requiring an engagement quality review for:

- (i) Audits of financial statements of listed entities;
- (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A103)
- (iii) Audits or other engagements for which the firm determines that an engagement quality review is appropriate:
 - (a) As a response to assessed quality risks, based on the reasons for the assessments given to those risks, or (Ref: Para. A104-A105x)

(b) Due to the nature and circumstances of the engagement or the entity. (Ref: Para. A105A-A106)

Revised Application Material:

Engagement Quality Review Based on the Nature and Circumstances of the Engagement or the Entity (Ref: Para. 41A(c)(iii)(b))

A105A. The firm may establish criteria for identifying audits or other engagements for which an engagement quality review is determined to be appropriate due to the nature and circumstances of the engagement or the entity. Factors that the firm may consider in developing such criteria include, for example:

- The public interest or public accountability characteristics of the entity, such as the holding of a significant amount of assets in a fiduciary capacity for a large number of stakeholders. Examples include financial institutions, such as certain banks, insurance companies, and pension funds.
- The high public profile of the entity or its management or owners.
- The number and diversity of shareholders.
- Expectations about how the engagement report or other engagement deliverables may be used by stakeholders.

A105B. Although the firm may take into account public interest or public accountability characteristics of the entity in establishing such criteria, this ISQM does not require the performance of an engagement quality review for public interest entities, as defined in a particular jurisdiction, unless otherwise required by law or regulation.

Public sector considerations

A106. In determining whether an engagement quality review may be appropriate for a public sector entity due to the nature and circumstances of the engagement or the entity, the firm may consider factors similar to those in paragraph A105A. Another factor that may be considered for larger public sector entities is the social or economic influence on the community or region in which the entity operates.

The TF noted the Board’s general support for the reference to ‘nature of the entity,’ while recognizing that a few Board members had concerns about the distinction between this category and the requirement in paragraph 41A(c)(iii)(a) (previously paragraph 37(e)(iii)(a)) for which the firm determines an EQ review is an appropriate response to quality risks. The TF also noted the strong support from the IAASB Consultative Advisory Group that moving away from the concept of ‘significant public interest’ (SPI) in ED-ISQM 2 to ‘nature of the entity’ would address concerns raised about implementation challenges, particularly in the public sector.

Accordingly, the TF has revised paragraph 41A(c)(iii) to change ‘nature of the entity’ to ‘nature and circumstances of the engagement or the entity’ in sub-requirement 41A(c)(iii)(b), as well as moving ‘appropriate’ to the lead-in. The Task Force has also revised the related application material.

9 ATG Views

The ATG agree with the proposed changes to 41A(c)(iii)(b) to better distinguish between it and engagements that fall under 41A(c)(iii)(a) and the related application material.

Matter for IAASB Consideration

1. Does the IAASB support the proposed changes to the requirements in paragraph 41A(c) of proposed ISQM 1 and related application material, relating to the scope of engagements subject to an EQ review?

D.2 Objectivity and Cooling-Off Period

- 10 The Board generally supported the TF’s proposal to address objectivity and include a cooling-off period in proposed ISQM 2 for individuals moving into the role of EQR after serving as the engagement partner. However, some Board members did not support a mandatory cooling-off period in ISQM 2, or supported flexibility for firms to develop policies and procedures to determine an appropriate cooling-off period.
- 11 While indicating a preference for objectivity and cooling-off period to be addressed in the IESBA Code and applauding the IESBA’s willingness to address these matters, Board members expressed views about whether the time needed for IESBA’s due process would result in changes to the IESBA Code by the expected finalization of the IAASB’s quality management standards in June 2020.

Mandatory Cooling-Off Period

- 12 The TF continues to believe strongly that a mandatory cooling-off period is in the public interest, and is the most appropriate approach to drive consistency in practice, while awaiting the outcome of the IESBA’s planned activities to address this matter in the IESBA Code. The objectivity of the EQR is an important aspect of the requirements regarding the eligibility of that individual to be appointed to that role by the firm. As has been noted in previous discussions with the IAASB on this topic, it is the separation from the previous involvement in making significant judgments as the engagement partner that is necessary for the EQR to objectively evaluate the significant judgments made by the engagement team, and the conclusions reached thereon.
- 13 Accordingly, the TF has included a requirement in paragraph 16A:

16A. The firm's policies or procedures established in accordance with paragraph 16(b) shall 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. A17A–A17C)

The TF also has the view that a mandatory cooling-off period is consistent with the fundamental principles of, and the conceptual framework in, the IESBA Code.

The TF believes that the requirement should apply to all engagements for which an EQ review is performed. The view of the TF is that threats to the objectivity of an engagement partner stepping into the role of EQR are not unique to audits of listed entities only, or to the type of engagement. In reaching this conclusion, the TF noted that other than for audits of listed entities or when required by law or regulation, EQ reviews are not mandated for other engagements, and the firm may employ responses other than an EQ review to address assessed quality risks.

14 ATG Views

The ATG agree that:

- a. A mandatory cooling-off period as specified in para 16A is in the public interest and is likely to drive consistency in practice however the AUASB's view as stated in our submission was for this issue to be dealt with in the IESBA Code; and

AUASB Submission:

The AUASB notes that IESBA has changed the IESBA code to include more detailed and specific requirements for auditor rotation for Public Interest Entities (PIEs) with detailed rotational rules and limits for combined roles of Audit Partner, Key Audit Partner, and EQR roles, as well as specified clean periods depending on the combination of the roles held by the partner.

The AUASB considers that any reference to the "cooling-off" period, including the guidance currently included in paragraph A5 of ED-ISQM 2 "that firms establish the cooling-off period and that the determination of a suitable cooling-off period depends upon the facts and circumstances of the engagements (and applicable provisions of law or regulation or relevant ethical requirements)" should reside in the IESBA code. If these principles reside within the IESBA code they will apply to all professional accountants (or their firms, as applicable) and address the fundamental principles, including independence, and apply the conceptual framework. This would then support consistency across jurisdictions. The test of partner rotation and suitable cooling-off periods is linked to independence and as such should therefore be addressed within the IESBA code.

Accordingly, the AUASB is of the view that the application material in paragraph A5 relating to any "cooling-off" period should be removed from ISQM 2 and a reference to the IESBA code instead be considered if this application guidance is to be retained.

- b. Paragraph 16A could be amended or deleted, depending on the outcome of the IESBA planned activities.

Matters for IAASB Consideration

2. With respect to the proposed requirement in paragraph 16A for firm policies or procedures to specify a mandatory cooling-off period, and the related application material:

- (a) Is the proposed requirement in the public interest, and appropriate to drive consistency in practice?
- (b) Does the IAASB agree that the requirement in paragraph 16A could be amended or deleted, depending on the outcome of the IESBA's planned activities?

D.3 Professional Scepticism

- 15 Respondents to ED-ISQM 2 generally agreed that the EQR's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional scepticism. However, respondents had mixed views about whether proposed ISQM 2 should further address the exercise of professional scepticism by the EQR.
- 16 The TF notes the requirement in paragraph 22(c)(i) of proposed ISQM 2 for the EQR to evaluate, based on the review of selected engagement documentation, the basis for the engagement team's significant judgments, including, when applicable to the type of engagement, the appropriate exercise of professional scepticism by the engagement team. This requirement acknowledges the views of many respondents to ISQM 2 that an important part of the EQR's role is evaluating the engagement team's exercise of professional scepticism in making significant judgments and reaching conclusions thereon.
- 17 Given the importance of the EQR's evaluation of the engagement team's appropriate exercise of professional scepticism, paragraph A31C was added to the application material to indicate that the EQR's discussions with the engagement partner and, if applicable, other members of the engagement team, along with the review of selected engagement documentation, may provide support of the exercise of professional scepticism by the engagement team. Paragraph A31C also refers to relevant requirements and application material in other ISAs that may be helpful in this regard.
- 18 **ATG Views**
- 19 The ATG agrees with the requirement under 22(c)(i) when applicable. The ATG believe the addition of paragraph A31C should be sufficient application material to guide the EQR to evaluate the exercise of professional scepticism by the engagement team. Reference to the application material in proposed ISA 220 on mitigating impediments to the exercise of professional scepticism may also be helpful.

Matters for IAASB Consideration

3. With respect to professional scepticism:

- (a) Does the IAASB agree that proposed ISQM 2 should focus on the EQR's evaluation of the appropriateness of the engagement team's exercise of professional scepticism, when applicable, based on the review of selected engagement documentation as required by paragraph 22(c)(i) of proposed ISQM 2?
- (b) Is additional application material needed to describe how the EQR evaluates the exercise of professional scepticism by the engagement team? If so, what suggestions or examples does the IAASB have in this regard?

- (c) Would application material be helpful in proposed ISQM 2 to address the expected behaviours of the EQR, as suggested in paragraph 45 above?
- (d) Would reference to the application material in proposed ISA 220 (Revised) be helpful, as suggested in paragraph 46 above?

D.4 Group Audit Considerations

- 20 Respondents had comments or questions about how the requirements and guidance in proposed ISQM 2 would be applied in the context of group audits.
- 21 For a group audit engagement, the TF view is that the focus of the EQ review are those significant judgments relating to the group financial statements, which may relate to significant judgments made at one or more components. In this regard, the performance of an EQ review for a group audit engagement may involve additional considerations by the EQR depending on the size and complexity of the group. For larger, more complex group audits, the EQR may need to discuss significant matters and significant judgments with other key members of the engagement team (e.g., the partners or other individuals responsible for performing audit procedures on the financial information of a component). In these circumstances, it may be appropriate for the EQR to be assisted by an individual or team of individuals, either internal or external, with the relevant expertise, in accordance with paragraph 17 of the standard, including, when applicable, individuals appointed to perform an EQ review of a component.
- 22 New application material (see paragraph A28A below) was added to provide guidance for group audit considerations in an EQ review as described above. This proposed guidance reflects discussions with the ISA 600 Task Force, and any further changes will be coordinated with that Task Force.

Group Audit Considerations

A28A. 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. For larger, more complex group audits, the engagement quality reviewer may need to discuss significant matters and significant judgments with other key members of the 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 17 of this ISQM, including, when applicable, individuals appointed to perform an engagement quality review of a component. The guidance in paragraph A19A may be helpful when the engagement quality reviewer for the group audit is using assistants.

23 ATG Views

The ATG agree that the proposed application material in A28A is useful to clarify group audit considerations in an EQR.

Matter for IAASB Consideration

4. The IAASB is asked for its views on the proposed application material in paragraph A28A regarding guidance for group audit considerations in an EQ review.

Material Presented

Agenda Item 16.4.0

AUASB Board Meeting Summary Paper

Action Required

| No. | Action Item | Responsibility | Due Date |
|-----|--|----------------|------------|
| 1. | Provide feedback to ATG on key issues noted on ISQM 2 and proposed draft ISQM 2. | AUASB | 4 Dec 2019 |



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **16.5.0**

Meeting Date: 3-4 December 2019

Subject: Proposed ISA 220 *Quality Management for an Audit of Financial Statements*

Prepared By: Tim Austin

Date Prepared: 26 November 2019

☒ Action Required

☐ For Information Purposes Only

A. Background

- 1 At the September 2019 IAASB Meeting, the ISA 220 Task Force commenced their review of comments received and presented their initial recommendations relating to:
 - (a) Engagement Partner's role and overall responsibility;
 - (b) Engagement Team definition;
 - (c) Scalability;
 - (d) Direction, supervision and review; and
 - (e) Ability to depend on the firm's system.
- 2 For the December 2019 IAASB Meeting, the Task Force will present:
 - (a) The remaining areas not discussed at the September 2019 IAASB Meeting:
 - (i) Public interest matters;
 - (ii) Objective of the standard;
 - (iii) Professional scepticism;
 - (iv) Stand-back provision;
 - (v) Technology; and
 - (vi) Documentation; and
 - (b) How the ISA 220 Taskforce has responded to feedback from the IAASB at the September 2019 IAASB Meeting.

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B. What the Audit Technical Group (ATG) is seeking from the AUASB at the December 2019 AUASB meeting

3 The objective of this agenda item is to:

- (a) Update and inform the AUASB on feedback the IAASB received from respondents to ED-ISA 220 on the remaining questions not addressed at the September 2019 IAASB Meeting;
- (b) To communicate to the AUASB the ISA 220 Taskforce's (Taskforce's) proposed way forward; and
- (c) For the AUASB to provide comments on any of the proposed actions to AUASB Chair in their capacity as an IAASB member, in line with the AUASB's international strategy.

4 The ATG has completed a preliminary analysis of whether the proposed changes appropriately address that matters raised by the AUASB in its submission on ED-220. AUASB Members are asked to provide responses to questions 1 to 4 (Section C) and question 5 (Section D).

5 The redrafted ISA 220 is available [here](#).

C. Matters raised at the previous IAASB Meeting:

6 At the September 2019 IAASB Meeting the Task Force presented the IAASB with a summary of the global feedback and the Task Force's proposed response. The areas presented previously have been outlined in paragraph 1.

7 The IAASB made a number of comments to the Task Force on their proposed way forward for these areas. This section of the Paper will summarise the comments made by the IAASB in relation to the areas presented at the September 2019 IAASB Meeting and how the Task Force has responded to their feedback for the December 2019 IAASB Meeting.

E.1 Engagement Team Definition

8 The IAASB agreed with the Task Force's recommendation that the engagement team definition is retained in ISA 220 and is not split between ISA 600 and ISA 220. The IAASB also agreed with the comments from respondents that there needed to be greater clarity regarding:

- (a) the engagement team definition included component auditors; and
- (b) what is meant by "audit procedures".

9 The Task Force proposes addressing this feedback by:

- (a) Explaining what is meant by "audit procedures" through a new paragraph, A16A;
- (b) Clarifying in a new paragraph, A16B, that the engagement team definition includes other auditors who perform audit procedures; and
- (c) Clarifying, through amendments to paragraph A17A, that an individual with expertise whose involvement in the engagement is limited to consultation is not a member of the engagement team.

10 The AUASB's submission raised concerns with the expanded engagement team definition, in particular that it was unclear and may draw in unintended personnel such as those in a service organisation. The ATG considers that the proposed changes which link "audit procedures" to ISA 500 (inspect, observe etc.) appropriately deals with the AUASB's points. The ATG has provided the below extract of the revised engagement team definition and application material to the AUASB for consideration.

Extract of revised Engagement Team Definition Paragraphs

Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement. The engagement team excludes an auditor’s external expert engaged by the firm or a network firm, and internal auditors who provide direct assistance on an engagement. (Ref: Para. A16–A19A)

Engagement Team (Ref: Para. 10(d))

A16. Engagement teams 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 procedures on the audit engagement is a member of the engagement team.

A16A. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit procedures include risk assessment procedures and further audit procedures. As explained in ISA 500, audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination. As explained in ISA 330, audit evidence obtained from previous audits may, in certain circumstances, provide appropriate audit evidence where the auditor performs audit procedures to establish its continuing relevance.

A16B. Engagement teams may include individuals who perform audit procedures from:

- (a) The firm or network firms.
- (b) Firms that are not network firms.

For example, such individuals 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.

A17. Engagement teams may also include individuals from service delivery centres who perform audit procedures. For example, the firm may determine that specific tasks that are repetitive or specialized in nature can be performed by a group of appropriately skilled personnel and the engagement team may therefore include such individuals. Service delivery centres may be established at the firm level, at the network level, or by another firm or group of firms from within the same network. For example, a centralized function may be used to facilitate external confirmation procedures.

A17A. 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, information technology or in using automated tools to analyse complex data or to perform statistical analysis. An individual with such expertise 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 32 and A84–A87.

A18. [Not used]

A19. 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.

A19A. 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.²¹ ISA 610 and ISA 620 provide requirements and guidance for the auditor when using the work of an external expert or when using the work of internal auditors in a direct assistance capacity. 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.

Questions

1. Do AUASB Members consider that the changes to the Engagement Team definition, including the application material in paragraphs A16-A19A, appropriately respond to the AUASB’s feedback?

E.2 Engagement Partner's Role and Overall Responsibility

- 11 Generally, the IAASB agreed with proposed changes to application material permitting the engagement partner to be assisted by engagement team members. The IAASB directed the Task Force to reconsider how best to articulate the balance required between the engagement partner's overall responsibility and the ability to assign certain procedures to other engagement team members. It was suggested that the Task Force could develop a framework for this.
- 12 To respond to this, the Task Force has proposed two methods:
- (a) Signalling that a requirement can be assigned using the phrase "*the engagement partner shall take responsibility for*" or that a requirement cannot be assigned through the phrase "*the engagement partner shall*"; or
 - (b) Using the phrase "*the engagement partner and other members of the engagement team assisting the engagement partner shall*" to indicate a requirement can be assigned.
- 13 The AUASB's submission raised concern with the impracticality of the engagement partner performing all the requirements when considering an expanded engagement team and the removal of the statement "*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*".
- 14 The ATG's view is that 12(a) is an appropriate way forward as it considers that whilst the engagement partner may delegate or assign requirements, they are ultimately responsible for them. The ATG will request the AUASB Chair to raise at the IAASB how this approach will be communicated in the standard. It is important that the approach is clear to all stakeholders without digging through application material or other explanatory material (particularly in Australia where the standards have force-of-law).
- 15 The ATG also considers it important that the IAASB outline how they have determined which paragraphs can be delegated.

Questions

2. Which of the options outlined in paragraph 12 does the AUASB consider provides the most clarity for stakeholders?

E.3 Direction, Supervision and Review

- 16 The Task Force was directed to consider how to best respond to concerns raised that the requirements of ED-220 could not practically be met by one individual partner, particularly in engagements whose nature and circumstances are more complex. In particular the Task Force was directed to consider in the direction, supervision and review section of the standard:
- (a) 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.
 - (b) Clarifying that areas requiring increased professional judgement also require increased partner involved.

- 17 The Taskforce has responded to the feedback from the IAASB by introducing three new paragraphs in the application material to the proposed standard:
 - (a) A32A – Clarifies how requirements may differ depending on whether engagement team members are part of the firm’s network.
 - (b) A32B – Provides examples of where firm policies or procedures may differ.
 - (c) A32C – Communication of relevant aspects of the firm’s policies and procedures to component auditors.
- 18 The Task Force also considers that the proposed clarifications to the standard to identify requirements that may be assigned to other members responds to the IAASB’s direction on direction, supervision and review.
- 19 The AUASB submission raised that the requirements on direction, supervision and review on their own did not appear overly onerous but became onerous when considering the broad engagement team definition and the impracticability with expecting an individual engagement partner to perform all the requirements. The ATG considers that the proposed changes, appropriately deal with the matters raised by the AUASB.

Questions

3. Do AUASB Members view that the application material and proposed changes to the Engagement Team definition appropriately respond to the matters raised in the AUASB’s submission regarding direction, supervision and review?

E.4 Ability to depend on the firm’s system

- 20 The 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.
- 21 The Task Force has proposed amendments to paragraph A10A to clarify that “*ordinarily, the engagement partner may depend on the firm’s system of quality management, except when...*”
- 22 The AUASB raised in its submission that the removal of the explicit statement from the introduction of the extant standard that “*Engagement teams are entitled to rely on the firm’s system of quality control...*” and the proposed approach of using “*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 created difficulties in meeting the requirements of the proposed standard. These terms are still used throughout the proposed standard.
- 23 The ATG considers that the IAASB’s amendments to the application material do not respond appropriately to the AUASB’s concerns. The ATG views that there should be material in the requirements which outlines that the objective of the standard is to obtain reasonable assurance that quality has been achieved and in some situations evidence provided by the firm is better than the evidence that the individual engagement partner could obtain (e.g. does anybody on the engagement team hold shares in the audited entity).

Questions

4. Do AUASB Members agree with the ATG's view in paragraph 23 that material regarding the engagement partner's ability to rely on the firm's system should be in the requirements of the standard?

E.5 Scalability

- 24 The IAASB was supportive of the efforts made to address scalability in ED-220. The IAASB directed the Task Force to consider the engagement partner's ability to assign requirements to other members of the engagement team to address "upwards" scalability as well as providing implementation guidance for engagements at either end of the complexity scale.
- 25 The Taskforce considered that the actions proposed in other areas sufficiently addressed "upwards" scalability of the standard.
- 26 The AUASB's submission raised that the removal of the explicit statement that "*Engagement teams are entitled to rely on the firm's system of quality control...*" impacted on scalability of the standard. As outlined in paragraph 23, the ATG does not consider that the proposed changes respond sufficiently to the matter raised.

D. Summary IAASB issues paper – feedback on ED-ISA 220:

- 27 Ninety-two comment letters were received by the IAASB. In general, there was strong support across all stakeholder groups and across jurisdictions for the revised *Quality Management System*. However, concerns were raised about the practical application of certain areas.
- 28 For the September 2019 IAASB Meeting the Taskforce had structured its paper to focussed on the following key issues for discussion:
- (a) Engagement Partner's role and overall responsibility;
 - (b) Engagement Team definition;
 - (c) Scalability;
 - (d) Direction, supervision and review (high level discussion only); and
 - (e) Ability to depend on the firm's system (high level discussion only).

C.1 Public Interest Matters and the Objective of the Standard

- 29 Overall, respondents who commented on public interest supported how the public interest was being addressed in ED-220.
- 30 The task force considered that the changes proposed in the standard and the clarifications being made based on the feedback received sufficiently addressed comments raised and demonstrated how the standard was addressing public interest matters.
- 31 The AUASB did not comment specifically on the public interest of ED-220.
- 32 The Taskforce considers that the other planned activities such as clarification of the work of assignees, additional guidance on the definition of engagement team and reliance on the firm's systems will be sufficient to address the public interest matters raised.

C.2 Objective of the Standard

- 33 Whilst there was no question in ED-220 regarding the objective of the standard, the Monitoring Group raised whether the objective should be changed to “*the objective of the auditor is to ensure that the audit is of high quality, performed in the public interest and meets all legal and regulatory requirements*”.
- 34 The ISA 220 Task Force explored whether such an objective was feasible, considering in particular that it would be difficult to define the difference between “*Quality*” and “*High Quality*”. The ISA 220 Task Force concluded that no change was required to the objective.
- 35 The AUASB did not comment specifically on the objective of ED-220.
- 36 The ISA 220 Task Force concluded that no change was required to the objective.

C.3 Professional Skepticism

- 37 Respondents requested examples on how professional scepticism is to be applied in ISA 220 including how it is to be documented and how impediments are mitigated.
- 38 The feedback regarding more examples of impediments is consistent with the points raised in the AUASB’s submission. The AUASB also raised that the objective of paragraph 7 was not clear, this does not appear to have been raised by many other respondents.
- 39 Based on the feedback received, the Taskforce has proposed amendments to paragraphs A26A-A29 of the proposed standard to emphasise the link between quality management and all team members exercising professional skepticism.
- 40 The Taskforce will also consider in more detail the need for implementation guidance (such as examples or frequently asked questions) on threats to professional scepticism.

C.4 Stand-Back Requirement

- 41 Overall respondents from all groups supported the stand-back provision as it increases the focus on the importance of the engagement partner’s involvement. Some respondents requested that the requirement is more prominent and is linked with other related requirements in the standard including linking it to paragraph 11 which sets out the engagement partner’s overall responsibility.
- 42 This AUASB submission did not comment on the stand-back provision other than to raise that it seemed inappropriate that in paragraph 22(f) of ISQM 2 an EQR is required to evaluate the Engagement Partner’s stand-back requirement.
- 43 Based on the general support for the requirement, the Task Force is proposing minimal changes to the requirement which will include linking of the requirement to paragraph 11 and additional application guidance in A102A regarding documentation of the stand-back.

C.5 Technology

- 44 The IAASB received mixed views on how ED-220 addressed technology, including that:
- (a) Guidance appropriately explains how technology resources are deployed in an engagement such as how technology can enhance professional scepticism;

- (b) It was important to ensure that the standard remains principles based as material in the standard regarding technology could become outdated quickly;
 - (c) The standard does not sufficiently consider disruptive technologies; and
 - (d) There needs to be additional factors for an engagement partner to take into account in determining whether particular technologies are able to be used in an engagement.
- 45 The AUASB submission raised that the standard does not adequately deal with new and emerging technologies and that it was unclear how the requirements of the standards can be met when using technology in an engagement, particularly where specialist knowledge is required to review the output of technology.
- 46 The Task Force has proposed additional application material in paragraph A58 on factors to be taken into account in determining whether a technology resource is appropriate to use in an engagement. However, based on receiving feedback supporting the material on technology and feedback asking for more guidance, the Task Force considers that it has achieved an appropriate balance and no further guidance will be included.
- 47 The Task Force will coordinate with the Audit Evidence Working Group and the Technology Working Group to consider required implementation guidance.

C.6 Documentation

- 48 Overall, respondents were supportive of the documentation requirements. However, there were some requests for specific documentation requirements or guidance related to:
- (a) The engagement partner's reasoning of why a matter was not considered to be significant;
 - (b) Evidence of direction, supervision and review and the stand-back provision; and
 - (c) Differences of opinion.
- 49 The practicality of the EQR review being completing by the reporting date rather than the release date was raised.
- 50 The AUASB submission in general supported the documentation requirements but raised that that clearer link between the review requirements of the engagement partner and the documentation requirements would be beneficial.
- 51 The Task Force considers that detailed additional guidance is not required. To address concerns the Task Force has proposed:
- (a) additional application material demonstrating how documentation related to planning and performing the engagement under the ISAs can provide evidence for the requirements of ISA 220; and
 - (b) a conforming amendment to ISA 300 to require the Audit Plan to include a description of the nature, timing and extent of the direction and supervision of the engagement team members and the review of their work.

- 52 At the September 2019 IAASB Meeting it was raised whether the proposed amendment to paragraph 11 of ISA 300 is necessary as requiring documentation in the audit plan of the nature, timing and extent of the direction, supervision and review of the engagement may become a checklist rather than drive improved behaviour.

Questions

5. Do AUASB Members consider that the proposed amendment to ISA 300 is appropriate?

E. The way forward:

- 53 The Task Force is working toward a final draft for the IAASB review at the March 2020 IAASB meeting. The Task Force considers that the outstanding matters can be largely settled at the March 2020 IAASB meeting with only coordination matters to be addressed at the June 2020 IAASB meeting.
- 54 The AUASB will be presented with the full standard for reading and review at the March 2020 AUASB Meeting. This will be one of the last opportunities to provide substantial feedback to the AUASB Chair on proposed ISA 220.



Australian Government

Auditing and Assurance Standards Board

AUASB Submission and IAASB Response

| Matter # | Point raised by AUASB | Where in AUASB's submission | Has this been 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. | Qn. 1 | Yes – Points raised have been considered by the IAASB. Response from the Task Force has included proposed changes to: <ul style="list-style-type: none">- clarify who is in and out of the engagement team;- 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; and- 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. | Qn. 5 | Yes – Points raised have been considered by the IAASB. Response from the Task Force has included proposed changes to: <ul style="list-style-type: none">- clarify who is in and out of the engagement team; and- more clearly identify requirements which must be performed by the engagement partner and those that can be assigned. |
| 3 | Ambiguity of definitions across the QM suite in relation to Engagement Team ... 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 | Qn. 2 | No – The Task Force has not included the definition differences as part of the papers at either September or December. |

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| Matter # | Point raised by AUASB | Where in AUASB's submission | Has this been considered by the IAASB? |
|----------|---|-----------------------------|---|
| | explanatory material that applies to this definition in ISA 220 (paragraphs A16-A19) not being replicated in ISQM 1. | | |
| 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> | Qn. 1 & Qn. 4 | <p>No – The Task Force has not included the signing partner project as part of the papers at either September or December.</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> | Qn. 5 | <p>Yes – Points raised have been considered by the IAASB.</p> <p>Response from the Task Force has included proposed changes to:</p> <ul style="list-style-type: none"> - clarify who is in and out of the engagement team; - additional application material clarifying what is an “audit procedure”; and - component auditors are part of the engagement team. |

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| Matter # | Point raised by AUASB | Where in AUASB's submission | Has this been considered by the IAASB? |
|------------------|--|------------------------------------|---|
| 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> | Qn. 4 | 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. |
| 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> | Qn.5 | 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. |
| 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</p> | Qn. 2 | No – The Task Force has not included this as part of the papers at either September or December. |

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| Matter # | Point raised by AUASB | Where in AUASB's submission | Has this been considered by the IAASB? |
|-----------------|---|------------------------------------|--|
| | 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 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. | Qn. 6 | 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. | Qn. 4 | 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 | Qn. 7 | 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. |

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| Matter # | Point raised by AUASB | Where in AUASB's submission | Has this been considered by the IAASB? |
|----------|--|-----------------------------|---|
| | 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. | | |
| 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 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. | Qn. 3 | 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 Board Meeting Summary Paper

AGENDA ITEM NO. **16.6.0**

Meeting Date: 4 December 2019

Subject: Draft Guidance – Special Considerations in Performing Assurance Engagements on EER

Date Prepared: 25 November 2019

Prepared By: Marina Michaelides

☒ Action Required

☐ For Information Purposes Only

| Agenda Item Objectives | AUASB SMEs |
|---|-------------|
| The objective of this Agenda Item on EER is to provide the AUASB with the final draft EER guidance for comment, which will be subject to approval as an ED at the December IAASB meeting. | Marina & Jo |
| <p>1. Update on IAASB EER Task Force</p> <ul style="list-style-type: none">➤ EER TF met post September IAASB meeting to discuss structure, terminology and combining phase 1 and phase 2 guidance.➤ 7 November IAASB teleconference to obtain Board's views on restructured draft including updated Chpt 1, 4 and 8, updated approach to the terminology and proposed next steps to finalise the draft guidance.➤ Since then the TF has completed the remaining chapters and the final draft is provided at Agenda Item 16.6.2. <p>Areas that have been addressed</p> <ul style="list-style-type: none">• Hyperlinks: The use of hyperlinks throughout, in particular to ISAE 3000 requirements, for usability, conciseness and to avoid repetition is strongly supported.• Structure of guidance: conceptual and background material moved to Supplement A. Chapter 1 includes a diagram that illustrates the relationships between the stages of engagement, requirements of the Standard, and this guidance.• Examples:<ul style="list-style-type: none">○ Good to see the longer examples moved to a supplement to simplify the Guidance, which is becoming very lengthy.○ Strongly support the provision of examples relating to as many different types of EER and challenges as possible.○ Good plan to target any gaps with PAP members. | |

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- **Depth of assurance:** Good to see the concept of “depth” of assurance removed as it is unnecessary and potentially confusing. We already have “limited” and “reasonable” and this Guidance represents a good opportunity to enhance understanding of these terms (which we know is needed).
- **Glossary of terms:** Terms used in the guidance follow those in the standard. Appendix 1 – defines new terms used in the guidance.

Areas for Improvement: Overall

- **Lengthy:** The guidance is still very lengthy which may not meet the needs of assurance practitioners wanting to use it. This said the EER TF have also moved a number of the longer EER examples to supplementary information which may actually make it less user friendly and harder to navigate. This is where the use of hyperlinks provided within the guidance and supplements A and B will be crucial to aid navigation.
- **Materiality process:** The term *materiality process* has been replaced with the *Entity’s process to identify reporting topics*. Whilst the IAASB supports this change, there are concerns that it represents a backwards step. Rather than removing the term, it could be explained more succinctly, with clarity and examples, as distinct from material misstatements. The term *materiality process* is now widely used in EER and related assurance, feeding into strategy as well as reporting and assurance, representing best practice in EER.
- **Examples:** Strongly suggest an EER assurance example flowing through the Guidance, an end-to-end case study broken down into smaller challenges within the relevant chapters. This would integrate the supplement B examples with the short examples within the guidance more effectively for the user.
- **Chapter re-ordering:**
 - **Chapter 7 earlier:** Material issues, i.e. the most important issues to a reporting entity and its key stakeholders, represent an important consideration in determining preconditions and agreeing the scope. Hence the relevant chapter, now called *Considering the entity’s process to identify reporting topics*, should appear earlier.
 - **Chapters 2 & 3 later:** *Applying appropriate competence and capabilities* and *Exercising professional scepticism and professional judgement* are broader and could be moved to the end, after the chapters have walked through the natural flow of an EER assurance process in sequence.
 - The following chapter order is suggested as a more logical, accessible and user-friendly sequence for an assurance practitioner to walk through guidance on an EER assurance process:
 - Chapter 1: Introduction.
 - Chapter 2: Determining preconditions and agreeing the scope.
 - Chapter 3: Considering the entity’s process to identify reporting topics.
 - Chapter 4: Determining the suitability and availability of criteria.
 - Chapter 5: Considering the entity’s system of internal control.
 - Chapter 6: Using assertions.
 - Chapter 7: Obtaining evidence.
 - Chapter 8: Considering the materiality of misstatements.
 - Chapter 9: Addressing qualitative EER information.
 - Chapter 10: Addressing future-oriented EER information.
 - Chapter 11: Preparing the assurance report.
 - Chapter 12: Applying appropriate competence and capabilities.
 - Chapter 13: Exercising professional scepticism and professional judgement.

- **EER Assurance Process Flow Chart:**

Flow chart of the typical sequence of an EER assurance process would make the guidance more user-friendly – with related ISAE 3000 requirements hyperlinked. The relevant section of the flow chart, including ISAE 3000 hyperlinks, could then be reproduced at the start of each chapter for continuity and flow.

- **Pilot the draft Guidance asap:**

The guidance would benefit from being piloted to see if it can be readily applied by intended users, i.e. is it user-friendly and does it flow through an EER assurance process step-by-step? Chapter re-ordering is needed to achieve this logical flow (as above).

- **Stakeholder consultation:** Reaching out to key stakeholder groups for their views on the draft would add significant value at this stage, such as investors.

Steps for finalisation of Guidance:

- Draft supplements A (Background and contextual information) and B (Illustrative examples) have been provided to the IAASB to have the ‘whole picture’ and for reference only in considering the draft guidance as a whole. The supplements are yet to be completely finalised. Individual Board members and technical advisors who are not members of the TF will be targeted to provide detailed input on the supplements by the end of the first week of Jan 2020.
- The TF will finalise the EM, Guidance and Supplements which will be submitted for approval by IAASB Chairman and Technical Director for public consultation in Feb 2020. A comment period of 120 days is proposed. The ED is only the proposed guidance (excluding the supplements).

ATG Overall Views:

Subject to the comments above, the ATG are of the view that the draft guidance has sufficiently addressed feedback on the Phase 1 guidance and the issues related to the ten key challenges identified for EER to seek public comment on the guidance.

Matters for IAASB Consideration

In relation to the draft Guidance the IAASB is asked for its views on:

- Q1. Whether the Task Force has appropriately responded to the phase 1 public consultation, the feedback given at the September 2019 IAASB meeting and the November 2019 IAASB Teleconference
- Q2. Whether the updated draft Guidance is effective in assisting practitioners to address the issues related to each of the ten key challenges identified; and
- Q3. Whether further revisions are needed to the draft Guidance in Agenda Item 5-A prior to it being published as an exposure draft for public comment.

Material Presented

| | |
|--------------------|---|
| Agenda Item 16.6.0 | AUASB Board Meeting Summary Paper |
| Agenda Item 16.6.1 | Attachment to BMSP – Areas for Improvement by Chapter |
| Agenda Item 16.6.2 | Draft Guidance – <i>Special Considerations in Performing Assurance Engagements on Extended External Reporting</i> |

Action Required

| No. | Action Item | Responsibility | Due Date |
|-----|--|----------------|------------|
| 1. | Provide feedback to ATG on the draft EER guidance on whether any major revisions are needed prior to ED going out for comment. | AUASB | 4 Dec 2019 |



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 16.6.1

Meeting Date: 4 December 2019

Subject: Draft Guidance – Special Considerations in Performing Assurance Engagements on EER

Date Prepared: 25 November 2019

Matters to Consider

Part A – General

Areas for Improvement: Chapter-by-Chapter (These have been provided to IAASB TF via EER PAP)

- **Chapter 1: Introduction:**
 - **Consequences:** Para 1: Suggest replacing “consequences” as this points towards risk. Words such as “impacts”, “value created” and “performance” are more commonly used in EER.
 - **Hyperlink to example Reports:** Paras 1-3: Hyperlinks are not just about ISAE 3000. These paras would benefit from hyperlinks to example EERs.
 - **Diagram:** This would be more user-friendly if simplified to two columns with the chapters on the left and related ISAE 3000 requirements hyperlinked on the right.
- **Chapter 2: Applying Appropriate Competence and Capabilities:**
 - **Sub consultants/partners:** Para 96 is a good place to introduce the potential need for sub consultants and partners for a multi-disciplinary team with competence across multiple areas.
 - **Professional scepticism:** Para 102: States that “Similarly, the lower the extent of their subject matter competence when they are performance assurance procedures, the lower may be their skills in exercising professional scepticism...” It could be argued that less subject matter expertise may lead to more open questioning and greater professional scepticism.
 - **ISQC1:** Support the link to ISQC1 but question if we need the detail – it may be more digestible to hyperlink to ISQC1 after a short summary of its purpose.
- **Chapter 3: Exercising Professional Scepticism and Professional Judgement:** Whilst these concepts need to be explained, they are broader than EER – can other guidance be referenced to replace some of the detail and make this chapter more succinct?
- **Chapter 4: Determining Preconditions and Agreeing Scope:**
 - **Lack of clarity:** This chapter would benefit from a pilot by a non-financial practitioner as it doesn't have the clarity of other chapters. The language in this chapter may be unfamiliar for practitioners coming from sustainability/engineering/niche backgrounds, e.g. para 47.

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- **Materiality as a basis:** Insufficient mention from the outset of this chapter of the use of materiality as a focus in determining the scope of assurance, i.e. assurance focusing on the material issues and related datasets and information. This links to the concept of a rolling program of material issues as a basis for EER assurance.
- **“Cherry picking”:** Para 48 uses the word “unless”. Strongly disagree that “cherry picking” is ever appropriate, as implied here.
- **Assurance readiness engagements and “maturity assessments”:** Suggest a section at the start of the chapter as this may be an early consideration for practitioners.
- **Chapter 5: Determining the Suitability and Availability of Criteria:**
 - **Lack of clarity:** As with the previous chapter on determining preconditions, this chapter on suitable criteria would benefit from a pilot by a non-financial practitioner. The language in this chapter may be unfamiliar for practitioners coming from sustainability/engineering/niche backgrounds.
 - **Too lengthy:** This chapter feels disproportionately long compared to other chapters.
 - **5 characteristics of suitable criteria:** Para 154: Include these succinctly here, with a short example of each one for clarity and improve visibility of subheadings for the 5 characteristics.
- **Chapter 6: Considering the System of Internal Control:**
 - **Enhance connectivity:** With Chapter 4 in relation to determining that preconditions are met, as the system of internal control is directly relevant to this, including coverage of assurance readiness engagements and “maturity assessments”.
 - **Internal data verification:** There is a key role for managers to sign off the accuracy and completeness of data reported, as part of the system of internal control.
- **Chapter 7: Considering the Entity’s Process to Determine Reporting Topics:** See overall comments on materiality above:
 - **Criteria focus:** Criteria has already been covered in another chapter but feels like the focus here.
 - **Para 195 is incorrect:** EER frameworks do not identify relevant reporting topics for reporting entities, they do that for themselves using their materiality processes.
 - **Second example after Para 193A is incorrect:** Reporting entities identify and report what is material to their business and key stakeholders via a materiality process, the EER framework-setters cannot do that for them, it is entity-specific.
 - **Para 201 is incorrect:** The preparer is responsible for determining the intended users for an EER, an EER framework cannot do this for them as it is entity-specific.
 - **Step 1a:** The assurance practitioner can review if the reporting entity has identified the purpose of the EER, but if this has been done “adequately” is not typically part of the scope.
 - **Step 1b:** The assurance practitioner can review if the reporting entity has identified intended users of the EER, but if this has been done “appropriately” is not typically part of the scope.
- **Chapter 8: Using Assertions:** Para 241 needs to be more specific by stating what an assertion is (rather than stating what it isn’t, or referring to other information sources on assertions) and providing specific EER examples. This terminology may be new to some EER assurance practitioners, hence clarity is critical from the outset of this chapter.
- **Chapter 9: Obtaining Evidence:** Hyperlink to ISAE 3000 requirements and provide examples of typical evidence for different types of EER data and information throughout.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

- **Chapter 10: Considering the Materiality of Misstatements:** There is clarity re: materiality relating to a certain threshold and/or influencing the decisions of key stakeholders. Hence, using the term materiality process in Chapter 7 would not be impacted by this additional use of the term materiality.
- **Chapter 11: Preparing the Assurance Report:** Flow a typical complete example Assurance Report for publication in an EER through this chapter to cut back the length. Highlighting or colour-coding could be used to identify which part of the Assurance Report that part of the chapter relates to.
- **Chapter 12: Addressing Qualitative EER Information:** Report what could not be assured: Para 270: This is currently incorrect. Data and information that are within scope and cannot be assured should be stated as such in the EER Assurance Report for transparency, not moved to ‘other information’. Just because something cannot be assured does not take it out of scope.
- **Chapter 13: Addressing Future-Oriented EER Information:** Strong linkages to example evidence and assurance processes are needed throughout this chapter. Include examples of statements that can be assured and why, alongside some that cannot be assured and why not. Bring in the concepts of emotive language and unsubstantiated claims.

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Agenda Item

5-A

SPECIAL CONSIDERATIONS IN PERFORMING ASSURANCE ENGAGEMENTS ON EXTENDED EXTERNAL REPORTING

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Chapter 1: Introduction

Scope

7. [6] [7] Chapters 2 to 13 of this document provide practical guidance (hereafter ‘the guidance’) intended to assist practitioners in performing assurance engagements in accordance with ISAE 3000 (Revised) (hereafter ‘the Standard’) on extended external reporting (hereafter ‘EER’) by entities of all sizes about a broad range of reporting topics. EER is discussed below under *Nature of EER and Meaning of ‘EER Information’ and ‘EER Report’*.
5. [4] [5] The scope of the guidance in this document is limited to specific areas where the IAASB identified¹ that a practitioner may find guidance useful to address challenges they commonly encounter in applying the Standard in assurance engagements on EER (hereafter ‘EER assurance engagements’). Those challenges are discussed below under *Circumstances Commonly Encountered in Relation to EER Assurance Engagements*.

Purpose and Intended Audience of the Guidance

- 5A. The aim of the IAASB in issuing the guidance is to promote consistent high quality application of the Standard in EER assurance engagements, and thereby to strengthen the influence of such engagements on the quality of EER reports, enhance trust in the resulting assurance reports, and engender greater confidence in the credibility of EER reports so that they can be trusted and relied upon by their intended users (S.12.m).
6. [5] [6] The intended audience of the guidance is practitioners carrying out EER assurance engagements. Although the guidance may also assist other parties to an EER assurance engagement in understanding aspects of the performance of EER assurance engagements, such as preparers and users of EER or regulators, it has not been developed with the needs of such parties in mind.

Nature of EER and Meaning of ‘EER Information’ and ‘EER Report’

1. [1] EER encapsulates many different types of reporting that provide information about the financial and non-financial consequences of an entity’s activities. Such information (referred to in this document as ‘EER information’) may be about the consequences of the entities activities for the entity’s own resources and relationships, or for the wider well-being of the economy, environment or society, or both, or the service performance of a public sector or not-for profit entity.
- 1A. EER information therefore goes beyond the financial information typically included in statements of financial position or financial performance and related disclosures. Such financial information is about an entity’s economic resources or obligations, or changes therein, as a consequence of the entity’s transactions and other events and conditions (‘financial information’).
2. [2] EER information may be presented as a section(s) of mainstream periodic reports issued by a company or organization, e.g. an annual report or integrated report, or a regulatory filing, such as the U.S. Securities and Exchange Commission Form 10-K or the UK strategic report. EER information may also be presented as a separate report(s) or statement(s) issued by an entity, such as a sustainability report, a corporate social responsibility statement, a public sector performance report or value for money report, or a greenhouse gas statement. In this document,

¹ Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements

reference to an 'EER report' means EER information presented as one or more such section(s), report(s) or statement(s). In some cases, an EER report may comprise EER information that is accessible by users on demand, through various communication channels, or that may be made available by the preparer in real time.

Circumstances Commonly Encountered in Relation to EER Assurance Engagements

3. [3] EER reports are often voluntarily prepared and issued by entities, but increasingly may be required by law or regulation (such as the EU requirement² for a large company to include a non-financial statement in its annual report). They may be prepared using criteria in EER frameworks, standards or guidance established by law or regulation, by international or national standard setters, or by other bodies (referred to as 'framework criteria'), criteria developed by the entity (referred to as 'entity developed criteria'), or a combination of both.
43. [13] An EER report may address diverse underlying subject matter(s), or aspects thereof, which may be complex and may have diverse characteristics that range from objective to subjective, historical to future-oriented, or a combination, and may include both non-financial (including non-monetary) information and financial information. Due to the wide range of available EER frameworks, there may be diversity in the criteria used to prepare the EER report. Also, preparers often use entity developed criteria in addition to, or instead of, framework criteria. As a result, there may be greater opportunity for management bias in the selection or development of criteria.
- 43A. The outcomes of measuring or evaluating aspects of the EER underlying subject matter by applying the criteria are presented in the EER report, and the nature of those outcomes may be diverse. Some may be presented principally in quantified terms and others may be presented principally in qualitative (narrative or descriptive) terms. In either case, the principal presentation may be accompanied by related disclosures. As a result, EER reports may be diverse in structure and format.
- 43B. EER information may also be presented in the EER report in diverse forms, including text, charts, graphs, diagrams, images or embedded videos.
- 4A. The entity's process to prepare the EER report and other components of the entity's system of internal control relevant to the preparation of the EER report may often not be fully developed, particularly when an entity first starts to prepare EER.

Authority of the Guidance

- 7A Although the guidance may be helpful in performing other types of assurance engagements than EER assurance engagements, it has not been developed with such engagements in mind. The Standard deals with assurance engagements, as described in the *International Framework for Assurance Engagements*, other than audits or reviews of historical financial information. Examples of assurance engagements on different types of underlying subject matters, and whether the guidance does or does not deal with them, are included in Table 1 in Appendix 2.
9. [8] [9] The Standard can be used in both direct and attestation engagements³, however, like the Standard, the guidance is written in the context of attestation engagements. Like the Standard, the guidance may be applied to direct engagements, adapted and supplemented as necessary in the engagement circumstances.

² See: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en

³ Refer to ISAE 3000 (Revised) paragraph 12(a)(ii) for definitions of attestation and direct engagements.

8. [7] [8] This document contains non-authoritative guidance. Accordingly, the guidance does not introduce any further requirements beyond those in the Standard. Similarly, the guidance does not override or change any of the requirements or application material in the Standard.

Using the Guidance

- 9A. The guidance in this document is structured in chapters that relate to specific stages and other aspects of an EER assurance engagement performed in accordance with the Standard. Diagram 1 below is useful in navigating this document in the context of performing an EER assurance engagement. Ordering of the chapters in this document follows the flow of stages and other aspects of the performance of an engagement, as represented in the diagram. Chapters 12 and 13 address specific considerations from acceptance to reporting in the context of Qualitative and Future-Oriented information, respectively, and are therefore placed after more general guidance in earlier chapters.
- 9B. Each chapter is structured to answer the 'What', 'Why' and 'How' of the guidance in this document. Each chapter is introduced by a description of the matters addressed by the guidance in that chapter (the 'What') under the sub-heading *Matters Addressed by the Guidance in this Chapter*. That description is followed by an explanation of the circumstances in which the guidance in that chapter may be of assistance to practitioners (the 'Why'), under the sub-heading *Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners*. The explanation highlights relevant challenges in performing an EER assurance engagement from those identified above in G.3-4A.
- 9C. The remainder of each chapter (the 'How') generally provides a thought process for addressing the challenges highlighted in the 'Why'. The thought process identifies considerations that may assist the practitioner. The considerations are cross referenced, where relevant, to requirements and application material in the Standard, to specific guidance and examples in the same or other chapters, to examples in Supplement B: [*Title of Supplement B*], and to contextual information in Supplement A: [*Title of Supplement A*]. Each Appendix and Supplement describes the matters that it addresses and how they may assist a practitioner using the guidance in this document. However, this document can be used by a practitioner without reference to the Appendices and Supplements.
- 9D. Diagram 1 below provides an overview of all the aspects of the performance of an EER assurance engagement under the Standard (see green bands, rows and column headings). The diagram associates each of the requirements of the Standard (see green bands) and each chapter of this document (see brown boxes), with those aspects of the performance of an EER assurance engagement to which they relate. The diagram also indicates (see green arrows) the requirements of the Standard addressed by each chapter, and chapters that include guidance related to guidance in an earlier chapter. Those aspects of the performance of an EER assurance engagement and those requirements of the Standard that are not addressed in this document are shown in grey text.

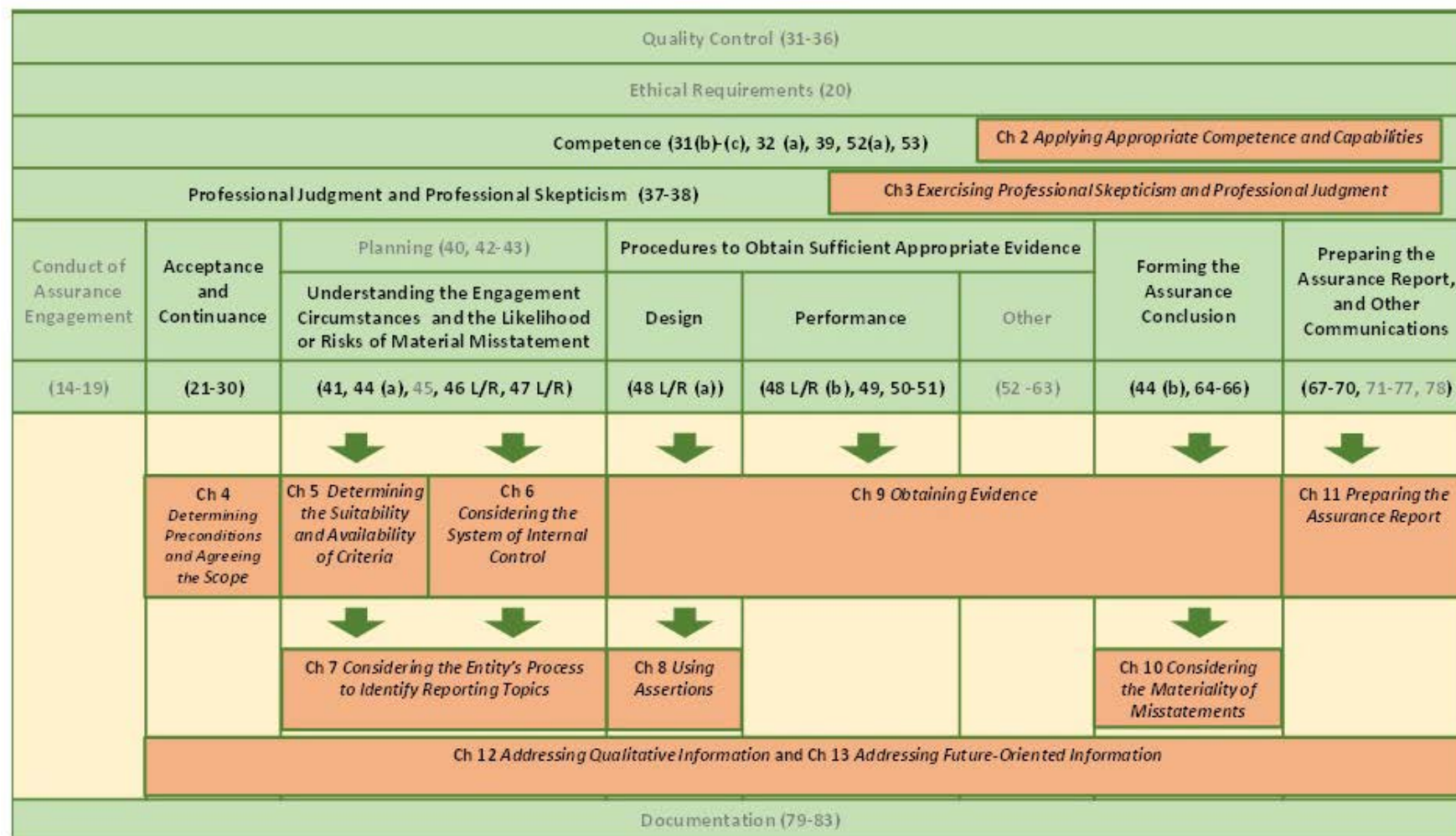


Diagram 1 – Relationships between Stages of Engagement, Requirements of the Standard, and this Guidance.

Chapter 2: Applying Appropriate Competence and Capabilities

Matters Addressed by the Guidance in this Chapter

- 88A This Chapter provides guidance on the assignment of the engagement team with the competence and capabilities that may be needed to perform an EER assurance engagement, and to meet the requirements of S.31-32. It also provides guidance on the required competence of the engagement partner and their responsibility for managing the combined competence of the engagement team, and any practitioner's external experts, and its appropriate deployment, throughout the engagement, through direction, supervision and review of their work.
88. [53] The focus of the guidance is on the practitioner's competence to perform the engagement in accordance the requirements of the Standard, and to issue an assurance report that is appropriate in the circumstances and that will enhance the degree of confidence of the intended users in the subject matter information. The competence needed to perform an assurance engagement includes both competence in assurance skills and techniques (hereafter 'assurance competence') and competence in the underlying subject matter of the engagement and in its measurement or evaluation (hereafter 'subject matter competence').

Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners


89. [53] As discussed in G.Ch1, EER reporting may be diverse, both in format and in the matters being reported on. The reporting can also be qualitative, comprising narrative description or qualitative information alongside financial and non-financial numbers. The frameworks and criteria used to measure or evaluate the underlying subject matter(s) may be in the early stages of development, and the governance, processes and internal control systems related to the preparation of EER often may be less developed than in a financial reporting context, particularly when an entity first starts to prepare its EER reporting. All these matters may increase the need for a high level of assurance competence as well as extensive subject matter competence, for example, scientific or engineering skills, to be able to perform the engagement, depending on the particular engagement circumstances.
90. [54] In a financial statement audit engagement, the audit partner and engagement team have core competence in both auditing skills and techniques (assurance competence) and in financial accounting (subject matter competence). In an EER engagement, while the practitioner may have some subject matter competence, the subject matter competence that may be needed on a complex engagement may go beyond that ordinarily possessed by most assurance practitioners.
91. [55] When the subject matter competence needed on a complex engagement goes beyond that ordinarily possessed by most assurance practitioners, the practitioner may need to use the work of a practitioner's expert. Such an expert has specialized skills and knowledge that enable an informed and knowledgeable view on the subject matter, but they may not have the assurance competence that is needed to perform an assurance engagement in accordance with the Standard or to be able to make the judgments in relation to contentious or difficult assurance matters. While a practitioner's expert is not required to have assurance competence, they may need sufficient understanding of the Standard to enable them to relate the work assigned to them to the objectives of the engagement.

Assignment of the Team with Appropriate Assurance Competence and Subject Matter Competence

92. [56] Assurance skills and techniques are required to be applied as part of an iterative, systematic engagement process, and include those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner. These skills are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation; they include the application of professional skepticism and professional judgment, obtaining and evaluating evidence, understanding information systems and the role and limitations of internal control, and linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures. Accordingly, they involve far more than the application of subject matter expertise.
93. [57] On broader or more complex EER engagements the practitioner may judge it necessary for the work to be performed by a multi-disciplinary team that includes both appropriate assurance competence and one or more practitioner's experts. The assurance practitioners, other than the engagement partner, who perform the engagement, may have a combination of different levels of assurance competence and different levels of subject matter competence. However, all assurance practitioners are likely to need some level of competence in both to be able to understand and apply the perspectives of a wider range of users and to be able to exercise the professional skepticism and professional judgment needed during planning and performing an assurance engagement.
94. [58] Both assurance practitioners and experts in the underlying subject matter and its measurement or evaluation (referred to in the Standard and hereafter as 'subject matter experts') may, additionally, have specialized competence in a particular area, for example, an assurance practitioner may be a specialist in assuring IT systems and controls, in assuring sustainability information, or in assurance sampling techniques and methodologies; a subject matter expert, such as a biochemist, may be a specialist in environmental waste measurement and management, or a lawyer may be a specialist in environmental or human rights legislation (i.e. a specialized branch of law).
95. [59] The extent to which the work of experts or specialists is used, and how it is used, are a matter of judgment for the practitioner, taking account of factors such as:
- (a) The nature and complexity of the underlying subject matter and its measurement or evaluation;
 - (b) The extent to which the underlying subject matter lends itself to precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment in relation to the underlying subject matter;
 - (c) The engagement partner's and engagement team's competence and previous experience in relation to the underlying subject matter; and
 - (d) The level of assurance to be obtained.
96. [60] In a more complex engagement, the practitioner may find it helpful to draw up a skills matrix setting out the assurance and subject matter competencies needed to perform the engagement and those of key engagement team members and other individuals whose work is to be used in performing the engagement. A matrix may also help identify where subject matter competence in a specialized area may be needed by the practitioner and whether that competence is available

to the practitioner from within their own firm or network (practitioner's internal expert) or may need to be obtained from outside the firm or network (practitioner's external expert).

97. [61] The more complex the engagement, the more necessary it may be to consider how the work of the assurance practitioners and the work of the practitioner's expert(s) is to be integrated into a cohesive whole. The appropriate application of competence in the performance of the engagement depends on the individual assurance practitioners and practitioner's experts who are to perform the engagement having the appropriate competence to perform the roles assigned to them. It also depends on those individuals effectively integrating the application of their collective competence in working together as a multi-disciplinary team to perform the engagement.
98. [62] The following example illustrates some of the considerations relating to the collective competence of the engagement team that may apply in a fairly uncomplex engagement. SuB.[x] illustrates some of the considerations that may apply in a more complex engagement.

| | | |
|----------------|---|--|
| EXAMPLE | <p>A professional services firm voluntarily reports, and requests assurance on:</p> <ul style="list-style-type: none">– its GHG emissions from purchased electricity for a single office;– metered water usage for its office; and– the number of employees by gender and by grade. |  |
| | <p>In this example, an assurance engagement partner and one or more practitioners with competence and experience in sustainability assurance engagements are likely to be able to perform the engagement to meet the requirements of the Standard without the need to engage further subject matter expertise.</p> | |

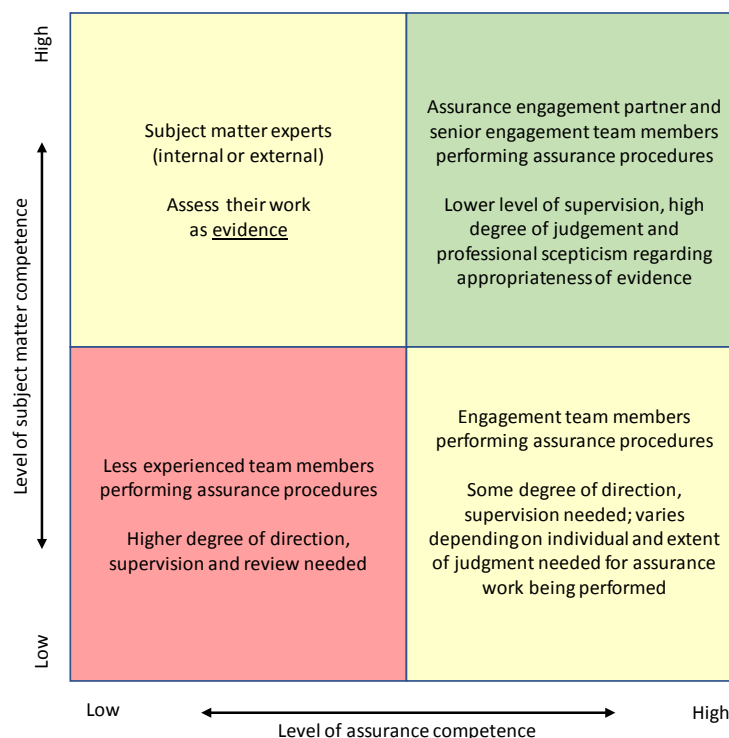
Competence and responsibilities of the engagement partner

99. [64] The Standard requires that, in addition to being satisfied that those persons who are to perform the engagement have the appropriate competence and capabilities, the engagement partner is to have competence in assurance skills and techniques developed through extensive training and practical application as well as sufficient subject matter competence to accept responsibility for the assurance conclusion.
100. [65] An assurance practitioner may use the work of a practitioner's expert if, having followed relevant requirements of the Standard, they conclude that the work of that expert is adequate for the practitioner's purposes. However, the engagement partner has sole responsibility for the engagement. That responsibility is not reduced by the work of the practitioner's expert. The engagement partner needs to have sufficient understanding of the underlying subject matter and sufficient subject matter competence, in addition to having a high level of assurance competence, to be able to:
- (a) When needed, ask appropriate questions of the expert and assess whether the answers make sense in the context of the engagement and as viewed from a user perspective;
 - (b) Evaluate the expert's work and, to the extent needed, integrate it with the work of the engagement team as a whole; and
 - (c) Take responsibility for the conclusions reached.
101. [66] The engagement partner is also responsible for the overall quality of the engagement, including for:

- (a) Appropriate direction and supervision, and the reviews being performed in accordance with firm policies and procedures, in particular the work of less experienced team members being reviewed by more experienced team members;
- (b) Maintenance of engagement documentation that provides evidence of the achievement of the practitioner's objectives and that the engagement was performed in accordance with relevant ISAEs and legal and regulatory requirements; and
- (c) Appropriate consultation by the engagement team on difficult and contentious matters.

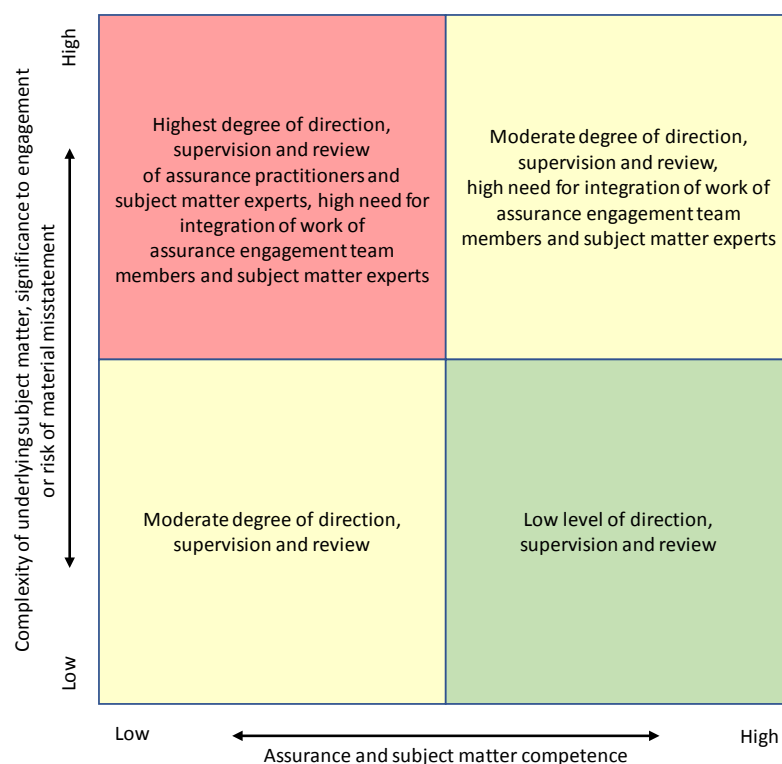
Direction, supervision and review

102. [67] In making decisions about the direction, supervision and review of the work performed throughout the engagement, the lower the level of assurance competence of a team member is, the higher may be the need for direction, supervision and review of their work. Similarly, the lower the extent of their subject matter competence when they are performing assurance procedures, the lower may be their skills in exercising professional skepticism and professional judgment in relation to the evidence gathered, including the evidence obtained from using the work of an expert.
104. [70] The diagram below illustrates the levels of assurance competence and subject matter competence that may be available in the engagement team, and the direction, supervision and review that may be appropriate.
103. [68] The extent and nature of direction, supervision and review needed are a matter of judgment, taking account of factors such as:
- (a) The assurance and subject matter competence of the individual team member;



- (b) The significance of the work performed by the individual in the context of the engagement as a whole;
- (c) The risks of material misstatement in the matter to which the work of the assurance practitioner or practitioner's expert relates;
- (d) Whether the practitioner's expert is internal or external to the practitioner's firm; and
- (e) Whether or not the firm has a well-developed methodology for practitioners to follow when performing a particular type of EER engagement.

104A. For example, where there is greater complexity in the underlying subject matter or its measurement or evaluation, or the work of the individual is more significant to the engagement as a whole, greater direction, supervision, review and integration of that work is likely to be needed than if the subject matter is less complex or the work of the individual relates to a less significant part of the engagement. This is illustrated in the diagram below.



Other Quality Control Considerations

- 105. [70] The premise on which the Standard is based includes that the assurance practitioners are members of a firm that is subject to quality control requirements at least as demanding as ISQC 1. Those requirements include that the firm establishes and maintains a system of quality control that includes documented policies and procedures addressing the matters set out in S.A61 and that are communicated to the firm's personnel. In the absence of being subject to such quality control requirements, the assurance provider is not able to perform an EER assurance engagement in conformity with the Standard.
- 106. [71] Assurance practitioners are often professional accountants, but the Standard acknowledges that a competent practitioner other than a professional accountant may choose to represent

compliance with the Standard. Representing compliance includes representing that they comply with the requirements of the Standard that address their own competence and the competence of others who are to perform the engagement, and that they are able to evidence that they are a member of a firm that is subject to quality control requirements at least as demanding as ISQC 1.

107. [72] When the entity has a subsidiary, division, branch or operational site at a remote location or in a different jurisdiction, the practitioner may use the work of another practitioner to perform assurance procedures at that entity. However, the engagement partner remains responsible for the overall assurance conclusion and for the quality control of the engagement.
108. [73] The Standard requires the practitioner to evaluate whether the work of another practitioner whose work is being used (S.53), for example in a multi-team or multi-location engagement, is adequate for the practitioner's purposes. The guidance in S.A120-134, though written in the context of using the work of a practitioner's expert, identifies a number of factors that may need to be taken into account, and may therefore also provide helpful guidance in this context. Whether the other practitioner complies with ISQC 1, or is a member of the same network of firms and, if so, whether that network is subject to common systems and processes to comply with ISQC 1, then this may be a factor to take into account in considering the appropriate degree of direction, supervision and review that may be necessary.

Chapter 3: Exercising Professional Skepticism and Professional Judgment

Matters Addressed by the Guidance in this Chapter

109A. This Chapter discusses professional skepticism and professional judgment in the context of an EER engagement. It covers the attributes and behaviors that may be needed for the exercise of professional skepticism, and what might be an impediment to its exercise. It also gives guidance on how competence in the exercise of professional judgment may be acquired, and refers to further examples of the exercise of both professional skepticism and professional judgment.

Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners

109. [75] The Standard (S.37) requires the engagement to be planned and performed with professional skepticism, recognizing that circumstances may exist that cause the subject matter information to be materially misstated. It also requires (S.38-39) the exercise of professional judgment in planning and performing the assurance engagement, and the application of assurance skills and techniques (which include the exercise of professional skepticism and professional judgment) as part of an iterative, systematic engagement process.
111. [77] In an EER engagement, the need for sound professional judgment and the exercise of professional skepticism may be particularly important. EER engagements can be complex, with underlying subject matters whose measurement or evaluation may be subject to considerable subjectivity, management bias, estimation and evaluation uncertainties (see G.Ch1).
112. [78] These factors may make it challenging to:
- (a) Understand the needs of intended users;
 - (b) Understand the interrelationships of different aspects of the subject matter information;
 - (c) Determine whether assumptions and methods used by the preparer are appropriate;
 - (d) Recognize unusual circumstances or omissions of information when they occur
 - (e) Evaluate the sufficiency and appropriateness of evidence obtained; and
 - (f) Determine the appropriate course of action in light of the facts and circumstances of the particular engagement.
113. [79] The need for the practitioner to exercise professional skepticism and professional judgment may be increased by these and other factors, such as:
- (a) The preparer's lack of familiarity with the reporting frameworks;
 - (b) Frameworks, governance and controls that may still be developing; and
 - (c) The possibility that the underlying subject matter may not be central to the entity's strategy or management priorities.

Acquiring and Applying Competence in Exercising Professional Skepticism and Professional Judgment

110. [76] Sufficient knowledge of the circumstances of the engagement, as well as assurance competence and, in some circumstances, understanding of relevant standards, laws and regulations, are important to being able to exercise professional skepticism and professional judgment in making the informed decisions that are required throughout an EER engagement.

S.A76-A85 set out why maintaining an attitude of professional skepticism and applying professional judgment are necessary, and in which circumstances they may be particularly important.

THE MEANING OF 'ENGAGEMENT CIRCUMSTANCES'

Engagement circumstances include the terms of the engagement, including whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the subject matter, the criteria to be used, the information needs of the intended users, relevant characteristics of the preparer and its environment, and other matters, for example significant transactions, events or conditions, that may have a significant effect on the engagement (S.12.d.)

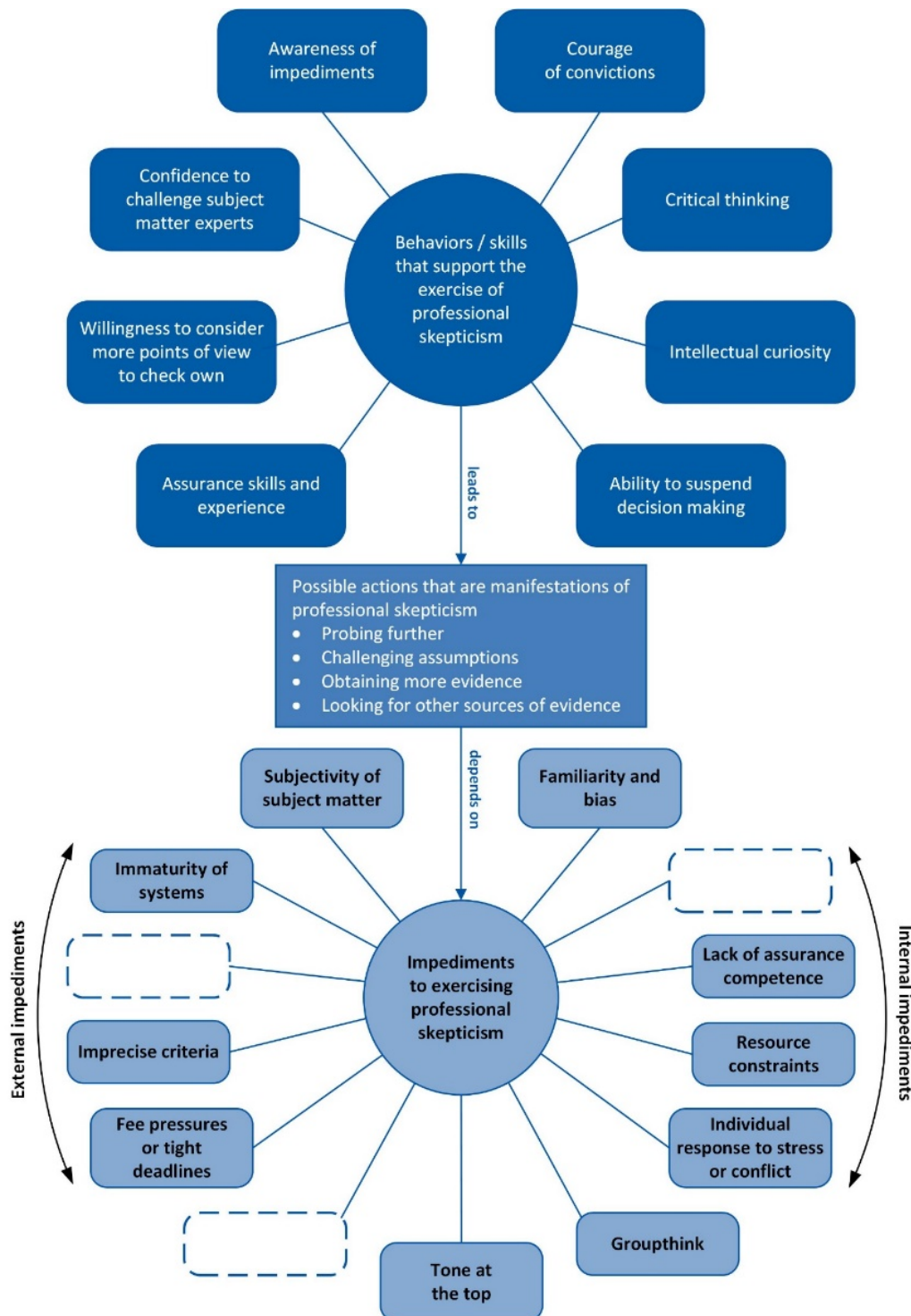
Professional skepticism

WHAT IS PROFESSIONAL SKEPTICISM?

An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence (S.12.u.)

114. [80] Professional skepticism is founded on an attitude of mind that, is neither unduly cynical nor accepting of representations or answers to inquiries at face value, even if they sound plausible. In an assurance engagement, it is manifested in the actions the practitioner takes in understanding and evaluating matters based on the evidence. These actions are primarily about asking the right questions and making a judgment, based on the evidence obtained, as to when it may be necessary to probe further and when it is appropriate to move on.
115. [81] The importance of professional skepticism to the interests of intended users is underscored by the increasing complexity of business and of EER reporting, rapid changes needed by businesses to adapt to changing circumstances, increased regulation, increased demand for transparency of information, the call for greater responsibility by business for its actions, and the use of increased judgment, estimation and assumptions by preparers of the EER information.
116. [82] The exercise of professional skepticism may be impeded by a number of factors, both external factors, not within the direct control of the practitioner, and internal factors. Heightened awareness of the presence and intensity of these factors can help practitioners to avoid or mitigate their impact by taking appropriate action.

117. [83] The diagram below indicates both the attributes and behaviors that may be needed in the exercise of professional skepticism, and possible impediments to its exercise; it is not intended to illustrate all possible factors, but is indicative of the type of factor that may influence the practitioner's exercise of professional skepticism. The dotted boxes are intended to indicate that further impediments may be identified by the practitioner.



118. [85] External impediments to the exercise of professional skepticism may arise, for example, as a result of imprecise criteria, subjectivity or complexity of the underlying subject matter, or because EER reporting and the associated governance, processes and controls are at an early stage. It can be difficult to know what the subject matter information should be or what may be of consequence to a user's decision-making when criteria and underlying subject matter(s) allow for a wide range of different interpretations and subjective judgments. Assurance competence, strong business acumen and sufficient knowledge of the subject matter and its measurement or evaluation underpin the ability to exercise professional skepticism.
119. [86] External pressures such as fee or time pressures may also impede the exercise of professional skepticism, as may an organizational culture or tone at the top that does not tolerate challenge. In such circumstances, practitioners may be reluctant to question when things do not seem right. However, it is important to bear in mind that the objective of an assurance engagement is to enhance the degree of confidence of the intended users in the subject matter information; it is therefore the users' needs that are kept in mind throughout the engagement. Clear and early communication with the preparer about expectations regarding, for example, the timing of deliverables and the availability of evidence and access to personnel may help to mitigate these impediments.
120. [87] Internal impediments may arise as a result of factors at firm level, engagement level or personal level. For example, a firm may not encourage differing views, place importance on training and ongoing professional education or develop assurance methodologies for the performance of its engagements. At engagement level, there may be resource constraints that prevent the appropriate competence from being included on the engagement team or that put team members under undue time pressures. Personal traits such as individuals' response to time pressure, stress or conflict, cultural background, intellectual curiosity, confidence to question or personal bias can act as impediments to the proper exercise of professional judgment.

Professional judgment

WHAT IS 'PROFESSIONAL JUDGMENT'?

- The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
- The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.
- The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner.
- Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

121. [88] Competence in the exercise of professional judgment is developed through extensive training and experience and is facilitated by subject matter competence. Practical experience and 'on the job' coaching may be particularly important in developing the ability to exercise professional judgment, including through the example set by engagement partners, and through more

experienced engagement team members providing appropriate direction, supervision and review to less experienced members of the team.

122. [89] Subject matter experts exercise judgment in relation to their area of subject matter expertise, but the Standard specifically contemplates professional judgment as part of the assurance competence of a practitioner, acquired through extensive training, knowledge and practical experience. In an EER assurance engagement, the exercise of professional judgment is necessary regarding decisions about, amongst other matters: materiality and engagement risk; the nature, timing and extent of procedures that will enable sufficient appropriate evidence to be obtained to comply with the requirements of the relevant ISAEs; evaluating the evidence obtained and drawing appropriate conclusions based on that evidence; and the actions to take in exercising professional skepticism.
123. [90] Throughout the rest of the guidance, the exercise of professional skepticism and professional judgment are illustrated by way of examples related to specific decision points in the lifecycle of an EER engagement and are set out in, or referred to from, the relevant chapters where those decision points are discussed. Within those chapters, the examples are identified by use of the symbols indicated in the legend in G.Ch1. These include examples in relation to determining the preconditions and agreeing the scope of an engagement (G.Ch4), the competence and capabilities that may be needed to perform the engagement (G.Ch3), determining the suitability of the criteria (G.Ch5), evidence-gathering and evaluation (G.Ch9), and reporting (G.Ch11).
124. [91] Further discussion on professional judgment and professional skepticism can be found in the SuA [x].

Chapter 4 : Determining Preconditions and Agreeing the Scope

Matters Addressed by the Guidance in this Chapter

- 12A. This Chapter provides guidance on applying the acceptance and continuance requirements of S.21-30 in the context of a proposed EER assurance engagement. It focuses on determining whether the preconditions are present and agreeing the scope of the engagement, understanding the work effort that may be appropriate in applying the acceptance and continuance requirements, and remaining alert to, and managing, potential threats to the practitioner's independence that may arise in performing the proposed engagement.

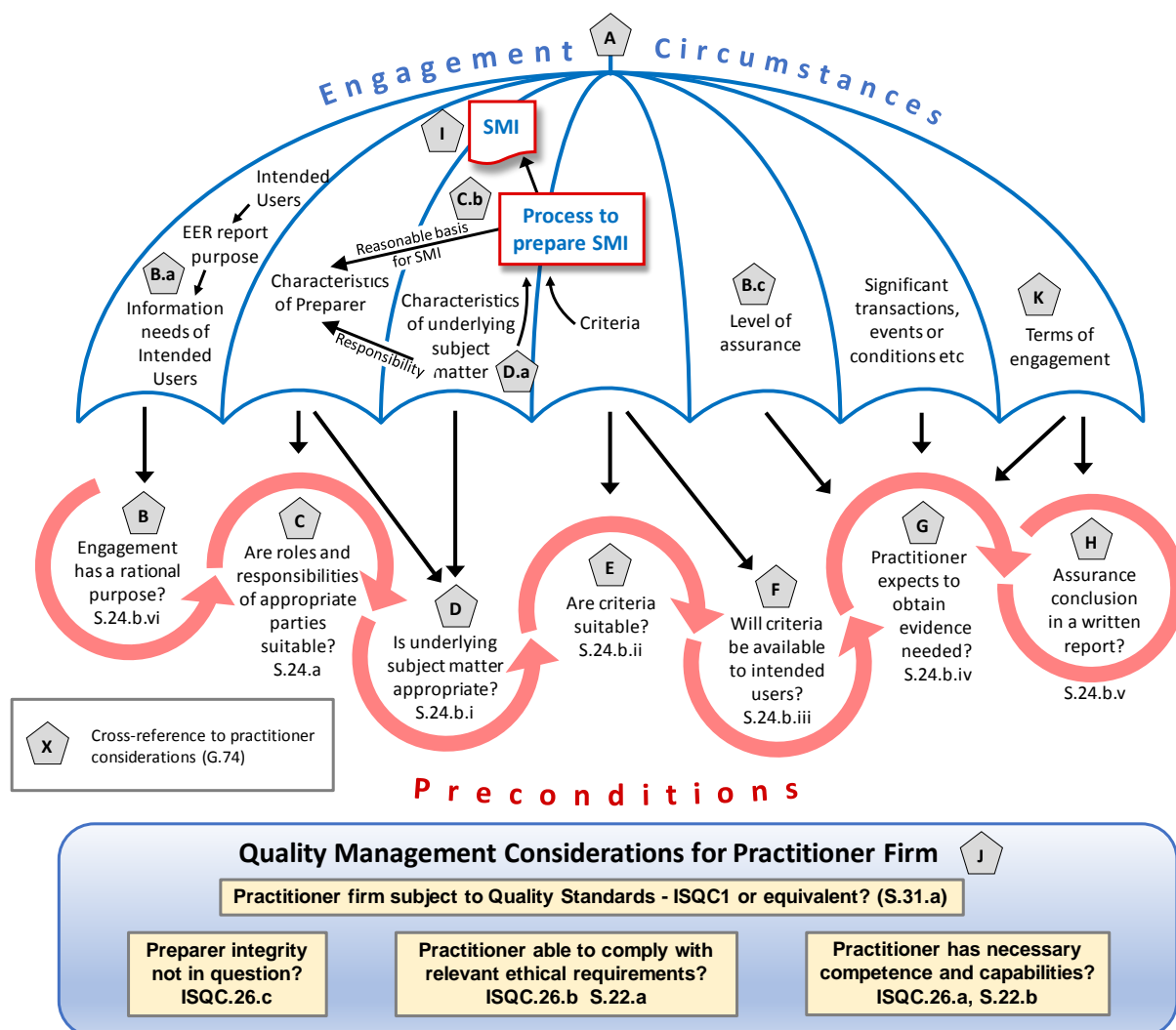
Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners

- 12B. The underlying subject matter may be complex and diverse, and the characteristics of the underlying subject matter and subject matter information may be more qualitative than quantitative and more future-oriented than historical. The entity's process to prepare the EER report or other components of the entity's system of internal control relevant to preparation of the EER report may not be fully developed or may have areas for improvement. In addition, the criteria used to measure or evaluated the underlying subject matter may include a significant element of entity-developed criteria. These and other factors, including that the engagement may be voluntary, and that cost considerations may be a key engagement consideration for the preparer, may result in the proposed subject matter information for the engagement being only part(s) of the entity's EER report (hereafter referred to as the 'boundary of the subject matter information').
- 12C. When all or some of these factors are present, especially in an initial engagement, a more extensive work effort may be necessary than in a well-established are of reporting and assurance in order to meet the acceptance and continuance requirements. In some circumstances, the practitioner may encounter potential impediments to acceptance. A separate non-assurance engagement to evaluate the maturity of the entity's reporting and advise the preparer on its readiness for an EER assurance engagement may be a valuable precursor to the entity's seeking assurance. While such an engagement can serve a valuable purpose in enhancing the entity's reporting process sufficiently that an EER assurance engagement can be performed, it can also give rise to potential threats to the practitioner's independence in later performing the proposed assurance engagement.

Determining Whether the Preconditions are Present in an EER Assurance Engagement

68. [43] [37] The practitioner is only permitted to accept or continue an assurance engagement when, amongst other matters, the basis upon which the engagement is to be performed has been agreed. In part, this is accomplished through establishing that the preconditions for an engagement are present, based on a preliminary knowledge of the engagement circumstances and discussion with the preparer.
69. [44] [38] For a recurring engagement, the same preconditions are required as for an initial engagement, however the continuance process may be more straightforward as the practitioner will already have good knowledge of the entity and the engagement. The practitioner's considerations may focus on whether the engagement circumstances have changed since the previous period in assessing whether circumstances require the terms of the engagement to be revised (S.28).

72. [41] The preconditions in the Standard, which are discussed below, are required to be met. The practitioner will need a sufficient preliminary knowledge of the engagement circumstances to be able to make a reasoned determination about whether the preconditions are present.
- 72A. The diagram below sets out the practitioner's consideration of the preconditions within the context of the engagement circumstances. Cross references in grey pentagons in the diagram below are to the practitioner considerations in G.74.



74. [47] [42] The following considerations for the practitioner include questions (based on the preconditions for an assurance engagement) that are designed to illustrate how the practitioner may make some of the judgments involved in the acceptance or continuance decision. Each consideration is cross-referenced to relevant material in the Standard or in the guidance, which may be in this chapter (G.76-128) or in other chapters.

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| CONSIDERATIONS FOR THE PRACTITIONER | <p>A. Does the practitioner have sufficient preliminary knowledge of the engagement circumstances to be able to determine whether the preconditions are present (G.72, G.78A)?</p> <p>B. Does the engagement have a rational purpose (S.24.b.vi, S.A56, G.76)?</p> <p>C. Are the roles and responsibilities of the appropriate parties suitable, and has the preparer appropriately fulfilled its responsibility to have a reasonable basis for the subject matter information (S.24.a, S.A37-A39, G.76)</p> <p>(a) If the roles of the appropriate party(ies) are not all performed by the same entity, what are the characteristics of the relationships between the parties?</p> <p>(b) Does the preparer's process to prepare the subject matter information provide a reasonable basis for that information, and is the process appropriately supported by other relevant aspects of the entity's system of internal control (G.Ch6)?</p> <p>(c) Has the preparer acknowledged its responsibility for the underlying subject matter?</p> <p>(d) Have the practitioner and preparer reached a common understanding of their roles and responsibilities(S.22.c.ii)?</p> |
| CONSIDERATIONS FOR THE PRACTITIONER | <p>D. Is the underlying subject matter appropriate (S.24.b.i, S.A40-A44, G.75A-75C)</p> <p>(a) Given the characteristics of the underlying subject matter, is it identifiable, and is it capable of consistent measurement or evaluation, at an appropriate level of aggregation or disaggregation?</p> <p>(b) Can the resulting subject matter information be subjected to procedures to obtain sufficient appropriate evidence?</p> <p>E. Are the applicable criteria suitable for the engagement circumstances (S.24.b.ii, S.A45-A50, G.Ch5, G.70-82B)?</p> <p>(a) Are the framework criteria selected suitable on their own (i.e., do they exhibit the five characteristics of suitable criteria) or is there a need for entity developed criteria?</p> <p>(b) Does the preparer have an appropriate process in place for selecting or developing and reviewing the criteria (G.Ch7)?</p> <p>F. Will the framework or entity developed criteria be made available to the intended users (S.24.b.iii and S.A51-A52)?</p> |
| CONSIDERATIONS | <p>G. Does the practitioner expect to be able to obtain the evidence needed to support the limited or reasonable assurance conclusion, as applicable (S.24.b.iv, S.A53-A55, ISQC1.26.c)?</p> <p>(a) If the preparer's process to prepare the subject matter information does not provide a reasonable basis for that information (G.74.C.c), what are the implications for the practitioner in obtaining evidence (G.126-128, G.Ch9)?</p> |

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| | <p>(b) What are the implications for obtaining evidence of the nature of any significant transactions, events or conditions (S.12.d, G.Ch9)? Has the preparer imposed a limitation on the practitioner's work in the terms of the engagement (S.26, S.A155.c, G.74.K) and will the practitioner have adequate access to the preparer's records and people (S.A54-55)?</p> <p>(c) Is the integrity of the preparer in question (ISQC1.26.c)?</p> |
| CONSIDERATIONS FOR THE PRACTITIONER | <p>H. Is the assurance conclusion to be contained in a written report (S.24.b.v)?</p> <p>I. Has the proposed boundary of the subject matter information been determined appropriately, and if the subject matter information is only parts of the EER report, has it been selected in an unbiased manner (G.44-63)?</p> <p>J. Are expectations for engagement quality management appropriate?</p> <p>(a) Is the practitioner a member of a firm that is subject to ISQC 1 or other professional requirements, or requirements in law or regulation that are at least as demanding as ISQC 1 (S.31.a, S.A60–A66)?</p> <p>(b) The members of the engagement team are subject to the IESBA Code or other professional requirements, or requirements in law or regulation, that are at least as demanding (S.22.a, S.A30–A34, ISQC1.26.b)?</p> <p>(c) Do those who are to perform the engagement collectively have the appropriate competence and capabilities to do so (S.22.b, S.32, ISQC1.26.a, G.Ch2)?</p> <p>K. Has the practitioner reached a common understanding of the engagement terms with the preparer and will they be set out in writing in an engagement contract (S.27, S.A57-A58)?</p> |

Considering whether the engagement has a rational purpose

76. [49] [45] The purpose of an assurance engagement is established in the definition of an assurance engagement in S.12.a. The meaning of the term 'rational' is not explicitly addressed in the Standard. However, an assurance engagement may be considered to have a rational purpose if the practitioner's conclusion is designed "to enhance the degree of confidence of the intended users ... about the subject matter information". The practitioner may expect that the proposed engagement is designed to do enhance user confidence in a way that is logical, coherent and appropriate in the engagement circumstances. In this context, the application material in S.A56 sets out certain considerations that may be relevant in determining whether the purpose of a proposed assurance engagement is rational.

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| CONSIDERATIONS | <p>In determining whether a proposed EER assurance engagement has a rational purpose, it may be appropriate for the practitioner to consider matters such as:</p> <ul style="list-style-type: none"> Whether the preparer has identified the purpose of the engagement and the intended users and their information needs and whether the applicable criteria |
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were designed for a general or special purpose. If not the practitioner may request the preparer to do so and consider the implications for acceptance if they do not.

- Who the practitioner expects to use the assurance report and the EER report and whether either is expected to be used or distributed more broadly than to the proposed addressees of the assurance report.
- Whether the identified purpose, intended users and their information needs, the proposed scope of the engagement (boundary of the subject matter information and level of assurance), the underlying subject matter and the criteria are consistent with each other and with the practitioner's knowledge of the engagement circumstances.
- Whether any aspects of the subject matter information are expected to be excluded from the assurance engagement and the reason for their exclusion, assuming the subject matter information is expected to address the significant information needs of the intended users.
- Who selected the criteria, including whether and the extent to which the intended users or other parties were involved in selecting or developing the criteria and the degree of judgment and scope for bias where parties other than the intended users were involved in doing so.
- Whether the proposed level of assurance for the engagement (and therefore what would constitute sufficient appropriate evidence) is expected to reduce engagement risk to a level which is at least meaningful in the circumstances of the engagement, having regard to the extent of the consequence to the intended users of an inappropriate conclusion by the practitioner.
- Where the proposed level of assurance for the engagement is limited assurance, whether the intended users' need for assurance may even be so great that a reasonable assurance engagement is needed to obtain a meaningful level of assurance.
- Whether the scope of the practitioner's work is expected to be limited significantly (S.26, S.A54-55), such that the practitioner's conclusion may not sufficiently enhance the degree of confidence of the intended users in the EER report.
- If the roles of the appropriate parties (S.13) are not all the same entity, whether the characteristics of the relationships between these parties could undermine the purpose of the engagement.
- Whether the responsible party, if they are not the measurer or evaluator, consents to the proposed use of the subject matter information and will be able to review it before it is made available to intended users or to distribute comments with it.
- Whether the practitioner believes that the preparer intends to associate the practitioner's name with the underlying subject matter or the EER report in an inappropriate manner, including whether the nature of the engagement and underlying subject matter is relevant to the practitioner's field and knowledge, and why the practitioner is being asked to perform the engagement.

Considering whether the underlying subject matter is appropriate

- 75A. The application material in S.A40-A45 sets out guidance on what it means for the underlying subject matter to be appropriate. Considerations include whether the underlying subject matter is identifiable, and capable of consistent measurement or evaluation against the applicable criteria.
75. [48] [44] Identifiable underlying subject matter means that the different aspects of the underlying subject matter are well-defined and distinct from other things (see example below). All assurance engagements have an underlying subject matter, which is related to the purpose and intended users of the EER report, and to which the criteria are applied to result in the subject matter information. As discussed in G.47-48, there needs to be a coherent relationship between the underlying subject matter, the criteria and the subject matter information when determining the scope of the assurance engagement.

EXAMPLE

The greenhouse gas emissions of an entity might be identifiable underlying subject matter because there are widely accepted definitions of greenhouse gas emissions (such that they are distinct from other things, for example other emissions to air). Additionally, methods exist to measure or estimate those greenhouse gas emissions that are attributable to the entity's activities.

However, the impact of the entity's activities on global temperature change more broadly might not be identifiable underlying subject matter. This is because it is difficult to attribute global temperature changes to greenhouse gas emissions of specific entities and to separate the impact of greenhouse gas emissions from other factors causing such temperature changes (for example deforestation).

- 75B. Different underlying subject matters have different characteristics, as described in S.A42. Such characteristics affect the precision with which the underlying subject matter can be measured or evaluated against the criteria, and the persuasiveness of available evidence.
- 75D. The level of aggregation or disaggregation of the underlying subject matter may affect the practitioner's consideration of matters such as the entity's process to identify material aspects of the underlying subject matter to be included in the EER report (G.Ch7), the suitability of criteria (G.Ch5), and what might affect the decisions of the identified intended users (materiality considerations, which are discussed further in G.Ch10). For further discussion on the appropriateness of the underlying subject matter and how aspects of the underlying subject matter may be addressed at different levels of aggregation or disaggregation, refer to SuA [x].
- 75C. The criteria may be applied to the underlying subject matter as a whole to result in the subject matter information, but, as described in S.A44, in some cases, the EER assurance engagement may relate to only one part of a broader underlying subject matter i.e. the criteria may be applied to particular aspects of the underlying subject matter to give rise to the subject matter information.

Considering whether the criteria are suitable

70. [45] [39] The suitability of criteria is not contingent on the level of assurance. If criteria are not suitable for a reasonable assurance engagement, they would also not be suitable for a limited

assurance engagement, if other engagement circumstances were the same. Similarly, if criteria are suitable for a limited assurance engagement, they would also be suitable for a reasonable assurance engagement if other engagement circumstances were the same.

- 82A. Considering whether the criteria are suitable involves considering whether they exhibit the five characteristics set out in S.A45. S.A46-A50 set out further considerations for the practitioner, including that the way in which criteria are developed may affect the work that the practitioner carries out to assess their suitability.
51. [21] As set out in S.A48, criteria can be selected or developed in a variety of ways. EER framework criteria may not include all the characteristics of suitable criteria. Such frameworks often are less prescriptive about the scope of the underlying subject matter to be addressed in an EER report, or how to measure or evaluate and disclose the underlying subject matter, as compared to financial reporting frameworks. In such circumstances, the preparer will need to develop the criteria further to exhibit the characteristics of suitable criteria.
- 82B. One area where the development of such criteria may be needed is when the framework does not include criteria to identify the reporting topics for inclusion in an entity's EER report. In such circumstances, the entity will apply a process to select criteria from other frameworks, or to develop its own. In these circumstances, it may be helpful for the practitioner to consider the preparer's process for identifying reporting topics to include in its EER report in order to obtain a sufficient preliminary knowledge of the engagement circumstances. A more detailed consideration of the preparer's process may be undertaken when the practitioner obtains an understanding of the engagement circumstances as required by S.45-47L/R, and as discussed further in G.Ch7 *Considering the Entity's Process to Identify Reporting Topics*.

Considering the entity's process to prepare the subject matter information

126. [58] To accept an assurance engagement, the practitioner is required to determine that the preparer has a reasonable basis for the subject matter information in the EER report as part of the precondition that the roles and responsibilities of the preparer are suitable. The practitioner is also required to determine that they expect to be able to obtain sufficient appropriate evidence. Practitioners may encounter entities at varying stages of development of their system of internal control, and whether these preconditions are present may depend on the extent to which the entity's system of internal control is, in the practitioner's professional judgment, able to support those preconditions, taking into account the nature, extent and complexity of the underlying subject matter and criteria.
128. [60] Considering the entity's system of internal control may assist the practitioner in determining whether the preconditions for an assurance engagement are present. Understanding the work effort in doing so is addressed below under Work Effort in Determining Whether the Preconditions are Present. Guidance on the more detailed understanding of the entity's processes and systems of internal control obtained at the planning stage of the engagement is included in G.Ch6 *Considering the System of Internal Control*.

Agreeing the Scope of the Engagement

- 43C. Agreeing the scope of the engagement means agreeing the boundary of the subject matter information for the EER assurance engagement and the level of assurance to be obtained in performing the engagement.

Considering the proposed boundary of the subject matter information

44. [14] The Standard can be applied to engagements of diverse scopes, provided that the preconditions in S.24, and the other acceptance requirements are met. The preparer may propose a boundary of the subject matter information which may be an entire EER report or only part(s) of an EER report in different circumstances.
- 44A. In the initial stages of an entity's EER reporting, as it is still developing, a practitioner may not be able to determine that the preparer has a reasonable basis for all of the information included in the EER report, so the boundary of the subject matter information may be only those parts of the EER report for which the preparer does have a reasonable basis. In other circumstances, the preparer may propose a recurring EER assurance engagement in which the boundary of the subject matter information is subject to variation from period to period (G.57-58). For example, the preparer may propose a boundary that increases from period to period or one that varies in a 'rolling program' of assurance (G.59-63). One consequence of a changing boundary may be a loss of comparability from period to period, which is discussed further in G.Ch5.168.

Considering a proposed boundary of the subject matter information that includes only part(s) of an EER report

- 44B. If considering a particularly narrow scope for the EER assurance engagement, for example covering only a few specific measures or indicators in isolation, rather than the entire EER report, careful consideration may be needed to determine whether the preconditions are present.
47. [17] When the subject matter information is less than all of the information included in the EER report, the engagement criteria and underlying subject matter will not be the same as the criteria and underlying subject matter that gave rise to all the information in the EER report. They will be narrower in scope as they relate to a narrower boundary, but there still needs to be a coherent relationship between the subject matter information, criteria, and underlying subject matter, such that applying the criteria to the underlying subject matter gives rise to the narrower scope of subject matter information.
48. [18] Selecting only those parts of the information included in the EER report that are easier to assure or that present the entity in a favorable light would not be appropriate unless the selected subject matter information, criteria and underlying subject matter have an appropriately coherent relationship and the preconditions for acceptance of the proposed assurance engagement are present, including that the engagement has a rational purpose. Whether the engagement has a rational purpose may be influenced particularly by the extent to which criteria are neutral in the circumstances and the degree boundary of the subject matter information for the engagement includes information in the EER report that is relatively more important in assisting decision-making by the intended users, given their information needs in the context of the purpose of the EER report. This is a matter of judgment in the circumstances of the engagement and is an area where it may be important for the practitioner to exercise professional skepticism. An example of underlying subject matter, criteria and subject matter information that have not been applied in a cohesive manner is set out in SuB.[x] An example of a narrow scope engagement which may have a rational purpose is set out below.

EXAMPLE

A water utility company reports annually on a number of KPIs, including customer satisfaction, value for money, time lost through interruptions of water supply, leakages, the quality of its drinking water, and the quality of bathing waters where the company discharges wastewater to the sea.

In the past year the company has had numerous complaints about the quality of its drinking water, and the treatment of its wastewater and the number of samples taken is currently subject to investigation by the regulator.

While the company reports, in its EER report, on a number of different underlying subject matters, it has proposed that the scope of the assurance engagement be limited to the drinking water and wastewater KPIs only. The reason given is that, in the shorter term, the entity wants to focus on improving its processes, systems and controls for those aspects of the EER report that are subject to regulatory scrutiny, that require assurance, and that are likely to be of greater interest to the intended users.

In such a case the narrower scope of the engagement may have a rational purpose.



Considering a proposed boundary of the subject matter information that increases progressively from period to period

57. [27] Entities producing EER reports typically implement gradual changes to their governance and controls to support their EER reporting as it becomes more established and formal. Where an entity's governance and controls over EER are in the process of developing, the preparer may not have a reasonable basis for reporting on all aspects of the underlying subject matters or for all the information included in the EER report.
- 57A. Nevertheless, the preparer may wish to obtain assurance on those areas for which the preconditions could be met and to disclose in the EER report that they are working on developing the governance, processes and systems to extend the scope of assurance in other areas in due course. Consideration of the reasons for the preparer wishing to include only certain part(s) of the information included in the EER report within the scope of assurance is needed to determine whether the reasons for the narrower scope to be assured are appropriate and the proposed engagement has a rational purpose.
- 57B. A further consideration for the practitioner is whether they are aware that there are deficiencies in the entity's reporting process (G.Ch6) for information in the EER report that is not within the boundary of the subject matter information for the engagement. If so, the practitioner may need to consider the implications for acceptance of the proposed engagement in the context of their responsibility to address the excluded information as other information in the proposed engagement (for further guidance relating to 'other information' see G.Ch12).
58. [28] Where the entity's governance and controls over EER are in the process of developing, it may be expected that more part(s) of the information included in the EER report would fall within an evolving scope of the subject matter information for successive EER assurance engagements as the entity's EER governance, reporting processes and systems evolve. Although there may be a rational purpose to the entity continuing to obtain assurance on only some parts of its EER reporting, if the entity is falling behind market expectations for what is reported and assured, and does not make any attempt to include further information in the EER report within the scope of the assurance engagement in later periods, that may (unless user information needs have

changed) call into question the entity's reasons for reporting the subject matter information and whether the assurance engagement has a rational purpose.

Considering a proposed boundary of the subject matter information that varies cyclically from period to period (a 'rolling program')

59. [29] The entity may wish to establish a program to systematically vary the ~~boundary of the~~ subject matter information year on year, which may involve including all or most aspects of the subject matter information in the scope over a repeating cycle ('rolling program'), for example, due to cost considerations.
60. [30] A cyclical variation in the boundary of the subject matter information of a recurring assurance engagement from period to period is different from the performance of assurance procedures on a selective, rotational basis on subject matter information that is subject to assurance each period. Performing procedures in this way is an aspect of sampling. For example, in the context of a financial statement audit, while stock from all of the entity's locations is included in the financial statements, the auditor may choose to attend stock counts only at certain, but not all, of the locations. Similarly, in the context of an EER assurance engagement, for example, to obtain assurance on GHG emissions, the practitioner may choose to visit some of the entity's sites each year, focusing on larger sites or those that are assessed to be higher risk. The practitioner may select some of the same sites and some different ones each year, introducing some unpredictability into the procedures.
- 60A. A cyclical variation in the boundary of the subject matter information of a proposed recurring assurance engagement from period to period raises questions related to determining the scope of the assurance engagement and assessing the preconditions for assurance. .
61. [31] When the preparer proposes such an EER assurance engagement, the practitioner may need to understand the reasons and consider whether those reasons are appropriate in the context of the preconditions for acceptance, taking into account the assurance needs of the intended users. Such a proposal may have implications for whether the proposed engagement has a rational purpose, whether the criteria are relevant (they may lack comparability for example) or complete for each period addressed, it could be difficult for intended users to understand that assurance is limited to different reporting matters from year and may be misleading. Determining whether the preconditions are present for the proposed engagement could require significant judgment and it may be important for the practitioner to exercise professional skepticism.
62. [32] When such a program is considered to result in successive assurance engagements that each has a rational purpose, the criteria for presentation and disclosure may be particularly important to allow the intended users to understand the approach the preparer has taken and the boundaries of the information in the EER report that has been assured.
63. [33] When an evolving or rolling program of assurance engagements is proposed by a preparer and accepted by a practitioner, users may expect it to be followed consistently as designed. However, the nature, extent and timing of the consideration the practitioner gives to the 'other information' may change from period to period. The information included in the EER report related to those aspects not within the boundary of the subject matter information in a particular period become 'other information'. The practitioner also needs to be alert to changed engagement circumstances that may mean continuance of the proposed recurring engagement is no longer be appropriate for subsequent periods. For an example of when a rolling program may be

appropriate, refer to SuB.[x]. An example of when a rolling program may not be appropriate is set out below.

EXAMPLE

A multinational beverage company has high water usage. Its production process produces wastewater that is potentially harmful to sensitive ecosystems, but is closely monitored to make sure that the levels do not exceed those considered to be safe by the environment agencies in each location.

In this example, including water usage and wastewater for assurance on a rolling basis may not have a rational purpose as such an assurance engagement may not meet the intended users' needs. Users are likely to be interested in what the company is doing on an ongoing basis to reduce its water consumption, particularly in water scarce areas, and their decisions may well be influenced by even small levels of harmful effluent that exceed those considered to be safe. Breaching those levels may result in significant penalties or fines to the company. It is likely that a rolling basis of assurance, where some sites were excluded from assurance in a particular year(s), would not reflect a rational purpose in this situation.



Considering the proposed level of assurance to be obtained

64. [34] The proposed level of assurance to be obtained (limited or reasonable) may influence the practitioner's consideration of the acceptable, or an acceptably low, level of engagement risk and the nature, timing and extent of procedures the practitioner performs as part of their evidence-gathering procedures.
65. [35] What is an acceptable, or an acceptably low, level of engagement risk may vary according to the circumstances of the engagement including the information needs of the intended users as a group, the criteria, and the underlying subject matter. Determining the nature, timing and extent of procedures to be performed in the context of the level of assurance to be obtained may require considerable skill in the exercise of professional judgment and professional skepticism, and is discussed further in Chapter 12 *Addressing Qualitative Information* and Chapter 12 *Addressing Future-Oriented Information*. However, the decision as to what is likely to be meaningful in terms of the appropriate level of assurance is considered when determining whether the preconditions are present.

Work Effort in Determining Whether the Preconditions are Present

77. [46] The practitioner determines whether the preconditions for an assurance engagement are present based on a preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies).
- 77A. Engagement circumstances include, amongst other matters, the characteristics of the underlying subject matter, the criteria to be used, the needs of the intended users, relevant characteristics of the responsible party and its environment, and other matters such as transactions, conditions and practices, that may have a significant effect on the EER assurance engagement. Accordingly, the extent of preliminary knowledge needed to arrive at a reasoned determination about the preconditions may depend on these and other factors, such as the experience of the practitioner. A practitioner with previous experience of the underlying subject matter and of the framework and

criteria being applied may be expected to make judgments more readily than a practitioner without such experience.

- 77B. The greater the complexity of the underlying subject matter or the more susceptible it is to management bias, the greater may be the need for the practitioner to understand the systems, processes and controls in place that provide a reasonable basis for the subject matter information before being able to determine whether the preconditions are present.
78. [47] In a complex engagement, or one in which the preparer has further developed the framework criteria or has developed its own criteria, the practitioner may wish to consider bringing forward some of the procedures that ordinarily would be performed as part of planning. For example, the practitioner may perform a walk through to understand the processes for recording the information, or may choose to carry out an 'assurance readiness assessment' (G.79B.b).
- 78A. On small, less complex engagements, a discussion with the preparer to obtain sufficient preliminary knowledge may be appropriate. Whether the engagement is complex or uncomplex, the practitioner's preliminary knowledge needed to arrive at a reasoned decision about the preconditions and to exercise the professional skepticism and professional judgment required by the Standard, may include a sufficient understanding of, as applicable:
- The entity's business and its operating environment,
 - Who the intended users of the EER report are and what would affect their decision-making.
 - The underlying subject matter and, where relevant, its relationship to other underlying subject matters the entity reports on,
 - Whether the entity is requesting assurance on a narrow part of the information presented within the EER report, and the reasons for that request,
 - The criteria used and how they were selected or developed, and
 - Where the EER subject matter information is to be presented, for example, included in a financial filing or in a standalone report.

Initial engagements

- 78B. When the proposed engagement is an initial engagement, it is likely that the work effort to determine whether the preconditions are present may be greater than in the case of a continuing engagement, especially when the entity's process to prepare the EER report is in the early stages and still evolving, or when the proposed engagement is complex.
- 78C. There are various possible approaches the practitioner may take, depending on the circumstances, which may or may not involve performing a separate non-assurance engagement:
- (a) No separate engagement performed - performing more extensive pre-acceptance procedures, for example, it may be possible to bring forward some of the procedures that are ordinarily performed as part of planning or to consider knowledge obtained from other engagements the practitioner performs for the entity (G.78); or
 - (b) Carrying out a separate pre-acceptance engagement – to determine whether the preconditions are present, and to identify actions for management to consider to address impediments to acceptance, if the preconditions are not present (G.29-80) – such an engagement may be referred to as an 'assurance readiness engagement'. The focus is on

performing pre-acceptance procedures, on agreed terms, for a proposed EER assurance engagement, without any pre-commitment to accept the engagement; or

- (c) Carrying out a separate advisory engagement – to assess and advise management or those charged with governance on the current state of readiness of the entity's EER reporting process, and related controls in other components of the entity's system of internal control. An objective of the engagement may also be to provide advice on actions that the entity may need to take, to develop the process and related controls to the point where the process provides management or those charged with governance with assurance that the quality of the EER report is appropriate in the circumstances. Such an engagement may be referred to as a 'maturity assessment'. The focus is on the state of development and quality of the entity's reporting process. (G.81).
79. [50] [48] There may be little difference in the nature of the practitioner's work in (a) and (b). The main distinction is the existence of a separate agreement to perform the work in (b). In either (a) or (b), the practitioner may also provide comments on the entity's state of readiness for the proposed EER assurance engagement. The nature of the practitioner's work in (c) is also likely to be similar to (a) or (b), insofar as (a) or (b) address the entity's reporting process, but the work effort may be less extensive in doing so.
- 79A. However, (a) and (b) would be performed primarily for the practitioner to determine whether to accept the proposed engagement, with any comments provided as a by-product. Aspects of the preconditions and other acceptance requirements other than the entity's EER reporting process that would not be addressed in (c) might additionally be addressed in (a) and (b). On the other hand, (c) would be performed primarily for the practitioner to provide professional advice to management or those charged with governance.
80. [51] [49] Approaches (a) and (b) may assist the practitioner in managing a preparer's expectations about the potential to perform a proposed EER assurance engagement in the circumstances that would prevail. These approaches may also provide the entity's management or those charged with governance with useful input about the entity's readiness for an assurance engagement. Such input may encourage and assist management or those charged with governance, to take steps to enhance their readiness when impediments are identified, including any identified in the entity's EER reporting process.
81. [52] [50] Approach (c) may include considering the design and implementation of the entity's EER reporting process and related controls in other components of the entity's system of internal control, either as a whole or aspects of it. For example, the practitioner might advise on the entity's process to select or develop criteria, or the suitability of performance measures the entity has selected, or is developing, or on whether the entity's external data sources are appropriate and the data obtained from them is suitably controlled.

Independence considerations

82. [53] [51] Depending on how the approaches discussed in G.78C-81 are implemented, self-review threats to the practitioner's independence in relation to the proposed EER assurance engagement may arise if it were later accepted.
- 82C. For example, a self-review threat to the practitioner's independence may be created in approach (c) if the practitioner were to advise on the suitability of performance measures that the entity is proposing to use, which the practitioner would need to determine the suitability of, if the proposed

EER assurance engagement was accepted. A self-review threat (and other threats to independence) may, for example, be created if the practitioner assumes a management responsibility when performing a non-assurance service. The nature and extent of any threat would depend on the circumstances and may need to be carefully considered, including whether in providing the non-assurance service the practitioner would assume a management responsibility, if the practitioner anticipates accepting the proposed assurance engagement.

- 82D. Similar considerations may be relevant with respect to aspects of the work in approaches (a) or (b), including when the practitioner provides input to management or those charged with governance about aspects of the underlying subject matter, subject matter information or criteria for the proposed EER assurance engagement or on the entity's EER reporting process or related controls.
- 82E. The International Code of Ethics for Professional Accountants (including International Independence Standards) (the 'IESBA Code') sets out specific requirements and application material relevant to applying the conceptual framework in circumstances where a practitioner provides certain non-assurance services to assurance clients that create threats to compliance with the fundamental principles or threats to independence.
- 82F. However, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities need not involve assuming a management responsibility and need not give rise to a self-review threat if management of the entity have sufficient capability to make, and do make, the decisions themselves. Similarly, if the practitioner assists the preparer in documenting criteria that the entity has developed but not documented, based on discussions with the preparer, this may not give rise to a self-review threat in the particular circumstances.

Response where the Preconditions are not Present

143. [75] Where the practitioner establishes that the preconditions for an assurance engagement are not present, they may discuss this with the potential engaging party (management or those charged with governance). If changes cannot be made to meet the preconditions, the practitioner is not permitted to accept the engagement as an assurance engagement unless required to do so by law or regulation (S.25).
145. [77] In circumstances where the preparer has not met its responsibilities and the practitioner cannot decline acceptance of the engagement due to law or regulation, the practitioner may need to consider whether it is necessary to express a qualified conclusion or disclaim a conclusion. An engagement conducted under such circumstances does not comply with the Standard. Accordingly, the practitioner is not permitted to include any reference within the assurance report to the engagement having been conducted in accordance with the Standard or any other ISAE(s) (S.25).

EXAMPLE

A public sector audit organization may be required by law or regulation to accept an assurance engagement on the service performance information of a public sector body. This may be the case even if the audit organization determines that the preconditions are not present.

Chapter 5: Determining the Suitability and Availability of Criteria

Matters Addressed by the Guidance in this Chapter

- 51A. This Chapter provides guidance to the practitioner that is relevant during the planning stage of an EER assurance engagement, in determining whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified in the Standard (S.41 and S.24.b.ii). This guidance is particularly relevant when available framework criteria are not established criteria or prescribed by law or regulation, because it cannot be presumed that such criteria are suitable (S.A49), or when the framework includes high-level principles, but those principles are not expressed at a sufficient level of detail to comprise suitable criteria in themselves.
- 51B. In that case, the practitioner may need to consider criteria that the entity has developed or selected from one or more such available framework(s). When the entity develops its own criteria or selects from criteria in such frameworks, the practitioner's determination about their suitability may be more extensive and may need to consider any subjectivity or opportunity for management bias involved in the judgments made by management.
- 51C. In making this determination, the practitioner builds on their consideration of suitability during acceptance or continuance of the engagement, in determining whether the preconditions were present, based on a preliminary knowledge of the engagement circumstances (see G.Ch4).
- 51D. This chapter also provides guidance to the practitioner in considering whether the criteria will be made available to the intended users of the EER report in a suitable manner, when the criteria include entity-developed criteria or criteria selected from multiple available frameworks.
- 51E. The guidance in this chapter addresses the application of S.41 during planning, but may also assist the practitioner when considering the suitability and availability of criteria in determining whether the preconditions are present (G.Ch4). Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners.
- 51F. [82] The definition of criteria in the Standard (S.12.c) refers to them as 'benchmarks'. As such, EER criteria may specify how to identify, measure or evaluate, or make disclosures about, relevant (aspects of) underlying subject matter (hereafter referred to as 'reporting topics'), or may address how to present the subject matter information in the EER report, in the context of achieving the purpose of that report. They include, for example, the definitions of performance indicators, measurement or evaluation bases and other reporting policies, which together establish the whole basis of preparation of the EER report.
152. [84] Established criteria include those issued by authorized or recognized bodies of experts that follow a transparent due process if they are relevant to the intended users' information needs (S.A49). Criteria in financial reporting frameworks are typically established criteria, and the recognition, measurement, presentation and disclosure bases that they incorporate are the basis for the accounting policies applied by the entity. Compared with financial reporting frameworks, EER frameworks are often less prescriptive about the criteria to be used to identify the reporting topics or to measure or evaluate the underlying subject matter.
- 152A. Criteria used for a particular assurance engagement, referred to as the 'applicable criteria' (see S.12.c) may be taken from an EER framework, or developed by the entity itself, or a combination of both. Established criteria (S.A49) are presumed to be suitable, in the absence of indications to

the contrary. When the entity is using established criteria, the practitioner may consider whether there are any indications that the criteria are not suitable.

51. [21] As discussed in G.Ch4, criteria in EER frameworks may not be established criteria or may not be suitable in themselves. EER frameworks often require adherence to a set of high-level principles, but those principles may not be expressed at a sufficient level of detail to enable the preparer to identify the reporting topics, determine how to measure or evaluate them, or determine how to present the resulting subject matter information, in a reliable manner in accordance with those high-level principles.
151. [83] When applying an EER framework that lacks the necessary detail or is not sufficiently comprehensive to comprise suitable criteria on its own, an entity may supplement the criteria in that framework by selecting criteria from one or more available EER frameworks, which may provide diverse options, or by using their own entity-developed criteria (see also G.Ch7 *Entity's Process to Identify Reporting Topics*).
- 152B. [84 cont'd] When an entity selects criteria from diverse options in multiple available frameworks, the criteria selected may not be sufficiently relevant if they lack comparability. In addition, there may be subjectivity in selecting criteria in these circumstances or when the entity develops its own criteria. Criteria may also be complex, especially when the underlying subject matter is complex or subjective (see also G.Ch2 on competence).
- 152C. Subjectivity in selecting or developing criteria may influence the difficulty of management judgment or the opportunity for management bias in determining the criteria for identification of reporting topics or for their measurement or evaluation. Complexity in criteria may influence the practitioner's need for subject matter competence or to use the work of a practitioner's expert(s) (see G.Ch2).
- 152D. Such subjectivity or complexity may also influence the need for the practitioner to exercise professional judgment and professional skepticism in determining the suitability of such criteria in an EER assurance engagement (see G.Ch3) and may result in a more extensive or difficult determination by the practitioner.

Determining the Suitability of Criteria

Introduction

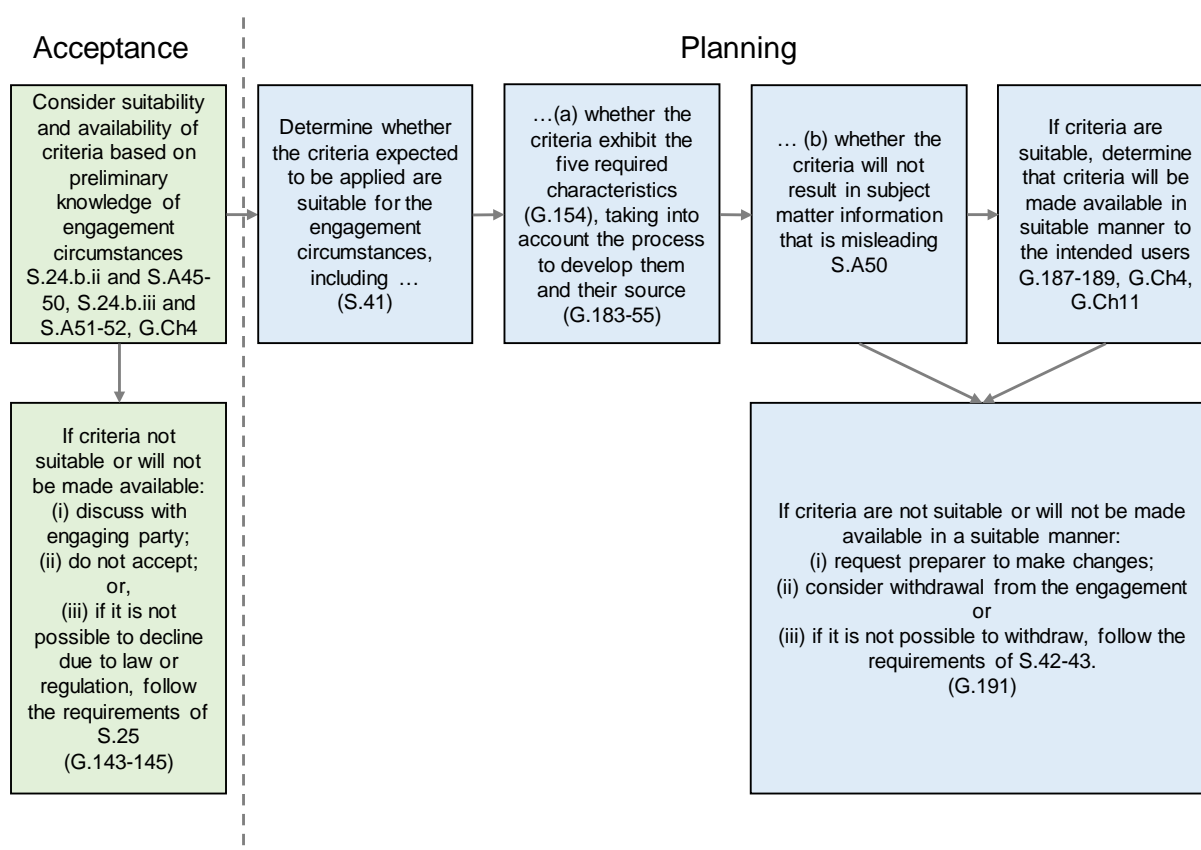
153. [85] Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment⁴. Suitability is judged in the context of the engagement circumstances. Without suitable criteria, the subject matter information may be open to individual interpretation where there is undue subjectivity, increasing the risk that the subject matter information may not be useful to, or may be misunderstood by the intended users.
154. [86] The explanations of the five characteristics of suitable criteria (S.A.45) describe attributes of subject matter information that results from applying criteria that have such characteristics. [88] The five characteristics are in many cases inter-related. Although each characteristic must be exhibited, the relative importance of each and the degree to which they are exhibited by individual criteria may vary with the engagement circumstances.

⁴ ISAE 3000 (Revised) paragraph A10

155. [87] In addition to exhibiting the characteristics of suitable criteria, an overarching principle is that criteria developed by the entity would not be suitable if they result in subject matter information that is misleading to the intended users (S.A50). The subject matter information could be misleading if the characteristics of suitable criteria are not sufficiently exhibited by certain criteria, for example reliability may be insufficiently exhibited if the measurement or evaluation criteria, taken together with related disclosure criteria, are overly subjective.

Considerations for the practitioner

157. [89] The following diagram shows a thought process that the practitioner may follow in determining the suitability and availability of the criteria and is cross-referenced to the guidance below:



Qualitative characteristics of EER information required by an EER framework

156. When the applicable criteria are not established criteria or prescribed by law or regulation, or the framework includes high-level principles but those principles are not expressed at a sufficient level of detail to comprise suitable criteria in themselves, the practitioner may find it helpful to consider the extent to which the criteria include qualitative characteristics of the required EER information and, if so, how they compare with the attributes of subject matter information that results from applying criteria that exhibit the characteristics of suitable criteria.
160. [92] Many of the commonly used EER frameworks use different terms to describe qualitative characteristics of EER information that are similar to such attributes. Additionally, some qualitative characteristics of the EER information required by a framework may be implicit in the reporting requirements rather than being explicitly identified in the EER framework.

159. [91] The engagement circumstances may include use of an EER framework that implicitly or explicitly requires different or more specific characteristics of the applicable criteria than the characteristics of suitable criteria required by the Standard. Where an EER framework includes such additional or more specific characteristics of criteria, it is still necessary for the applicable criteria to exhibit each of the five required characteristics of suitable criteria.

EXAMPLE

For example, when an EER framework requires characteristics of EER information such as comparability and conciseness (see G.168, G.170), the criteria may be seen as requiring characteristics that are more specific aspects of understandability and relevance, respectively.

158. [90] Some factors the practitioner may find helpful to consider in relation to each characteristic, in determining whether the criteria are suitable, are set out in G.161-181 below.

Characteristics of suitable criteria

Relevance

S.A45.a.

Relevance: Relevant criteria result in subject matter information that assists decision-making by the intended users.

161. [93] As relevance relates to the user decision-making, the practitioner may wish to reflect on the intended users and their information needs (G.Ch4.74.B.a and G.Ch7.206-212). 162.[94] Understanding how subject matter information could assist intended users' decision-making may be approached by:
- (a) Considering whether, and if so the extent to which, the preparer has:
 - (i) Considered the general types of decisions that intended users are expected to take based on the purpose of EER report; and
 - (ii) Considered whether the applicable criteria for identifying, and for measuring or evaluating and providing disclosures about, reporting topics would result in subject matter information that assists intended users' decision-making in the context of the purpose of the EER report.
 - (b) If the preparer has considered the matters in (a), evaluating the conclusions of the preparer on those matters; or
 - (c) If the preparer has not considered the matters in (a), asking the preparer to do so, and if necessary considering whether the practitioner has a reasonable expectation of being able to address the matters in (a) directly.

EXAMPLE

Historically, an entity reporting on HR matters to its shareholders may have confined reporting to those matters required by law or regulation, which may have specified the nature of the information to be reported, such as gender pay gap reporting.

When the intended users include trade unions or the entity's employees, the entity may consider that it is appropriate to use criteria for reporting about HR matters that require reporting about matters such as gender diversity, training, and health and safety matters and how to measure or evaluate those matters.

The criteria for reporting on HR matters in an integrated report require reporting about matters such as the entity's HR strategy and how it relates to overall business strategy and contributes to value creation within the organization.

163. [95] When entities develop their own criteria and those entity-developed criteria are the result of a rigorous internal process, involving input directly from both the intended users and those charged with governance, they are more likely to be relevant than if the entity has developed them without such a process or such input (G.Ch7).
164. [96] Relevance of criteria (and hence whether the resulting subject matter information assists intended users' decision making) may be affected by the inherent level of measurement or evaluation uncertainty in applying the criteria in the circumstances of the engagement. When subject matter information is subject to high inherent measurement or evaluation uncertainty, the related criteria may be relevant only if they require additional supporting information about the nature and extent of the uncertainty. In circumstances when the underlying subject matter is subject to high measurement uncertainty, the criteria for presentation and disclosure may become relatively more important so that the nature and extent of the uncertainty is clear in what is presented.

EXAMPLE

Information about a retailer's reputation amongst its diverse customer base may assist investors' decision-making in managing their investments. The company may develop criteria to measure customer perceptions of their reputation, for example by using a customer survey. The resulting measure is likely to reflect some degree of inherent uncertainty, as only a sample of customers are surveyed. If information about the nature and level of measurement uncertainty is not disclosed, investors may not find the survey results sufficiently useful to assist them in their decision-making. In such circumstances, the criteria may not be relevant. If the criteria required providing investors with more contextual information about the survey process and the level of precision achieved in measuring customer perceptions of their reputation (for example the sample size as a percentage of the total customers), this may help make the criteria relevant.

Refer also to the discussion of 'accuracy' and 'precision' in G.173, and further consideration of measurement uncertainty in G.324-G326.

165. [97]. The degree of relevance of an applicable criterion is not binary. Instead, the degree to which it assists intended users' decision-making may be on a scale that varies depending on the circumstances of the engagement. Nevertheless, whether the criteria are relevant or not is a judgment that the practitioner needs to make. Its relevance may also need to be considered in the context of other criteria (e.g., see G.164).

67. [99] The practitioner may also consider the requirements of the criteria to disaggregate or aggregate information as they may affect both whether the criteria are suitable, and the context for materiality considerations for misstatements. EER frameworks do not always specify in detail the required level of aggregation or disaggregation. They may, however, include principles for determining an appropriate level of aggregation or disaggregation in particular circumstances.
169. [101] Criteria may be more relevant and comparable across entities if they are consistent with established measurement bases and benchmarks that are generally recognized to be valid in the context of the entity's industry or sector. However, there may be good reasons not to use such criteria, for example where the entity can develop more relevant criteria (that are also reliable), where permitted by the EER framework adopted and where those criteria are made available.
227. [159] The practitioner may also consider any criteria that permit non-disclosure in the EER report of information about topics and related elements, on the basis that it is confidential or would potentially damage the entity's reputation, when that information assists intended users' decision-making. Such criteria may not be sufficiently relevant or complete. However, they might be considered sufficiently relevant and complete in certain circumstances. For example an established framework criterion may permit non-disclosure in extremely rare circumstances where the adverse consequences of disclosure would reasonably be expected to outweigh the public interest benefits of such communication. A further example may be when law or regulation precludes public disclosure of information, such as information that might prejudice an investigation into an actual, or suspected, illegal act. Such criteria may be presumed to be suitable if there are no indications to the contrary.
- 227A. If non-disclosure of confidential information is not permitted by the applicable criteria, such non-disclosure would ordinarily be treated as a misstatement, and the materiality of this misstatement would then be considered (see G.Ch10). The practitioner would then respond accordingly if the misstatement is material and may need to consider the implications for the assurance report.

Completeness

S.A45.b

Completeness: Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.

170. [102] Criteria are required to be complete so that the intended user is able to make informed decisions by having access to subject matter information that does not omit relevant factors that are material in the context of the circumstances of the entity and the purpose of the EER report.
171. [103] The application of complete criteria is expected to result in subject matter information that includes all relevant factors, including information that represents negative aspects of what is being reported on (also see 'neutrality' below).
172. [104] There may be a need for a balance to be struck between an EER report being overly comprehensive and it still being concise enough to remain understandable.

Reliability

S.A45.c

Reliability: Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.

173. [105] Reliable criteria are likely to result in subject matter information that is capable of reasonably consistent measurement or evaluation with the necessary degree of accuracy (such that it is free from error) and precision such that the criteria are also relevant. Accuracy is not the same as precision. Subject matter information can be sufficiently accurate if it is as precise as is reasonably possible, if it results from applying a well-defined process without undue error, and if it includes information about the inherent limitations in its precision.

EXAMPLE

A company may choose to report their market share. Management use a methodology they have developed to calculate this using their sales data and external data about their industry sector, including the financial statements of their main competitors. The calculation is unlikely to ever be completely precise as it involves estimating and making assumptions. However, if the methodology results in information that is as precise as is reasonably possible and therefore gives a fair indication of the company's market share, the practitioner may be able to conclude the criteria are reliable. As the methodology would form part of the criteria, it would need to be disclosed as part of making the criteria available to the intended users.

174. [106] Reliable criteria may need to be based on definitions with little or no ambiguity, if the resulting subject matter information is to be capable of reasonably consistent measurement or evaluation.
175. [107] Reliable criteria would typically be expected to result in subject matter information that is capable of being subjected to an assurance engagement because sufficient appropriate evidence can be obtained to support the assertions that the subject matter information contains. This requires the underlying data and source information to be sufficiently accurate and complete and for it to be collected and processed in a manner that is neutral and maintains its integrity. Unsubstantiated claims in the subject matter information are unlikely to meet this requirement.

Neutrality

S.A45.d

Neutrality: Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.

176. [108] Neutral criteria would normally be designed to cover both favorable and unfavorable aspects of the underlying subject matter being reported on, in an unbiased manner. Criteria would not be neutral if they could mislead the intended user in the interpretation of the subject matter information.

EXAMPLE

In relation to the results from an employee survey, neutral criteria may need to require reporting both the results from questions with favorable responses as well as those with less favorable ones, rather than selectively reporting only the 'best' results. In addition, the criteria may need to specify the way in which the survey questions are framed and what questions are asked as these aspects may also have an impact on whether the survey results present the underlying subject matter in a neutral manner.

177. [109] Criteria would not be neutral if they were changed or modified arbitrarily from one reporting period to the next to remove negative aspects of performance. Doing so also may not be consistent with the principle of comparability (which is an aspect of relevance).
178. [110] A practitioner may need to be particularly careful to determine the suitability of entity-developed criteria and apply professional skepticism in evaluating the neutrality of these criteria due to the inherent risk of management bias.

Understandability

S.A45.e

Understandability: Understandable criteria result in subject matter information that can be understood by the intended users.

179. [111] Understandable criteria typically result in subject matter information that will enable the intended users to identify readily the main points being made and to infer appropriately whether they are sufficiently significant to affect their decision-making. This is likely to be assisted by a clear layout and presentation of the subject matter information in a way that effectively summarizes and draws attention to these points.
180. [112] The criteria ideally result in the EER report being coherent, easy to follow, clear and logical.
181. [113] There may be a need for a balance between criteria that are sufficiently relevant and understandable. For example, criteria may require subject matter information to be at a sufficient level of disaggregation to assist decision-making by the intended users (relevance) while also being sufficiently concise to be understood by them.

Considering the Process to Develop the Criteria and Their Source

Considering How Criteria are Developed

182. How criteria are developed may affect the work that the practitioner carries out to assess their suitability, whether they are established criteria or entity-developed criteria. In considering the nature and extent of the work that the practitioner intends to carry out to assess suitability of the criteria, it may be helpful for the practitioner to consider the process followed by the framework setter or the entity.
- 182A. The practitioner may find it helpful to consider the extent to which the process addresses matters such as the purpose of the EER report, the usefulness of the EER information to the intended users (including whether it requires attributes of the EER information that correspond to the attributes of subject matter information that results from applying criteria that have the characteristics of suitable criteria), whether the process is transparent, and whether it involves stakeholder engagement.

Established criteria

183. [115] Where indications exist that established criteria may not be suitable, the practitioner cannot presume that the criteria are suitable and may need to perform further work to consider whether the criteria are suitable, taking into account the implications of those indications..
184. [116] Criteria contained in some commonly used EER frameworks are issued by global organizations that are recognized bodies of experts following a transparent due process, and criteria specified by these EER frameworks are often relevant to the intended users' information needs.
- 184A. However, in some cases, such an organization's process to develop criteria may not be fully developed or may result in an EER framework, which may be prescribed by law or regulation, that includes high-level principles that are not expressed at a sufficient level of detail to comprise suitable criteria in themselves. Factors such as these may indicate that the criteria in that framework, on their own, may not be suitable. As a result, they may also need to be further developed by the entity, even though the established criteria may have been issued following a transparent due process.

Entity-developed criteria and criteria selected from multiple frameworks

Considering the entity's process to develop or select criteria

53. [23] When an entity develops its own criteria or selects criteria from multiple available frameworks, the preparer applies a process to make judgments about the criteria it will use. Such a process to develop or select criteria is part of the entity's information system (see G.Ch6.135).
- 53A. When an entity has selected criteria from one framework, or developed its own criteria, to supplement criteria from (another) framework, it may be helpful for the practitioner to consider how any high-level principles of the framework(s) were applied in the entity's process. The practitioner may also consider how such principles compare with the characteristics of suitable criteria.
- 53B. More generally, when considering entity-developed criteria, it may be helpful for the practitioner to consider whether and, if so, the extent to which the entity's process develops the criteria in a manner such that the entity-developed criteria, taken together with any framework criteria the entity is using, are suitable criteria.
- 53C. Circumstances when the framework does not include criteria for identification of reporting topics, or only includes criteria that provide high-level principles for doing so but that are not sufficiently detailed to be suitable criteria in themselves, are discussed in further detail in Chapter 7: *Considering the Entity's Process to Identify Reporting Topics*. G.Ch7.195-212 address considerations for the practitioner when the entity applies a process to develop its own criteria for identification of reporting topics. That guidance may be applied, adapted as necessary, whenever an entity applies a process to develop its own criteria or to select criteria from one or more frameworks that are not established criteria. In doing so, the practitioner may also apply considerations similar to those highlighted in G.Ch5.184A to the entity's process.

Considerations when the boundary of the subject matter information is not the entire EER report

54. [24] In considering entity-developed criteria, the practitioner may need to understand not only entity-developed criteria for the subject matter information within the proposed scope of the assurance engagement, but also criteria for the preparation of any other part(s) of the information

included in the EER report but not within the scope of the engagement. Similarly the practitioner may consider the entity's process to develop such criteria (the 'wider process').

54A. Doing so would enable the practitioner to consider matters such as:

- (a) Whether there may be omissions of relevant parts of the EER report from the boundary of the subject matter information for the engagement, and whether such omissions call into question the rational purpose of the engagement; and
- (b) Whether and how the subject matter information is used in the preparer's own decision-making processes:
 - (i) If information relating to an entity's decisions is important to its stakeholders, then it may be reasonable to expect that the entity would be using that information in its own decision-making.
 - (ii) If the company is using the information in its decision-making, then it may be reasonable to expect that a user may be interested in that information.
 - (iii) If the information is not used for the entity's own decision-making, that may raise a question as to why the information is being reported, and whether there may be bias in selecting as subject matter information only those parts of the EER report that are easily subject to an assurance engagement or that present the entity in a positive way.

55. [25]. Any practitioner consideration of the 'wider process' may be at a lower level of detail than where the boundary of the subject matter information for the engagement is the entire EER report. In a narrower scope assurance engagement, any consideration of the wider process would be to identify matters that have not been, but should have been, included within the narrower scope, rather than to focus on whether there are suitable criteria for all the information included in the EER report.

Indications that the pre-conditions are not present

55A. Considering the entity's process to develop its own criteria, after acceptance or continuance, may identify matters that indicate that the preparer does not have a reasonable basis for the subject matter information. In those circumstances, the requirements in S42 may apply (see G.Ch5.191 and G.Ch6.128C).

Considering Changes to Criteria Over Time

185. [117] The suitability of criteria is not necessarily related to their maturity or the entity's experience of applying them. In the first few years of preparing EER reports, an entity may be developing and improving its reporting process such that entity-developed criteria (potentially designed to supplement an EER framework) may change and evolve between reporting periods. Regardless of this, the practitioner exercises professional judgment to determine whether the criteria are suitable each time an EER report is subject to an assurance engagement.

185A Changes to criteria and measurement methods year-on-year may be fairly common for EER when an entity's reporting process is developing, and management are innovating to improve their reporting. Such criteria may still be understandable and reliable if there is a reasonable basis for the change and it is sufficiently disclosed and explained in the EER report. Where an entity's reporting is more established, the rationale for changes to criteria might need to be stronger, and the explanation more detailed, to meet intended users' expectations.

EXAMPLE

An entity reports on the number of people reached by its community training programs on hygiene. In the initial year of reporting, the entity estimated the number of people reached, based on the criteria of: (i) number of attendees enrolling on its training programs multiplied by (ii) the average sized family according to the latest census data.

As it developed its processes to record the information, it added questions to its enrolment forms to ask attendees to indicate (i) whether they or a family member living with them had previously attended the training program or a similar one, and (ii) how many people lived with them and with how many of those they had actively discussed what they had learnt on the training program. The entity also implemented a register system to record attendance and completion of the program. The additional information allowed the entity to update its criteria to: (i) avoid double-counting attendees who had previously attended, (ii) count only those who attended the full program, rather than including those enrolling, but not completing, the program, and (iii) obtain a more up to date estimate of the number of people reached.

186. [118] Where a preparer is using an EER framework that contains established criteria and chooses to modify or adjust those criteria with the result that they are different from those commonly used in the entity's sector, this may be an indicator of potential management bias and of a risk that the resulting subject matter information could be misleading to the intended users. In such circumstances, the practitioner exercises professional skepticism in determining the suitability of the criteria, and in considering whether there is a reasonable basis for the change and whether the change is sufficiently disclosed and explained in the EER report.
- 186A. The more mature the entity's reporting process or EER framework is, the less likely it is that changes made by an entity to measurement methods and related disclosures from commonly accepted practice adopted by other similar entities will be appropriate, unless there has been a change in the entity's circumstances, or there are unique features of the entity's business that necessitate a departure from the commonly accepted practice. It may be desirable for the preparer to obtain an acknowledgement from the intended users that the entity-developed criteria are suitable for their purposes.
168. [100] In many cases it may be useful to intended users if the criteria are consistent from one reporting period to the next to aid comparability. Where criteria change, disclosure of the change with an explanation of the reasons for the change may be expected for the criteria to be relevant in the year of the change. Information about the impact of the change, for example re-stating comparative information (where possible and cost-effective), may also be expected for the criteria to be relevant in the year of the change. However, in other circumstances, a temporary reduction in comparability may be appropriate to improve relevance in the longer term.

Considering Whether the Criteria will be Made Available in a Suitable Manner

187. [119] Criteria need to be made available to the intended users to enable them to understand how the underlying subject matter has been measured or evaluated. In the case of an EER framework that has only high level-principles, as there are numerous ways in which high-level principles may be able to be adhered to, the intended user is unlikely to be able to consider whether their needs have been met or to be able to base decisions on the reported information without access to both the framework criteria and any entity-developed criteria.

- 187A. S.A51-A52 describe ways in which criteria may be made available. A practitioner may consider whether the criteria will be made available in a suitable manner, including, for example, whether the criteria will be disclosed in sufficient detail and sufficiently clearly that practitioner will be able to determine that the criteria will in practice be available to the intended users.
56. [26] Entity-developed criteria need to be available to intended users in the same way that any other criteria need to be. While there is not a general requirement to disclose the process for developing such criteria, some frameworks may require such disclosure, at least for parts of the process, for example the GRI framework requires disclosure about the stakeholder engagement process. Even when frameworks do not require it, practitioners may consider it appropriate to encourage preparers to disclose details of their process for their entity-developed criteria (G.Ch7).
188. [120] The criteria may be made available outside of the EER report, for example if an established and publicly available EER framework has been used. In the case of entity-developed criteria, the entity may choose to publish the criteria and reporting policies in the EER report or separately on its website, cross-referred (as at a particular date) in the EER report.
189. [121] The more familiar intended users are with common measures, the less necessary it may be to make available detailed explanations of those measures, as these may be available by 'general understanding' to the intended users.

EXAMPLE

A preparer may assume that the intended users will understand greenhouse gas emissions measured in accordance with the Greenhouse Gas Protocol without disclosing the measurement methods in the EER report, as the criteria set out in the Greenhouse Gas Protocol appropriately include that information, and the Greenhouse Gas Protocol is publicly available..

Where a preparer makes such an assumption it may be expected that the preparer has applied all of the criteria, relevant to its circumstances, set out in the Greenhouse Gas Protocol.

Consequences where Criteria are not Suitable or Available

191. [123] If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable, the practitioner is required to follow the requirements of S.42, which applies to all of the preconditions for acceptance. If, in such circumstances, the practitioner is not permitted to withdraw from the engagement under law or regulation but the criteria are not suitable or available, the practitioner would be required by S.43 to express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances.

Chapter 6: Considering the System of Internal Control

Matters Addressed by the Guidance in this Chapter

127A. This Chapter provides guidance to the practitioner that is relevant during the planning stage of an EER assurance engagement, in understanding an entity's system of internal control relevant to the preparation of the subject matter information. This guidance is particularly relevant when an entity's process to collect data and information, apply the criteria to the underlying subject matter and report information relevant to the preparation of the EER subject matter information (hereafter referred to as the entity's 'EER reporting process') and related controls are still developing, and when that process obtains data or information from external sources.

128A. The Standard requires the practitioner:

- (a) in a limited assurance engagement, to consider the entity's EER reporting process (S.47L), to enable identification of areas where a material misstatement is likely to arise (S.46L.a); or
- (b) in a reasonable assurance engagement, to obtain an understanding of internal control over the preparation of the subject matter information, including evaluating the design of the controls relevant to the engagement and whether they have been implemented (S.47R), to enable identification and assessment of the risks of material misstatement (S.47R.a).

128B. In planning and performing the engagement, S.42-43 also requires the practitioner to respond if it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present.

128C. As discussed in G.Ch4, the nature of the entity's EER reporting process is likely to be an important consideration when determining if the preparer has a reasonable basis for the subject matter information in determining whether the preconditions are present. The practitioner may become aware of additional information when fulfilling S.47L/R, which indicates that the preparer may not have a reasonable basis for the subject matter information and that the related precondition may not be present.

Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners

127. [59] Entities producing EER reports typically implement gradual changes to their system of internal control to support such reporting as it becomes more established and formal. At an early stage, the system of internal control generally includes a process to collect, process and report the underlying data and information relevant to the preparation of the EER subject matter information (referred to hereafter as the entity's 'EER reporting process').

127A. As EER becomes more established for the entity, changes may be introduced to make the EER reporting process subject to specific control activities and greater governance and oversight, or to bring it more formally within the entity's risk assessment process and process to monitor the system of internal control. Often these developments in the entity's EER reporting process and in other components of the entity's system of internal control occur alongside each other.

137. [69] An entity may obtain information to be input to its EER reporting process from an external information source. The entity may or may not be able to implement and operate its own processes and controls over the recording, collating and reporting of such information. This may have implications for the relevance and reliability of such information.

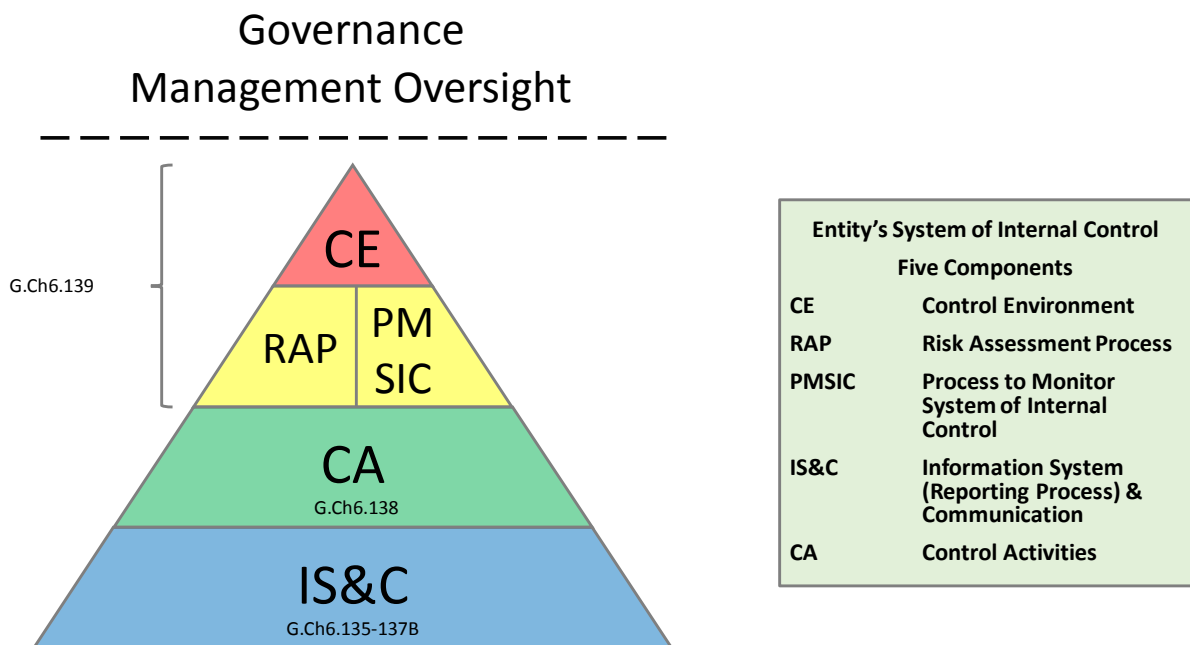
137A. Entities may also use new or evolving technologies to record, process and report their EER information. For, example, an entity may use drone technology to record information at remote or extensive sites or may use automatic processing to process routine transactions. The entity may also report its EER information in different forms that may be accessible by users on demand, through various communication channels.

137B. All these factors may have implications for both the acceptance of the assurance engagement, and, if the engagement is accepted, for the design and performance of the practitioner's assurance procedures.

128. [60] The guidance in this chapter addresses the application of S.47L/R and S.42-43, but may also assist the practitioner when considering aspects of the entity's system of internal control in determining whether the preconditions are present (G.Ch4).

Understanding the Entity's System of Internal Control

130. [62] An entity's system of internal control typically has five inter-related components⁵:



131. [63] The level of sophistication of the information system and communication component and the control activities component of the system of internal control may vary according to the size and complexity of the entity, and the nature and complexity of the underlying subject matter and criteria. Similarly, the level of formality of the risk assessment process and the process to monitor the system of internal control may also vary for differently sized entities.

132. [64] S.A39 notes that "in some cases, a formal process with extensive internal controls may be needed to provide the [preparer] with a reasonable basis that the subject matter information is free from material misstatement". Equally, in other circumstances, extensive internal controls may not be needed.

⁵ Based on ED-ISA 315 (Revised) paragraph 16(l)

133. [65] Some examples of aspects of the components of an entity's system of internal control that a practitioner may consider are given below. The three components shown in the top three boxes in the diagram in G.130 (the control environment, the risk assessment process and the process to monitor the system of internal control) are considered together under the heading 'governance and oversight of the EER reporting process'.
134. [66] The examples are not meant to be an exhaustive list of aspects that may be appropriate in the engagement circumstances. As noted above, some entities may require a formal process with extensive internal controls for the preparer to have reasonable basis to take responsibility for the subject matter information being free from material misstatement. The practitioner may need to consider the engagement circumstances, including the size and complexity of the entity, when concluding whether the level of development of the system of internal control is appropriate to the engagement circumstances. Further guidance is given in G.72-74 in the context of determining whether the preconditions are present.

Information System and Communication

135. [67] The entity's EER reporting process is part of the entity's information system relevant to the preparation of the EER subject matter information. Policies, procedures and resources of the information system and communication component that the practitioner may consider in the context of an EER assurance engagement are included below:

| | |
|-------------------------------------|---|
| CONSIDERATIONS FOR THE PRACTITIONER | <ul style="list-style-type: none"> (a) Processes to select or develop criteria, including the entity's process to identify reporting topics, if applicable (see G.Ch7), to be addressed in the EER report; (b) Processes to select or develop criteria for the measurement or evaluation of reporting topics, including their presentation or disclosure; (c) Processes to capture, record, process, correct, and include in the EER report, data and information about the reporting topics; (d) Processes to select, obtain, review and monitor data and information obtained from external source(s); (e) Records and source documentation to support the preparation of the subject matter information relating to the reporting topics. These are ideally stored and accessible so that they can be used as evidence by the practitioner; (f) Processes to prepare the EER report; and (g) How the entity uses IT to support the above. |
|-------------------------------------|---|

136. [68] The reporting process is likely to involve the use of IT to collect or process data and information. Entities may use complex IT applications, simple spreadsheets or paper-based records, or a combination of these. Identifying which tools are being used by the preparer to prepare the EER report may be an important part of the practitioner obtaining the understanding required by S.47L/R.

Considerations when the entity's EER reporting process and other related controls are developing

129. [61] Although having a highly sophisticated or developed system of internal control is not a precondition for an assurance engagement, the entity's EER reporting process should be adequate to provide the preparer with a reasonable basis for the subject matter information. Other controls over the EER reporting process may be informal or relatively simple when the

engagement circumstances are simple. The greater the complexity of the subject matter information, the more complex may the EER reporting process and other related controls need to be. There is a difference between simple controls and inadequate controls. If the EER reporting process and other related controls do not provide the preparer with a reasonable basis for the subject matter information, there may be greater likelihood of material misstatement in the subject matter information, or there the practitioner may not be able to determine that they expect to be able to obtain the evidence needed to form the assurance conclusion.

- 129A. As an entity's experience with EER reporting develops, the entity's system of internal control may become more sophisticated, and new technologies may be used to record, process and report their EER information. As discussed further in G.Ch9, although the way in which the information is recorded and reported may change, the objectives of the EER reporting process and other related controls that are necessary to provide a reasonable basis for the subject information, in the particular circumstances of an engagement, remain the same and the purpose of the entity's system of internal control relevant to the preparation of the subject matter information remains the same.

Considerations when an EER reporting process obtains data or information from an external source

137. [69] Particular practitioner considerations may be appropriate when the entity's EER reporting process obtains data or information from an external source. An external individual or organization that provides data or information that is used by the preparer in the preparation of an EER report is hereafter referred to as an 'external information source'. Examples of data or information from an external information source might include the results of an independent survey of customer satisfaction, or an external laboratory test of effluent quality for a production facility.
- 137A. Key considerations for the practitioner may include the source of the external information, and the processes and controls over the information obtained from that external source. When the external information source processes information on behalf of the entity, for example, when the entity has outsourced some of its activities to a third party service organization, the entity may have contractual rights of access to that third party and to how the information is processed, or may be able to obtain a service auditor's report on the design and operation of the controls at the service organization. The entity may also have in place its own processes and controls to monitor information provided to, and received back from, the service organization.
- 137B. When an entity uses external information from another external source, for example, industry data used for benchmarking purposes, or indices or factors used in calculating or valuing the subject matter information, the entity may have its own processes and controls in place to consider the reputation of that source, the reliability of information from that source, whether there are other sources of similar information, and whether the information from such different available sources is aligned. Further consideration is given to external sources of information in G.Ch9 and in SupB [x].

Control Activities

138. [70] Types of controls in the control activities component that the practitioner may consider include:

| | |
|-------------------------------------|---|
| CONSIDERATIONS FOR THE PRACTITIONER | <ul style="list-style-type: none"> (a) Controls requiring segregation of duties between individuals involved in the EER reporting process, to the extent appropriate according to the size of the entity, for example segregation between those preparing the information and those reviewing it; (b) Controls to prevent the preparer inappropriately modifying underlying sources of data, information or documentation that the practitioner would use as evidence; (c) Controls to identify relevant transactions, occurrences and events, and to record them completely, accurately, in a timely manner, and to classify them appropriately (see also G.Ch8 for guidance on the use of assertions); (d) Controls over maintenance of measuring devices – e.g. to make sure they are calibrated, and cannot be tampered with; (e) IT controls to support relevant IT systems in being appropriately secure, robust, reliable and adequately maintained, for example through restricted physical and logical access; and controls over back-up of data and disaster recovery (f) Controls to address management bias that may occur in the process to develop or apply the measurement or evaluation bases and other reporting policies. |
|-------------------------------------|---|

Governance and Oversight of the EER Reporting Process

139. [71] Aspects of the entity's governance and oversight of the EER reporting process that the practitioner may consider may include:

| | |
|-------------------------------------|--|
| CONSIDERATIONS FOR THE PRACTITIONER | <ul style="list-style-type: none"> (a) Involvement of those charged with governance and senior management at appropriate stages throughout the EER reporting process; (b) Approval of the EER report by those charged with governance or senior management, as appropriate; (c) The establishment of a subgroup of those charged with governance, such as an audit committee, charged with oversight responsibilities for the preparation of the EER report (for larger entities); (d) Those charged with governance or senior management, as appropriate, setting an appropriate 'tone at the top' to encourage high quality in the EER reporting process and a high standard of ethical practices; (e) Key decisions made by those charged with governance or senior management, as appropriate, being recorded in written documentation, for example in minutes of board meetings; (f) Assignment of authority and responsibility for the process to prepare the EER report, and enforcement of accountability for meeting such responsibility; (g) The process undertaken to identify, assess and address risks related to the EER reporting process; and (h) The process in place to monitor the system of internal control, including monitoring the effectiveness of control activities and the process to identify and remediate deficiencies. |
|-------------------------------------|--|

Consideration of the Entity's Size, Complexity and Nature

140. [72] The level of formality required in terms of the entity's system of internal control may largely depend on the entity's size and complexity. A small and non-complex entity may not require

formal documented policies or procedures for the preparer to meet its responsibility for establishing a reasonable basis for the subject matter information. However, a larger or more complex entity such as a multi-national company may require more detailed and formalized reporting processes and control activities to meet this responsibility.

141. [73] The nature of the entity's processes, controls and records in the entity's system of internal control may vary with the size and complexity of the entity.

EXAMPLE

For reporting on employee diversity, it may be appropriate for a small entity with 25 employees to record and store this data on a simple spreadsheet managed by one member of staff. However, in the case of a large entity with 20,000 employees across the world, a much more sophisticated process managed by HR teams may be required, likely supported by an appropriate IT system, in order to collect, collate and store data that is accurate and complete.

Limited Assurance and Reasonable Assurance

- 141A. In a limited assurance engagement, the practitioner is required to consider the entity's EER reporting process to enable identification of areas where a material misstatement is likely to arise. The nature and extent of the practitioner's consideration may vary depending on the complexity of the EER engagement and the nature and complexity of the underlying subject matter. For an uncomplex, small engagement, inquiries may be sufficient to identify where a material misstatement is likely to arise. As the entity and underlying subject matter(s) become more complex, it is likely that more extensive procedures may be necessary to understand the process to prepare the subject matter information, for example, by performing a walkthrough to confirm the practitioner's understanding with personnel involved in the reporting process, including the entity's process to identify reporting topics (see G.Ch7).
- 141B. In a reasonable assurance engagement, the practitioner, in addition to making inquiries and performing walkthroughs, is required to evaluate the design of the relevant controls and whether they have been implemented, i.e the practitioner will need to identify what is relevant, and design and perform procedures to obtain evidence to evaluate whether the design is suitable and whether the controls are in place as designed.
- 141C. For an example of considerations relating to an entity's system of internal control, see SuB [x].

Chapter 7: Considering the Entity's Process to Identify Reporting Topics

Matters Addressed by the Guidance in this Chapter

- 192A. This Chapter provides guidance to the practitioner on considering an entity's process to identify reporting topics for inclusion in its EER report and the outputs of that process. Such a process ordinarily addresses both the entity's development of criteria to identify reporting topics to be addressed, and the application of those criteria to identify such reporting topics. Such criteria should exhibit the characteristics of suitable criteria, including that they should be relevant. This means that when suitable criteria for measurement or evaluation are applied to the reporting topics that result from the applying the criteria for identification, the result will be EER information that assists user decision-making.
166. [98] EER frameworks commonly refer to such a process as a 'materiality assessment' or 'materiality process'. However, the concepts of relevance and materiality are not the same, even though both refer to user decision-making. Relevance is considered in evaluating the suitability of criteria, whereas materiality is considered in the context of potential and identified misstatements of the subject matter information. Materiality is a threshold of significance to decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement. Applying the concept of materiality in that context is discussed in G.Ch10.

Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners

- 192B. As discussed in G.Ch1, an EER report may address diverse (aspects of) underlying subject matter. Consequently, there is a need for criteria to provide clear direction as to the reporting topics that should be addressed in the EER report.
194. [126] EER frameworks do not always provide sufficiently detailed direction for a preparer make reliable judgments about what reporting topics to address in an EER report (see G.195 below). However, a framework may provide high-level principles for doing so. It can be challenging for both a preparer making these judgments and for a practitioner considering their appropriateness, and even more so when both the intended users and their information needs may be diverse or difficult to communicate with. In such circumstances, the entity will ordinarily need to establish a process to identify reporting topics taking into account the intended user and purpose (see G.192A).
- 194A. There may also be considerable opportunity for management bias in determining the reporting topics of an EER report or the criteria used to identify them (see G.Ch5.152) when the framework does not specify what topics are to be included in the EER report or identify them.
- 194B In such circumstances the exercise of professional judgment and professional skepticism may be particularly important in determining the suitability of criteria to identify reporting topics in an EER assurance engagement (see G.Ch3).

Considering the Entity's Process to Identify Reporting Topics

195. [127] When an EER framework does not identify relevant reporting topics in sufficient detail, the criteria are unlikely to be considered suitable on their own. The criteria may lack relevance or completeness. The criteria may lack reliability when the framework includes high-level principles for such identification, but those principles do not allow reasonably consistent identification of the relevant reporting topics. In undertaking a process to identify reporting topics, the preparer is

effectively extending or developing, and then applying, criteria for identifying reporting topics, such that these criteria sufficiently exhibit the characteristics of suitable criteria and the resulting subject matter information assists decision-making of the intended users (see G.83-84).

- 193A. In considering the suitability of the criteria (see G.Ch6), the practitioner may need to consider the appropriateness of the judgments made by the preparer in developing criteria to identify reporting topics and the judgments made in applying those criteria.

EXAMPLE

The reporting requirements in an EER framework may say that the entity needs to include a description of the principal risks and uncertainties facing it.

It is left to the preparer to identify the principal risks and uncertainties for their entity and information about them that would assist intended users' decision-making. In most cases, EER frameworks cannot make this identification as it will vary from entity to entity.

In order for the criteria to be suitable, in many cases the preparer may need to take the reporting requirement from the EER framework and then undertake a process to develop the relevance and completeness of the criteria further, such that applying them identifies the risks and uncertainties, information about which would assist intended users' decision-making.

EXAMPLE

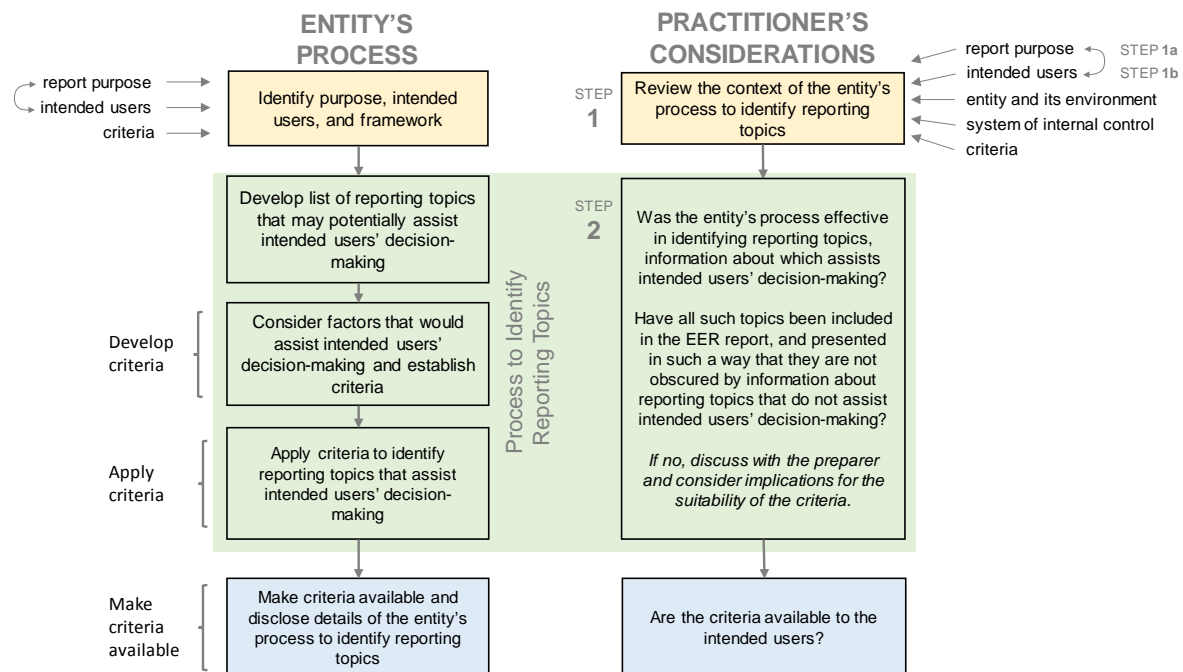
A different EER framework may require the disclosure of specific indicators, such as the time spent by its employees on training during the period, measured in hours. Detailed instructions on how to calculate this are provided.

In this case the criteria may already be suitable, and the preparer may not need to undertake a process to identify reporting topics because the EER framework-setter has already made a judgment about what the intended users want to know. This is common in reporting to meet specific regulatory requirements, but some generally applicable EER frameworks assess what indicators are likely to be relevant criteria for specific industry sectors, for example as in the Sustainability Accounting Standards Board (SASB) standards.

196. The practitioner is required to consider the process used to prepare the subject matter information in a limited assurance engagement, or to obtain an understanding of internal control over the preparation of the subject matter information in a reasonable assurance engagement (S.47L/R, G.Ch6). This may also involve considering an entity's process to identify reporting topics, which is a part of the EER reporting process, when the preparer has undertaken one. Considering the process may also assist a practitioner to identify areas where a material misstatement of the subject matter information is likely to arise, or to identify and assess the risks of material misstatement in the subject matter information, as required in limited and reasonable assurance engagements respectively.
197. [129] The extent to which the practitioner considers the appropriateness of the entity's process to identify reporting topics, and the reporting topics identified as a result of the application of that process, may depend on the boundary of the subject matter information for the engagement (see G.Ch4). Considering these matters may be more relevant when the assurance engagement covers a whole EER report than when the boundary of the subject matter information is limited to

specific indicators. However, they may be important considerations in the context of determining whether an assurance engagement has a rational purpose.

198. [130] When applicable to an EER assurance engagement, the flowchart below may assist the practitioner in considering the entity's process to identify reporting topics. The steps a preparer might be expected to follow are provided on the left-hand side for reference. These are explained in this guidance to illustrate what the practitioner may expect when considering the entity's process to identify reporting topics. The suggested thought process for the practitioner is shown on the right-hand side of the diagram and then explained in the guidance paragraphs below.



Step 1: Consider the Context of the Entity's Process to Identify Reporting Topics

199. [131] The practitioner may begin by considering the context of the entity's process to identify reporting topics, including aspects of the engagement circumstances, such as the:

- EER report purpose (step 1a);
- Intended users (step 1b);
- Entity and its environment;
- System of internal control (see G.Ch6); and
- Criteria (EER framework or entity-developed) (see G.Ch5)

200. [132] When a preparer has documented their process to identify reporting topics and the decisions they have made, the documentation may provide a useful starting point for the practitioner's consideration. In the absence of such documentation, the practitioner may be able to understand the entity's process through inquiry of the preparer. If the preparer has not undertaken an appropriate process to determine the content of the EER report, the practitioner may need to consider whether this suggests the preconditions for an assurance engagement are not all present.

201. [133] Some EER frameworks may establish the EER report purpose and identify who the intended users are. Others may not specify this, leaving the preparer to make these determinations.
202. [134] Where an EER framework is being used by a preparer, the practitioner may need to consider any direction on the considerations to identify material reporting topics included in the EER framework to consider whether the process undertaken by the preparer is appropriate.

EXAMPLE

When reporting on human rights in accordance with the United Nations Guiding Principles on Business and Human Rights, the topics to be included are focused on risks to people impacted by the activities of an entity, not solely on the risks to the entity.

Some EER frameworks interpret what would assist intended users' decision-making as things that may create a financial risk to the entity, for example the SASB conceptual framework says that "information is material if there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available".

Other EER frameworks focus considerations about what would assist intended users' decision-making on the effect an organization has on the economy, the environment or society. For example, the Global Reporting Initiative (GRI) determines that 'material' topics are those that reflect the organization's significant economic, environmental and social impacts, or substantively influence the assessments and decisions of stakeholders.

203. [135] The following paragraphs provide further guidance for how the practitioner may consider the EER report purpose (step 1a) and the intended users (step 1b). Further considerations relating to the practitioner's consideration of the criteria more generally, and the system of internal control are set out in G.Ch5 and G.Ch6, respectively.

Step 1a: Has the Preparer Adequately Identified the Purpose of the EER Report?

204. [136] The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users. Some examples of EER report purposes might include:
- To report the entity's impact on the natural environment
 - To describe the entity's activities over a period and how they contribute to the entity's objectives
 - To describe how the entity creates 'value'
 - To describe what the entity plans to do in the future, or how it expects to perform
205. [137] The practitioner may need to consider the EER report purpose as context when considering the judgments made by the preparer.

Step 1b: Has the Preparer Appropriately Identified the EER Report's Intended Users?

206. [138] The practitioner may consider whether the preparer has obtained and documented an understanding of the general nature of decisions the intended users are likely to take based on, or influenced by, the information in the EER report. If so, the practitioner may consider that in the context of their understanding of the engagement circumstances.

207. [139] A distinction is made between intended users and stakeholders. A stakeholder in the entity may:

- (a) have a relationship and interactions with the entity, or
- (b) be directly or indirectly affected by the entity's actions.

There may be circumstances where the stakeholders and intended users are not the same. When a stakeholder is not an intended user, their interests may be taken into account by other parties who are intended users. It should not be assumed that, just because a class of stakeholders that would have a legitimate interest in the EER report is not expected to use the report, information about reporting topics that would meet their information needs would not be relevant to the other classes of intended users, particularly when the categories of intended users are diverse.

EXAMPLE

A victim of child slavery involved in a company's manufacturing supply chain (a stakeholder) would presumably not be in a position to read the company's report, however their interests may be represented by a charity / politicians / lobbyists (agents) campaigning against child labor and using their position to influence the company's customers.

208. [140] A single EER report may have multiple groups of intended users, with potentially different information needs. An EER report cannot focus on the needs of each individual intended user, unless there is only a single intended user, however a preparer may need to consider where individuals within a group of intended users have common information needs.

209. [141] The Standard's application material contains some further guidance, including that in some circumstances where there are a large number of possible users, it may be necessary to limit the intended users to "major stakeholders with significant and common interests" (S.A16). This might be useful, subject to any particular requirements in the EER framework, when the EER reports is published without specifying the intended users, effectively for the benefit of society as a whole.

EXAMPLE

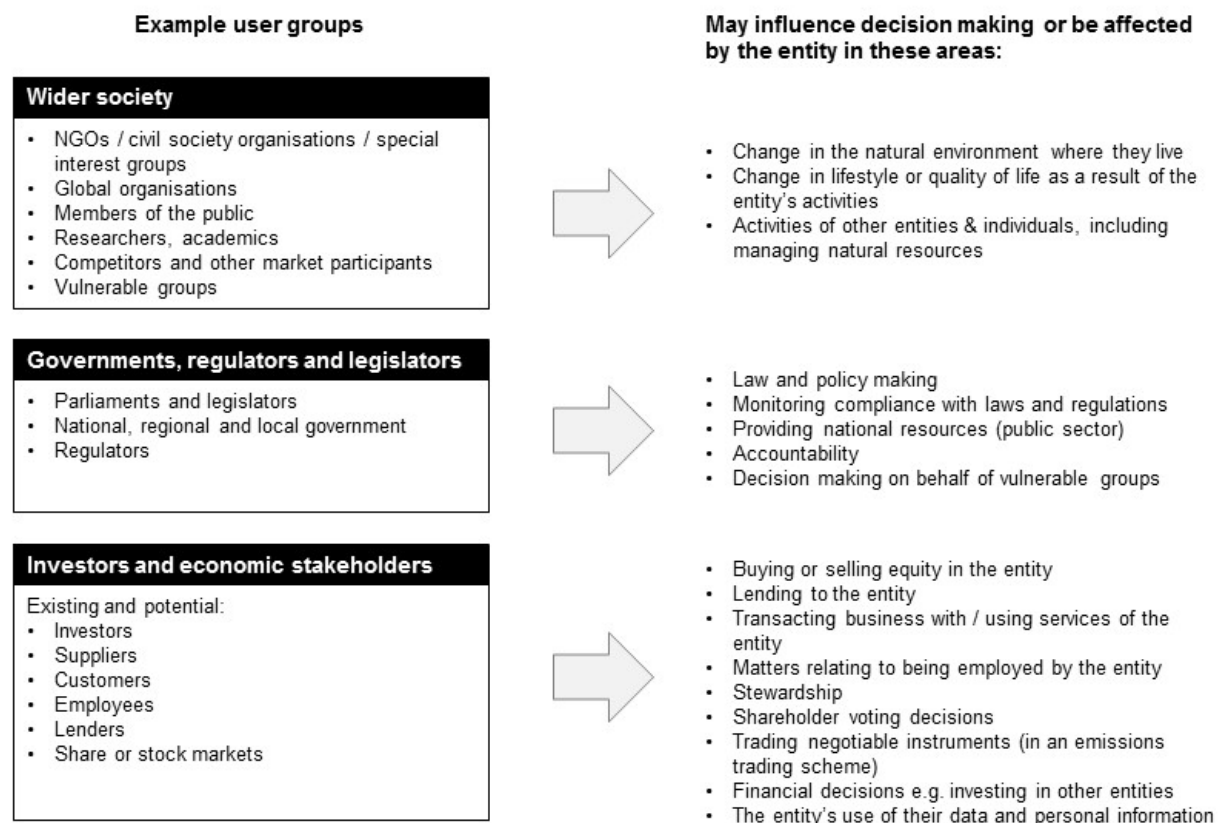
An EER report prepared by a state-run hospital on its clinical performance might have users including:

- Government, which needs to know whether citizens are being provided with adequate healthcare and whether resources are being used efficiently.
- Groups of patients (current or potential), the general public and the wider world, who want to know whether the hospital is available to provide care to the community, playing its role in controlling diseases, and whether it is clinically safe.
- Cancer patient, who has a self-interest about whether the hospital has the capabilities to treat the patient successfully.

In this example, the top two user groups might be the intended users, but the individual patient might on his or her own might not be, although such patient may be a member of the collective group of patients.

210. [142] Different intended user groups may have different information needs or attitudes; something that assists decision-making by one group of intended users may be trivial to another.

211. [143] Merely reading the information in the EER report is a valid use by intended users; the outcome may be that they make a decision to take no action based on the information reported.



They would still have a legitimate need for the information to assist them in reaching that conclusion and so relevance does not depend on intended users taking action based on the reported information.

212. [144] Some examples of possible user groups are included in the table below – this is not intended to be an exhaustive list, but it could be considered as a starting point for considering whether the preparer appropriately identified the intended users of their EER report by considering the groups in the table and further considering entity-specific user groups. It is not necessary for the practitioner to consider a detailed list of the intended users – the aim is to have an awareness of the broad groups of intended users as context in making judgments about the entity's process to identify reporting topics.

Step 2: Consider Selection of Reporting Topics to Include in the EER Report

213. [145] The practitioner may consider how the preparer identified reporting topics that assist intended users' decision-making in the context of the underlying subject matter. A preparer may have done so in multiple stages, taking into account the EER framework(s) used, the purpose of the EER report and the intended users, and filtering an initially longer list of potential reporting topics to end up with those that are considered to assist decision-making by intended users.
214. [146] Criteria for identifying reporting topics are likely to be relevant if the information resulting from applying them contributes to decision-making by the intended users and achieves the purpose of the EER report.

Considering interest to the intended users

215. [147] To consider whether something would assist decision-making by intended users, one approach is to consider directly whether it is of interest to the intended users.

216. [148] The information that would be of interest to intended users may be expected to be reasonably (but not absolutely) aligned with what would assist their decision-making. This could reflect the extent to which the intended users perceive something will impact their own interests in the context of the purpose of the EER report.
217. [149] If considering whether something is of interest to intended users, examples of circumstances that might increase its relevance include:
- (a) It is likely to cause investors to buy or sell equity in the entity
 - (b) It is likely to change the entity's share price or enterprise value
 - (c) There has been media coverage relating to it, or disclosure of it would likely result in media interest (local / national / global)
 - (d) There have been a large number of complaints relating to it (for example from customers, suppliers or other stakeholders)
 - (e) It has been mentioned unprompted by several stakeholders
 - (f) There is a high level of wider societal interest in it, or particularly high levels of public sensitivity

EXAMPLE

A few examples in some circumstances might include human rights issues, corruption, amounts of tax paid in jurisdictions of operation, and executive remuneration.

- (g) It is known to be an area of interest of stakeholders based on the preparer's prior experience and awareness
- (h) It relates to an area of interest in the industry that may be widely reported by peers and competitors in the entity's sector
- (i) It relates to (non-)compliance with laws, regulations, international agreements, or voluntary agreements with strategic significance to the organization and its stakeholders

Considering 'impact'

218. [150] When it is not possible to evaluate sufficiently what would assist intended users' decision-making by identifying directly what would be of interest to them, an alternative or supplementary approach is to consider the significance of the potential reporting topics. Depending on the purpose of the EER report, the significance of the potential reporting topics may be considered in the context of the entity's performance (in achieving its strategic objectives) or its impact on other entities. This approach is sometimes referred to as considering 'impact'.
- 218A. Impact on other entities could include impact on individuals, organizations, wider society or the environment as is appropriate in the context of the purpose of the EER report. The impacts could occur either directly due to the actions and decisions of the reporting entity's management, indirectly through relationships of the reporting entity, or by the direct or indirect effect of forces external to the reporting entity.

EXAMPLE

A company may be responsible for regularly releasing a large volume of pollutants into a river. There may be direct impacts on the environment, and perhaps on local communities using the river for fishing or a water supply. There could also be indirect impacts on the company itself, perhaps through loss of revenue from customers unhappy with the company's attitude towards damaging the environment as well as direct impacts such as the cost of clean-up or fines from authorities.

219. [151] If considering the anticipated impact, examples of circumstances that might increase its relevance include:
- (a) It has major risks or opportunities for the entity (including reputational, affecting the entity's license to operate)
 - (b) It has direct material financial implications (as determined by financial statement materiality thresholds)
 - (c) It has, or will potentially have, a major effect on the entity's operational performance
 - (d) It has, or will potentially have, a major effect on other entities' operations or activities
 - (e) It has resulted, or will potentially result, in major direct irreversible damage to natural resources or the environment
 - (f) It relates to strategic opportunities for the entity to boost competitive position
 - (g) It relates to key organizational values, policies, strategies, operational management systems, goals and targets of the entity or its stakeholders

Other considerations

220. [152] Some preparers present the results of their analysis of reporting topics that, in the context of the purpose of the EER report, would be of 'interest to intended users' and that would have 'impact' on a scatterplot, which positions such reporting topics relative to two axes, which represent 'interest to intended users' and 'impact', for each reporting topic.
221. [153] The judgments made in positioning such reporting topics relative to each axis may be influenced by considering both the likelihood that each reporting topic exists or occurs and the magnitude of their significance, in terms of their 'interest to intended users' or 'impact' (as a proxy for considering the relative potential of information about such reporting topics to assist intended users' decision making), if they were to exist or occur. Consideration of the combined influence of their likelihood and magnitude of significance on their potential to assist intended users' decision-making, may be illustrated on a graph that plots reporting topics relative to separate axes for their likelihood and the magnitude of their significance
- (a) If something is certain or factual, its likelihood of occurrence is at the maximum level and the magnitude of its significance is the only variable.
 - (b) The likelihood assessment may consider whether a matter is inside or outside the control of the entity or management.
222. [154] The chosen timescale being considered in terms of impact or interest to the intended users is often also an important consideration.

EXAMPLE

An example to illustrate this might be an entity owning a factory on low-lying coastal land. Rising sea levels are expected to mean the factory site is unusable in five years' time. While there may not be any physical impact for the next five years, this information may assist decision-making by an intended user, irrespective of whether they have a short-term interest in the entity (for example an investor expecting to invest for three years) or a longer term interest (for example, a bank that has issued a loan, secured on the factory site maturing in ten years' time) as these considerations are likely to be priced into the investment. The practitioner may need to consider whether the timescale chosen by the preparer for inclusion of information is appropriate and whether there is sufficient disclosure of this in the EER report.

223. [155] Stakeholder engagement activities can be an important part of a preparer identifying reporting topics. An open dialogue with stakeholders may give better results than passive interaction or asking them to comment on an existing list of reporting topics, however there may be a need to adequately inform stakeholders about the entity and its activities to enable them to engage effectively with the process.

224. [156] A practitioner could use some of the following sources in considering the completeness of the criteria. Criteria about topics to be included in the EER report are likely to be complete if the information resulting from applying them does not omit relevant factors about such topics:

Internal sources:

- Discussions with management and those charged with governance
- Previous reporting by the entity
- Agendas and minutes from board or senior management meetings and committees
- Risk assessments
- Strategy documents prepared by the entity

External sources (see also G.Ch6 and G.Ch9):

- Reporting by peers and competitors
- Survey results (of the entity, peers or the industry)
- Interviews with stakeholders, outreach activities, stakeholder engagement
- Web and social media searches
- Expert views on global megatrends
- Sustainable Development Goals

225. [157] The practitioner may make the following key judgments in considering the relevance and completeness of the criteria used by the preparer in selecting reporting topics to include in the EER report:

**CONSIDERATIONS
FOR THE**

Was the entity's process effective in identifying reporting topics, information about which assists intended users' decision-making?

Have all such reporting topics been included in the EER report, and in such a way that they are not obscured by information that does not assist intended users' decision-making?

226. [158] In doing so, the practitioner exercises professional judgement and professional skepticism to evaluate the preparer's decisions and may focus particularly on how the preparer decided to include or exclude items and the reasons for their decisions.

Considering Reporting Topics Collectively

228. [160] It may be appropriate not just to consider the suitability of criteria for identifying reporting topics individually as there may be circumstances where information about multiple topics or related elements may in aggregate contain relevant factors, even when information about such topics or related elements individually does not.

EXAMPLE

Information about members of staff leaving may not, on its own, assist intended users' decision-making, neither might be information about a few customer complaints or the termination of two supplier contracts. However, if when combined, information about these events turn out to be related and indicates serious problems with the entity's senior management, information about such events may assist decision-making by the intended users in the context of those problems.

Disclosure of the Entity's Process to Identify Reporting Topics

232. [164] Intended users are likely to find it helpful in understanding the criteria, to also understand any process the preparer uses in developing the criteria. Accordingly, a practitioner may consider it appropriate to encourage a preparer to disclose details of their process to identify reporting topics (either in their report, or elsewhere such as their website), giving details of what has been included in the EER report and what has been left out.

Chapter 8: Using Assertions

Matters Addressed by the Guidance in this Chapter

233. [165] This Chapter provides guidance on how assertions may be used by a practitioner as a tool to consider the different types of potential misstatements that may occur in the subject matter information, and to assist the practitioner in designing assurance procedures to obtain evidence about whether the subject matter information has been prepared in accordance with the criteria, or whether it is misstated.

Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners

- 233A. The underlying subject matter, and criteria may be diverse, and may require different characteristics of the resulting subject matter information than are required by applicable financial reporting frameworks that are applied to prepare financial statements or the criteria used to measure greenhouse gas emissions. Consequently, the question may arise as to whether the assertions used by an auditor or practitioner, as described in IAASB standards other than the ISAs and ISAE 3410, apply to EER subject matter information or whether assertions that may be used by a practitioner in an EER assurance engagement may be different.

Using Categories of Assertions

The meaning of assertions

241. [173] The term 'assertions' is used in this guidance consistent with the definitions of assertions in certain IAASB standards, in the context of their use by the practitioner to consider the different types of potential misstatements that may occur, and to design assurance procedures accordingly. They are conceptually different from the 'written representations' that may be obtained from the preparer in accordance with S.56-60. The term 'assertions' is also not used in this guidance in the sense that the preparer may 'assert' something by writing it in their EER report.

Considering types of potential misstatements in designing procedures

249. [181] When performing a reasonable assurance engagement, the Standard requires the practitioner to form a conclusion about whether the subject matter information is free of material misstatement, which may be expressed as whether the subject matter information is prepared, in all material respects, in accordance with the applicable criteria. When performing a limited assurance engagement, the Standard requires the practitioner to form a conclusion stating that no matter has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria, based on the procedures performed and evidence obtained.
250. [182] Although the practitioner is not required to use assertions under the Standard, when designing procedures, a practitioner may find it helpful to use assertions to consider the different types of potential misstatements that may occur (refer to G.252) in both reasonable and limited assurance engagements. If so, the practitioner may begin by considering the assertions used in other IAASB standards. Such assertions are described as "categories of assertions" (for example, see paragraph A129 of ISA 315 (Revised) and paragraph A82 of ISAE 3410). Categories is a general term used in many different circumstances in the IAASB's standards to mean different

classes, classifications, types or groups of various things. In the context of assertions, a category is a group of assertions that address a characteristic such as “completeness”.

250A. The table below sets out the categories of assertions that are included in ISA 315 and in ISAE 3410. Those in ISA 315 relating to classes of transactions, other events and conditions are shown as 'period' and those relating to account balances are shown as 'point in time'. The categories of assertions in ISAE 3410 all relate to emissions which occur in a 'period'.

Table 2 – Categories of Assertions in IAASB Standards

| ISA 315 (Period) | ISAE 3410 | ISA 315 (Point in Time) | |
|-----------------------------|---|------------------------------------|---|
| Occurrence | Occurrence | Existence | A |
| | Responsibility | Rights and Obligations | |
| Cut-off | Cut-off | | |
| Completeness | Completeness | Completeness | B |
| Accuracy | Accuracy | Accuracy, Valuation and Allocation | |
| Classification | Classification | Classification | |
| Presentation and Disclosure | Presentation and Disclosure (including Consistency) | Presentation and Disclosure | |

250B. The categories of assertions in these Standards may be used by the practitioner to consider the types of potential misstatement that may occur in subject matter information about the underlying subject matter or aspects of it. For example, the 'period of time' assertions in ISA 315 relate to classes of transactions, other events or conditions, which are aspects of the underlying subject matter. The applicable criteria may require such aspects to be measured or evaluated at a level of disaggregation. If so, the categories of assertions may be used to identify potential types of misstatement of the subject matter information measured or evaluated at that level of disaggregation.

250C. The nature of the assertions in the categories in the rows in region A of the Table is that they are assertions that may be expressed in the form: "the subject matter information would be properly prepared in accordance with the criteria if the subject matter information [X]", where "[X]" is:

- "Only relates to aspects of the underlying subject matter that have **occurred**, or that have **occurred** and for which the entity is **responsible**, or that **exist** and represent **rights or obligations** of the entity" (referred to below as "appropriate aspects of the underlying subject matter");
- "Is **complete**, in that it relates to all appropriate aspects of the underlying subject matter information"; or
- "Reflects appropriate **cut-off**, in that it has been presented as relating to the appropriate periods of time in which the appropriate aspects of the underlying subject matter **occurred** and for which the entity is **responsible** or at the point in time at which the appropriate aspects **existed** and represented **rights or obligations** of the entity".

250D. The nature of the assertions in the categories in the rows in region B of the Table is that they are assertions that can be expressed in the form “the subject matter information would be properly prepared in accordance with the criteria if the subject matter information [X]”, where “[X]” is:

- “Results from the proper measurement or evaluation of the appropriate aspects of the underlying subject matter information, in that the outcome of the application of the measurement or evaluation criteria to such aspects is **accurate**, or where applicable gives rise to a reasonable **valuation** or an appropriate **allocation**”;
- “Is appropriately **classified** as to the aspects of the underlying subject matter that it relates to”; and
- “Includes the **disclosures** required by the criteria and is **presented** in accordance with the requirements of the criteria”.
- Has been measured or evaluated and presented in a **consistent** way from period to period.

250F. The categories of assertions in the table are broad categories and, in general, it is likely that assertions that result from the requirements of the criteria in most EER assurance engagements can be classified into one of these categories or that one of these categories can be adapted to include them.

250G. It may be helpful for the practitioner to consider the assertions at the level of disaggregation at which aspects of the underlying subject matter are required to be measured or evaluated in accordance with the criteria.

Types of potential misstatement

252. [184] The assertions allow the practitioner to consider the different types of potential misstatements that may occur, as when an assertion is not present in subject matter information, the information is misstated. Some examples of different types of possible misstatement include:

- (a) Omission of information (failure of a ‘completeness’ assertion)
- (b) False claims in information (may be failure of an ‘existence’ or ‘occurrence’ assertion)
- (c) Misleading or unclear representation of information (may be failure of a ‘presentation or disclosure’ assertion)
- (d) Bias in information so that positive aspects of performance are focused on and negative aspects are omitted (failure of a ‘presentation and disclosure’ assertion)

253. [185] If a practitioner identifies a misstatement when performing the planned procedures on the subject matter information, the practitioner is required to make a judgment as to whether the misstatement is material, which will then determine the appropriate action. Refer to G.Ch10 for more guidance.

250A. There may be other ways in which the practitioner categorizes relevant assertions, and this is a matter of choice for the practitioner as long as the types of misstatements that may occur are considered. For example, the criteria may include a required principle of ‘connectivity’, such that the criteria require disclosures in, and presentation of, the subject matter information in a manner that demonstrates connectivity between aspects of the underlying subject matter. The practitioner may treat assertions about disclosure and presentation that result from applying criteria that meet the principle of connectivity as a category of ‘connectivity’ assertions or may treat them as subsumed in the category of presentation and disclosure assertions.

234A. If the practitioner does not use assertions, the practitioner may consider the potential types of misstatements that may occur by firstly considering the nature of a misstatement of the subject matter information that would result from improper application of each relevant criterion to each aspect of the underlying subject matter. The practitioner may secondly consider the similarities and differences between all such potential misstatements. This approach may enable the practitioner to identify and categorize all the potential misstatements into types.

Chapter 9: Obtaining Evidence

[Placeholder in this Chapter for Performance Materiality Guidance]

Matters Addressed by the Guidance in this Chapter

254A. This Chapter provides guidance on the requirements of S.48L/R-60 to obtain evidence, and on determining how much evidence is enough in both limited and reasonable assurance engagements. It also set out considerations for practitioners on what evidence may be needed and available, and considerations when designing and performing procedures, and when evaluating the sufficiency and appropriateness of evidence.

Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners

254B. As discussed in G.Ch1, the underlying subject matter(s) of EER reporting, and the way in which it is measured or evaluated and presented may be diverse. EER subject matter information may include both non-financial (including non-monetary) information and financial information, and information presented in qualitative or quantified terms. Subject matter information may be presented in different formats, for example, text, charts, graphs, diagrams, images or embedded videos.

254C. EER reporting may also include information obtained from sources external to the entity, for example, from other entities within the entity's supply chain, from agencies such as carbon offset registries, organizations providing information such as CO₂ conversion factors used in calculating or valuing the underlying subject matter, or organizations providing industry benchmarking data. The entity may also outsource some of its activities to third party organizations, for example to carry out surveys on its behalf, or to analyze the quality of effluent from its operations.

254D. As discussed in G.Gh6. the entity's process to prepare the EER report and other components of the entity's system of internal control relevant to the preparation of the EER report may often be less than fully developed, particularly when an entity first starts to prepare. In addition, there may not be the same rigor of control over qualitative information as over quantitative information.

254E. Although not unique to EER reporting, there may also be circumstances when the use of innovative technologies, for example, the use of drones or satellite images to capture and record information relevant to the entity's EER reporting, may be more prevalent due to the nature and location of the underlying subject matter(s).

254F. All of these factors can create challenges for practitioners in designing and performing evidence-gathering procedures, and in deciding on how much evidence is enough to support the assurance conclusion.

Determining how much evidence is enough in limited and reasonable EER assurance engagements

254. [93] S.46-51 set out the requirements for a practitioner to obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:

- (a) Enable the practitioner to identify and assess the risks of material misstatement (in a reasonable assurance engagement) or to identify areas where a material misstatement of the subject matter information is likely to arise (in a limited assurance engagement); and

- (b) Thereby, provide a basis for designing and performing procedures to respond to those risks or to address those areas and to obtain the level of assurance (limited or reasonable) needed to support the practitioner's conclusion.
255. [94] S.48L/R-50 set out the requirements for obtaining evidence, differentiating between limited and reasonable assurance in some respects. Where the Standard does not differentiate, the requirements are the same for both limited and reasonable assurance. The table at the end of this chapter summarizes the key differences in the requirements for limited and reasonable assurance when obtaining evidence.
256. [95] However, rather than considering limited and reasonable assurance as two discrete types of assurance, it may be useful to consider them as being differently positioned on a scale that reflects the level of assurance to be obtained by the practitioner, in the specific circumstances of the engagement. In both limited and reasonable assurance engagements:
- (a) The collective persuasiveness of the evidence obtained establishes the actual level of assurance obtained (see the International Framework for Assurance Engagements, paragraphs 63-64, and SuA [x], for further guidance on the persuasiveness of evidence);
 - (b) The level of assurance obtained, and conveyed in the assurance report, is intended to enhance the degree of confidence of intended users in the subject matter information; and
 - (c) The enhanced degree of confidence of intended users is likely to vary with the level of assurance obtained and conveyed in the assurance report, and therefore with the persuasiveness of the evidence obtained.
257. [96] In both limited and reasonable assurance engagements, the practitioner also aims to obtain evidence with enough collective persuasiveness to reduce engagement risk to a level that is acceptably low, a level that is likely to enhance intended users' confidence to a degree that is sufficiently meaningful in the circumstances of the engagement. When limited assurance has been obtained, the level of assurance is required to be at least meaningful (i.e. the assurance obtained is likely to enhance intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential). What is meaningful in a limited assurance engagement can range from just above 'clearly inconsequential' to just below what would be meaningful in a reasonable assurance.
258. [97] Decisions about 'how much evidence is enough?' therefore depend on the persuasiveness of the evidence obtained in reducing assurance risk to the level that is acceptable in the specific circumstances of the engagement, including who the intended users are, what their needs are, and the nature of the risks, or areas of greater likelihood, of the subject matter information being materially misstated. Such decisions will require the exercise of professional skepticism and professional judgment and other assurance skills and experience. For examples of how much may be enough evidence in different circumstances, see SuB [x] to [x].
260. [99] The nature, types and sources of available evidence may be different in an EER engagement from that available in a financial statement audit. However, the key thought processes followed by a practitioner in designing and performing evidence-gathering procedures are likely to be common to any type of subject matter information, including those in an EER report, whether qualitative, quantitative (monetary or non-monetary), historical or future-oriented. The thought process set out below may assist practitioners in designing and performing procedures to obtain evidence related to any subject matter information and in evaluating the evidence obtained.

261. [100] The particular challenges in obtaining evidence related to qualitative and future-oriented information are considered further in G.Ch12 and G.Ch13, respectively.

261A. The following thought process sets out considerations that may assist the practitioner when determining what evidence is needed and available, when designing and performing procedures to obtain sufficient appropriate evidence, and when evaluating the sufficiency and appropriateness of evidence obtained, in relation to the subject matter information in any EER report. While the thought process is set out in a step-by-step manner, in practice the evidence-gathering process is iterative, and the thought process, or aspects of it, may be revisited as new information comes to light:

Considerations when determining what evidence is needed and available may include the following:

- (a) What practitioner decision (what assertion) does the evidence need to address and what does the evidence needed relate to:
 - (i) Does the evidence needed relate to the subject matter information directly (i.e. relates to whether it is materially misstated)?
 - (ii) If not, how does the evidence needed relate indirectly to the subject matter information indirectly, such as when the evidence needs to be about whether controls over the subject matter information are designed or operated effectively or about the likelihood or magnitude of risks of material misstatement?
 - (iii) If the evidence needed does not relate to the subject matter information at all, what does it relate to (for example, does it relate to whether a source of evidence or another practitioner exhibits certain characteristics)?

Note: *When the evidence does not relate to whether the subject matter information is materially misstated, some of the remaining considerations below may not be applicable, or may need to be adapted in the circumstances.*

- (b) In what way(s) could the underlying subject matter not be properly measured or evaluated, presented or disclosed in the subject matter information (the 'type(s) of misstatement' or 'what can go wrongs')? G.Ch8 provides guidance on using assertions to consider the types of potential misstatement that could occur.
- (c) What might cause a type of potential misstatement to occur – i.e. what could cause a risk of material misstatement of that type?
- (d) How does the entity manage and mitigate a risk of material misstatement, taking into account the potential cause(s) for a that type of potential misstatement? For example, what governance and oversight structures, systems, processes and controls are in place to prevent or to detect and correct misstatements, taking into account their potential causes *G.Gh6 provides guidance on understanding the entity's system of internal control.*
- (e) Is management aware of any actual, suspected or alleged intentional misstatement or non-compliance with laws or regulations that may increase the likelihood or magnitude of potential types of misstatement?
- (f) In the context of the particular engagement and particular decision to be made, how precise, detailed and extensive does the evidence need to be, for example, is the subject matter information capable of precise measurement or evaluation or is it subject to estimation and uncertainty?
- (g) Does the entity have an internal audit function and, if so, what work have they performed in relation to the subject matter information, and what are their findings? How does that affect the assessment of risk?
- (h) What are the available sources of evidence? How do the characteristics of the source affect the persuasiveness of the evidence and nature of the assurance procedures that can be performed? For example, is the evidence in digital, written or oral form, related to a point in time or for a period, obtained from an external

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| | <p>information source or internally generated, recorded systematically in the entity's books and records, does it relate to the operation of controls or is it substantive in nature, and how reliable is it?</p> <p>(i) Does the evidence needed relate to subject matter information about a single-location entity or to a multi-location organization or a supply chain (upstream, downstream or both) and how does that affect the ability to obtain appropriate evidence?</p> <p>(j) Would procedures to obtain or evaluate the evidence need the application of specialist subject matter expertise?</p> <p>(k) If so, what sources of that expertise or specialist knowledge are available and what will that mean for the direction, supervision and review of their work and the interaction between any practitioner's expert(s) and the assurance practitioners on the team (see G.Ch2)?</p> |
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| CONSIDERATIONS FOR THE PRACTITIONER | <p><i>Considerations when designing and performing procedures to obtain sufficient, appropriate evidence include:</i></p> <p>(a) What is the purpose of the procedure – i.e. what will the procedure achieve? For example, will it provide evidence about the whether the subject matter information is complete, or relates to the reporting period?</p> <p>(b) How much evidence would need to be obtained and from which of the available sources? For example, when the risk of material misstatement is high, or if each available source provides only some, but not enough, evidence on its own, the practitioner may seek to obtain more evidence than when the risk of material misstatement is low, or evidence from more than one available source.</p> <p>(c) How relevant and reliable would the evidence need to be, and will the evidence from available sources provide have that degree of relevance and reliability? If not, are there alternative or additional procedures that can be performed?</p> <p>(d) What is the nature, timing and extent of the procedures and how might that affect the resources needed on the engagement team, and planning and communications with the preparer?</p> <p>(e) What arrangements are there in place for documenting the work done and evidence obtained, and when will the documentation be available to review?</p> <p>(f) Who will perform the procedures and who will direct, supervise and review them, and when?</p> |
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| CONSIDERATIONS FOR THE PRACTITIONER | <p><i>Considerations when evaluating the sufficiency and appropriateness of evidence obtained include:</i></p> <ul style="list-style-type: none"> (a) Was the planned evidence able to be obtained? (b) Has any new information come to attention that differs from that expected or that contradicts other evidence obtained? If so, has the appropriateness of the planned procedures been re-evaluated in light of the new information? (c) Has the evidence obtained from different sources been considered in an unbiased manner? (d) Does the level of exceptions or misstatements identified differ from expectation? (e) Is more evidence needed and how will that be obtained? (f) Have any difficult professional judgments been appropriately reviewed and has appropriate consultation on difficult or contentious matters taken place, if needed? (g) Has appropriate assurance and subject matter competence and specialist expertise been applied? (h) Has the exercise of professional skepticism and professional judgment been appropriate in performing the procedures and evaluating the evidence, including in understanding the work of subject matter experts, the assumptions and methods they have used, the basis for their conclusions, and the implications of their findings on the subject matter information and any other aspects of the engagement? (i) Has the effect of uncorrected misstatements on the subject matter information been considered, both individually and in aggregate, and both quantitatively and qualitatively? For guidance on the materiality of misstatements, see G.Ch10 and, in the context of qualitative and future-oriented information, also G.Ch12 and G.Ch13, respectively. (j) Has the persuasiveness of the evidence (its sufficiency, and its relevance, and reliability) been considered? (k) Where evidence represents information that was not verifiable to a high degree of precision, is the range from which the reported information was selected appropriate? (l) Have events subsequent to the reporting period been considered, as well as their implications, if any, for the assurance engagement? (m) In the face of challenge, would the evidence obtained stand up to scrutiny, and are the evidence and the documentation of that evidence sufficient and appropriate to support the assurance conclusion and to meet the requirements of the Standard? |
|-------------------------------------|--|

262. [101] The thought process is illustrated in SuB [xx] by applying it to a case when the subject matter information is quantitative information. For further considerations in applying it to narrative and future-oriented subject matter information, see G.Ch12 and G.Ch13 and SuB [xx].

Other information

66. [36] The practitioner is required by S.62 to read all 'other information' in the EER report to identify material inconsistencies between the subject matter information and the other information. If a material inconsistency or a material misstatement of fact in the 'other information' is identified, the practitioner is required to discuss this with the preparer and take further action as appropriate. 'Other information' includes any information in the EER report that is not within the boundary of the subject matter information. For further guidance on 'other information' in the context of a whole EER report, which includes both qualitative and quantitative information, refer to G.Ch12 *Addressing Qualitative Information*.

Chapter 10: Considering the Materiality of Misstatements

Matters Addressed by the Guidance in this Chapter

254A. This Chapter provides guidance on the practitioner's responsibilities when misstatements are identified during the performance of the assurance engagement, and on how to accumulate such misstatements. It also sets out considerations for the practitioner when evaluating the materiality of misstatements, including those that arise in subject matter information that is subject to inherent variability or uncertainty.

Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners

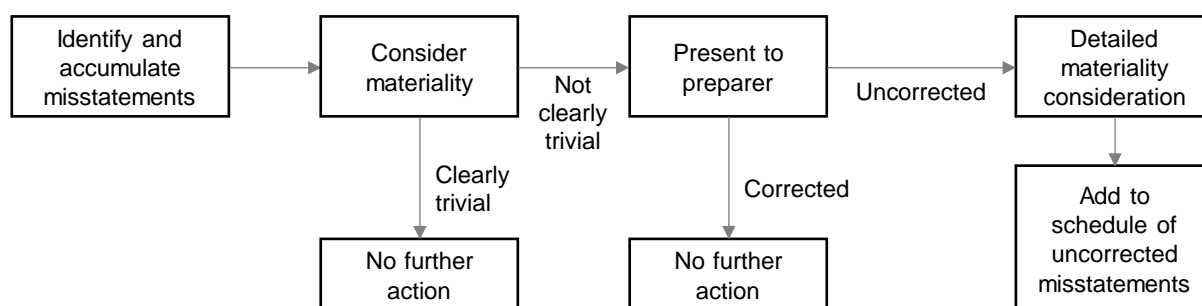
254B. The nature of underlying subject matter(s) of an EER report may be diverse, the subject matter information may be measured and presented in quantified terms or evaluated and presented in qualitative (narrative or descriptive) terms or in other forms such as charts, graphs, diagrams, images or similar forms (G.Ch1), and it may be able to be measured with precision or may be subject to varying degrees of measurement or evaluation uncertainties.

254C. The boundary of the subject matter information for an EER assurance engagement may be the all or only part(s) of an EER report, such as specific indicators.

254C. The intended users of the EER report may also be diverse, with different information needs, and different considerations that might affect their decision-making.

254D. These factors may present challenges to the practitioner in determining what may be material in the context of the engagement circumstances, and in evaluating the effect of identified misstatements in relation to the subject matter information as a whole (S.A99). Considerations relating to performance materiality are discussed in G.Ch9; this Chapter provides guidance on considerations when evaluating the materiality of misstatements in planning or performing the engagement or in forming the assurance conclusion.

Practitioner Responsibilities



310. [213] If during the assurance engagement the practitioner identifies a misstatement within subject matter information included in the EER report, the practitioner is required to make a judgment as to whether the misstatement is material.

311. [214] Misstatements may need to be evaluated in different ways given that subject matter information in EER takes such a variety of forms (for example quantitative and qualitative, different units of account).

312. [215] For parts of subject matter information that are quantitative (for example a KPI expressed in numerical terms), the starting point for materiality decisions is to establish materiality

thresholds, often by using a percentage⁶. If the EER framework specifies a percentage threshold for materiality, it may provide a frame of reference to the practitioner in determining materiality for the engagement.

313. [216] Having identified a misstatement, the practitioner may consider whether it is clearly trivial or not. Where the misstatement is not clearly trivial, depending upon the circumstances of the engagement, the practitioner is required to accumulate it (see G.319-323). The practitioner is likely to communicate accumulated misstatements to management and request that they correct the misstated information. The practitioner may also consider whether the nature of the misstatement may indicate that other misstatements may exist in other parts of the EER report.
- 313A 'Clearly trivial' is different from 'not material'. Matters that are 'clearly trivial' are of a much smaller magnitude than materiality used in planning and performing the engagement. They are clearly inconsequential in terms of their significance to user decision-making, whether taken individually or in aggregate, and whether judged by their size, nature or circumstances. While it may be helpful to avoid the need to record small misstatements identified during the engagement, if there is any doubt in the practitioner's mind about whether one or more misstatements are 'clearly trivial', the practitioner may 'clearly trivial'. In some cases, management or those charged with governance may request all misstatements to be accumulated and communicated to them; in such a case, there would be no 'clearly trivial' threshold.

EXAMPLE

A misstatement so small that, even if it were to occur in all of the measurements, would not affect the roundings of the quantitative subject matter information, might be considered be 'clearly trivial' under certain circumstances.

On the other hand, a large number of small misstatements all affecting the same area, even if they are quantitatively 'clearly trivial' may be an indication of weaknesses in internal controls, or that a measuring instrument may need recalibrating, i.e. there may be qualitative considerations to bear in mind when considering whether misstatements are clearly trivial.

314. [217] If the preparer does not correct some or all of the accumulated misstatements, the practitioner may need to undertake a more detailed consideration of whether the accumulated misstatements are material, individually or in combination with others, and may take into account the considerations below. The practitioner may obtain an understanding of the preparer's reasons for not making the corrections and take that understanding into account when forming the assurance conclusion. The practitioner may need to consider carefully the reasons for the preparer not wanting to make the corrections and whether they are justifiable in the engagement circumstances.

Accumulating Misstatements

319. [222] After considering misstatements individually, the practitioner may need to consider misstatements in combination with others. The practitioner is unlikely to be able to accumulate misstatements and consider them together in the same way as a financial statement audit for an

⁶ There are instances where this would not be appropriate, perhaps where the number is often very small (for example, number of fatalities).

EER report comprising diverse and varied underlying subject matter. However, the practitioner may still need to consider whether there are misstatements that relate to the subject matter information as a whole (such as misstatements relating to presentation of the subject matter information), where related criteria may apply in the context of the subject matter information as a whole.

- 319A. When the scope of the EER engagement is a number of indicators or KPIs, each relating to a different underlying subject matter, the practitioner may evaluate the materiality of misstatements separately for each different indicator as (i) intended users may have different tolerances for misstatement in each different indicator and (ii) there may not be a common basis for aggregating misstatements.

EXAMPLE

An entity's sustainability report includes subject matter information on greenhouse gas emissions, water usage, hazardous and non-hazardous waste, employee work-related accident and illness, and community investment. Each of these underlying subject matters is likely to influence user decisions in different ways and at different thresholds. User tolerance for misstatement is likely to be higher for non-hazardous, degradable waste, than it would be for radioactive or other hazardous waste, so there may not be a reasonable basis for aggregating misstatements of hazardous waste and misstatements of non-hazardous waste.

320. [223] The practitioner is required to accumulate all the uncorrected misstatements identified during the engagement, other than those that are clearly trivial⁷. This can be documented on a schedule so that the uncorrected misstatements can be considered collectively. While it will not be possible to add up non-numerical misstatements, or those relating to different aspects of the EER report, it may be possible to group the misstatements according to the aspects in the EER report. Alternatively, the misstatements could be grouped according to the type of misstatement. Misstatements of subject matter information in narrative form may need to be concisely described.
- 320a "Clearly trivial" is not another expression for "not material." Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.
321. [224] The practitioner may choose to give each of the misstatements a rating (for example, low, medium or high) to indicate the significance of the misstatement, particularly where the misstated subject matter information is in narrative form. The criteria may give further guidance in this area. For further guidance on evaluating the materiality of misstatements in qualitative information, see G.Ch12.
322. [225] It may be appropriate for the practitioner to consider whether the misstatements identified affect any other parts of the EER report (both those parts within and outside of the assurance engagement scope) and look for any contradictions or inconsistencies.

⁷ ISAE 3000 (Revised) paragraph 51

- 322A. The practitioner may also consider whether the EER report as a whole may be misstated, even though, taken individually, each constituent aspect of the EER report may not be materiality misstated. This may occur, for example, when the overall message is misleading or biased, or when subject matter information is presented with greater or lesser priority than is warranted.
323. [226] The practitioner is required to form a conclusion about whether the subject matter information is free from material misstatement⁸, including whether the uncorrected misstatements are material, individually or in the aggregate. Where the subject matter information is materially misstated, the practitioner follows the requirements in S.74-77.

Materiality Considerations

315. [218] G.316-319 set out practitioner considerations that may be appropriate when considering materiality. They provide examples of matters that could assist a practitioner in considering whether a misstatement is material. Misstatements are generally considered to be material if they could reasonably be expected to influence relevant decisions of intended users (S.A94). Therefore, the practitioner takes into account the extent to which the intended users could reasonably be expected to make a different decision if the subject matter information was not misstated. The considerations below are not exhaustive; ultimately, professional judgment will be required to conclude based on the specific circumstances.
316. [219] Materiality is considered in the context of qualitative and, where applicable, quantitative factors. Qualitative factors that may indicate that a misstatement is more likely to be material, include:

Underlying subject matter

- (a) The misstated subject matter information relates to an aspect of the underlying subject matter that has been determined as being particularly significant (material).

External factors

- (b) The misstated information relates to non-compliance with a law or regulation, particularly where the consequence for non-compliance is severe.

EXAMPLE

An instance of non-compliance with an important regulation that attracted a large fine is more likely to be material to some users than one where there was no significant penalty.

Other users, for example, local communities affected by an entity's breach of environmental regulations related to the disposal of hazardous waste may not be concerned so much with the size of the penalty, but with whether the breach of the regulations has endangered their health or welfare.

- (c) The misstated information relates to underlying subject matter that has implications for a large number of the entity's stakeholders. However, there may be situations when the underlying subject matter has implications for only a small number of stakeholders but may have material implications.

⁸ ISAE 3000 (Revised) paragraph 65

EXAMPLE

A small community affected by radioactive contamination of their water supply from effluent from an entity's operations may open a class action lawsuit which could have a material impact on the entity and its other stakeholders.

Nature of the subject matter information

- (d) It is a key performance indicator known to be used by intended users that is misstated, perhaps that is commonly used to compare the entity to its peers.
- (e) It is in information reporting performance in relation to a target or threshold, where the magnitude of the error is comparable to the difference between the actual outcome and the target.

EXAMPLE

One of the performance targets determining a Chief Executive's bonus is achieving a customer satisfaction score of 75% or higher. The reported achieved score was 77% however this was found to be overstated by 3 percentage points, meaning the target was actually not met. It is likely that the misstatement in these circumstances would be material.

If, however, the target was 90%, the misstatement may be considered to be immaterial as the target was not reported to be achieved even though the score was incorrect.

- (f) The misstated information is reporting a significant change in a previously reported position, or a trend that has reversed.

Presentation

- (g) It is a presentational misstatement that has arisen from subject matter information being misleading and the wording that has been used lacks clarity such that it could be interpreted in widely different ways. Accordingly intended users might make different decisions depending on their interpretation.

Preparer's behavior

- (h) The misstatement has arisen as a result of an intentional act by the preparer to mislead.
- (i) The preparer is reluctant to correct the misstatement for reasons other than they consider it immaterial.

- 317. [220] Many of the considerations listed as examples in G.316 may apply to both quantitative and qualitative information. For information that is quantitative, the factors can be used in considering materiality thresholds, which influences the level of performance materiality, including the level of misstatement that may be tolerated in performing procedures using sampling of a population (see G.Ch 9 for guidance on performance materiality). For qualitative information, the factors similarly help a practitioner decide whether a misstatement is material based on the level of sensitivity of intended users' decision-making to such a misstatement.
- 318. [221] Knowing the context may be important before making materiality judgments – for example understanding the objective or purpose of the disclosure, and how the criteria intended the underlying subject matter to be measured. The practitioner can then consider whether (i) the disclosure is consistent with the objective, and (ii) whether it is clear and understandable.

Measurement or Evaluation Uncertainty

324. [227] When measurement or evaluation uncertainty means there is inherent variability in subject matter information, this does not affect materiality considerations. Higher measurement or evaluation uncertainty also may not necessarily lead to an increased risk of misstatement.
325. [228] Subject matter information with inherent variability may be sufficiently accurate if it is as precise as is required by the criteria and information required by the criteria about the inherent uncertainty is also disclosed. Supporting disclosures can give important context necessary to help the intended users understand the uncertainty. Without this, the criteria might not be suitable, and the underlying subject matter element may not be represented appropriately.
326. [229] When the uncertainty is not inherent, it may give rise to misstatements, perhaps because the preparer has not used the information available to measure or evaluate the underlying subject matter as precisely as would be possible.

EXAMPLE

The criteria may specify that actual distances flown by company personnel on company business, together with aircraft type (commercial or private) are to be used in calculating the entity's Scope 3 GHG emissions. However, the company estimates this by categorizing flights as either long-haul or short haul (whether on commercial or private aircraft) and applying different average distances to the number of flights in each category. The uncertainty is not inherent in this example. Rather it results from using an estimate to apply the criterion. To the extent the estimation method does not properly apply the criterion, this may result in an estimation error, which is a misstatement..

Chapter 11: Preparing the Assurance Report

Matters Addressed by the Guidance in this Chapter

327A. This Chapter provides guidance on how the practitioner may communicate effectively, in the written assurance report, their assurance conclusion about the subject matter information so that users are able understand:

- (a) what has been assured;
- (b) how the underlying subject matter has been measured or evaluated; and
- (c) the degree of confidence they may have in the subject matter information.

Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners

331. [153] As discussed in Chapter 1, an EER report may cover underlying subject matters that are diverse in nature. Even when the underlying subject matters are relatively homogeneous, the characteristics of the underlying subject matter, the nature of the criteria and the presentation format of the subject matter information may give rise to complexity, or inherent measurement or evaluation uncertainties.

332. [154] Such matters could be impediments to understandability of the report, depending on the specific circumstances of the engagement, if their implications are not clearly communicated to the intended users. These matters may include:

- (a) The scope of the underlying EER report and how it is presented. For example, it may be in the form of a traditional standalone report or may be spread across various pages on a website with hyperlinks between pages;
- (b) The identification and diversity of intended users and the decisions they expect to make based on the EER report;
- (c) The diversity and characteristics of aspects of the underlying subject matter. For example, whether they are:
 - (i) Qualitative or quantitative
 - (ii) Subjective or objective
 - (iii) Future-oriented or historicaland the complexities and uncertainties associated with their measurement, evaluation or, in the case of future-oriented information, whether they will occur;
- (d) The criteria used, including when the criteria may be based on a framework but need further development by the entity in order to be suitable, whether the criteria were selected from multiple frameworks, or whether the criteria were entity-developed;
- (e) The practitioner's considerations on materiality, and whether those considerations are in the context of a whole report or less than the whole report, and whether they are in respect of qualitative or quantitative subject matter information;
- (f) The range of competencies that were needed to perform the engagement and how they have been deployed on the engagement;

- (g) Whether the engagement is a reasonable or limited assurance engagement, or includes both limited and reasonable assurance for different aspects of the subject matter information, resulting in multiple assurance conclusions;
- (h) The professional and ethical standards under which the engagement has been performed, for example, whether the assurance engagement is performed under more than one assurance standard or under ethical or quality control standards other than those issued by the IAASB or IESBA.

332A The assurance report is the only means by which the practitioner communicates the outcome of the assurance engagement to the intended users. Clear communication in the assurance report may help minimize expectation gaps between the assurance the practitioner has obtained through the performance of their assurance procedures, and the confidence in the subject matter information and the assurance conclusion that intended users may believe is warranted.

Communicating Effectively in the Assurance Report

327. [149] In performing an assurance engagement, an objective of the practitioner is to express one or more conclusion(s) regarding the outcome of the measurement or evaluation of one or more aspects of the underlying subject matter(s), through a written report. The assurance report conveys the assurance conclusions and describes the basis for that conclusion(s).
328. [150] The practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion(s) designed to enhance the confidence of intended users about the subject matter information. The assurance report is the only means by which the practitioner communicates the outcome of the assurance engagement to the intended users.
329. [151] Although the Standard specifies basic elements that are required to be included in assurance reports at a minimum, it does not require a standardized format for assurance reports. The Standard allows assurance reports to be tailored to the specific engagement circumstances (S.68-69), which enables the practitioner to include information in addition to the basic elements, to explain the basis, and provide appropriate context, for the assurance conclusion. Such tailoring involves the exercise of professional judgment. To facilitate effective communication to the intended users, the practitioner may choose a short-form or long-form style of report. A short form report usually only includes the basic elements that are required to be included in the report. A long-form report may include a wide range of additional elements.
333. [155] An assurance conclusion expressed in a binary manner may not be able to communicate the complexities discussed above sufficiently without further contextual information to aid the intended users' understanding.
330. [152] Considerations that may assist the practitioner in exercising professional judgment to prepare an assurance report that facilitates effective communication to the intended users and the achievement of the practitioner's objective may include whether, in the specific circumstances of the engagement, the report (SuA [x]):
- (a) Contains all the information that is useful to intended users in reaching appropriate conclusions about the nature and level of assurance the practitioner obtained (is relevant and complete);
 - (b) Contains only information that can be relied upon by the intended users to convey what it purports to convey (is reliable);

- (c) Conveys that information in an unbiased manner (is neutral); and
 - (d) Clearly communicates to the intended users both the meaning and significance of the information it seeks to convey (is understandable).
334. [156] A key consideration for the practitioner is whether the report will convey sufficiently clearly to the intended users:
- (a) Who the assurance report is intended for, and for what purpose;
 - (b) What information has been assured and what has not been, when the scope of the assurance is not the whole EER report;
 - (c) The nature and extent of the procedures performed in obtaining assurance as context for the assurance conclusion;
 - (d) By reference to what criteria the assurance has been obtained;
 - (e) The level of assurance that has been obtained and what that means in terms of the confidence that a user can have in the subject matter information.
337. [159] Setting the context for the assurance conclusion in a clear, informative way may assist in enhancing the intended users' understanding of the assurance engagement and the confidence they can justifiably have in the subject matter information, particularly if that context:
- (a) Keeps a clear focus on the intended users; and
 - (b) Neither omits information that would assist the user nor includes information that obscures the messages.

Assurance Report Content

339A. G.339-372A provide guidance and examples that may assist practitioners in making judgments about information that may be added to the assurance report in respect of certain basic elements to facilitate effective communication with the intended users (G.329). The guidance and examples are not intended to indicate the only approach that a practitioner may take. Each of the basic elements addressed is indicated in *italics* in a heading below, which includes the sub-paragraph of S.69 that requires that element. The discussion for each element addressed explains why it has been addressed in the guidance.

A title (S.69.a)

339. [161] The title identifies that the report is an independent assurance report, distinguishes it from a non-assurance report and delineates it from information for which the preparer is responsible and which has been included within a wider document prepared by the preparer. It may be helpful for the title to include enough informational content to make it clear whether it is a limited or reasonable assurance report and what the assurance report is on - i.e. what the subject matter information is. This guidance is provided because intended users may not otherwise readily understand these matters.

An addressee (S.69.b)

340. [162] An addressee identifies to whom the assurance report is directed. This may be done, for example, by referring to the intended users in the title of the assurance report, or in the body of the report.

341. [163] The assurance report is usually addressed only to the engaging party or the directors of the engaging party. However, if users are not identified, the context for the assurance conclusion being expressed in terms of 'in all material respects' is incomplete as materiality considerations take account of what could reasonably be expected to influence the decisions of intended users. The practitioner may consider stating who the intended users are as a group (limited to those with significant and common interests as identified by the entity)⁹.

EXAMPLE

In the body of the assurance report, an explanation of who the intended users are might read:

The intended users of this report are the shareholders of ABC plc as at [date]. This report is not intended for any other users as their needs have not been taken into account in performing our assurance procedures and preparing this report.

An identification or description of the level of assurance, the subject matter information and, when appropriate, the underlying subject matter (S.69.c)

344. [166] Such identification:
- (a) Indicates to users the level of assurance obtained in relation to the subject matter information (the degree of confidence they can have in the subject matter information).
 - (b) Identifies the subject matter information and, when appropriate, the underlying subject matter, making it clear what has been assured, and linking the output of the engagement to the scope of the engagement.
345. [167] This guidance is provided because it may not be clear to the intended users what the difference is between a limited and reasonable assurance engagement. This may create an expectation gap between the assurance actually obtained and what the user believes has been obtained. The users may therefore take an inappropriate degree of comfort from the assurance report when making decisions.
- 345A. The practitioner may consider it helpful to users to include in the assurance report an indication of the differences between limited assurance and reasonable assurance to aid user understanding. It may also be useful to explain that, in a reasonable assurance engagement, procedures are described only briefly because, in a reasonable assurance engagement, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the practitioner to express an opinion; as limited assurance covers a greater range in what is meaningful, procedures are therefore described more fully.

⁹ ISAE 3410 paragraph A47

EXAMPLE

This engagement is a limited assurance engagement.

In an assurance engagement, the level of confidence the intended users of our report can have in the information addressed by our report is greater when the assurance procedures have been performed to obtain more persuasive evidence than when more limited procedures have been performed. We determine the level of assurance we seek to obtain based on our judgment as to what is appropriate in the circumstances of the engagement.

In performing limited assurance engagements, our aim is to obtain sufficiently persuasive evidence (a sufficient level of assurance) such that our conclusion enhances confidence of the intended users of our assurance report, to a degree that is meaningful to them but is not a high level. A higher level of assurance is obtained in a reasonable assurance engagement. The nature, timing and extent of procedures performed in limited assurance engagements, and therefore the persuasiveness of the evidence obtained, varies depending on the level of assurance we seek to obtain.

This report is based on performing a limited assurance engagement. We have included a description of the procedures we performed to assist the intended users of our report to understand how confident they can be in the subject matter information, based on the nature, timing and extent of our procedures and therefore the persuasiveness of the evidence we have obtained.

346A. When the subject matter information is not the whole EER report, clear identification of both the information subject to assurance as well as the excluded information is needed so that intended users can understand which parts of the EER report they are justified in having confidence in and which parts have not been subject to assurance procedures.

Identification of the applicable criteria (69.d)

- 347. [169] Identification of the criteria in the assurance report allows the user to understand the benchmarks used to measure or evaluate the underlying subject matter.
- 348. [170] As discussed in G.Ch4 and G.Ch5, it is a precondition for assurance that the criteria are available to intended users so that users can understand the basis on which the subject matter information has been prepared. It may be useful for the practitioner to remind the preparer at the start of the engagement that the preparer is responsible not only for the identification of the criteria and the measurement or evaluation of the underlying subject matter against the applicable criteria, but also for making the criteria available to the intended users.
- 349. [171] If the criteria are not available publicly, for example when the entity has used its own criteria to identify, record and report the subject matter information or has applied a process to further develop the high level principles of a reporting framework, those entity-developed criteria need to be made available to the intended users in one of the other ways set out in paragraph S.A51.

EXAMPLE

The assurance report may refer to the criteria as follows:

When the entity has used an established, publicly available framework with suitable criteria, including criteria requiring disclosure of the measurement or evaluation policies used by the company to prepare its subject matter information, in order to enhance comparability between entities using the same framework:

The KPIs subject to independent assurance, set out on pages [xx] to [yy] of [name of entity's EER report], have been prepared in accordance with [name of, and link to, reporting framework] and the basis of preparation set out in notes [x] to [y] of [name of entity's] EER report.

Or, when the entity has developed its own criteria for its EER reporting, as follows:

The information subject to assurance, set out on pages [xx] to [yy] of [name of entity's EER report] needs to be read and understood together with the Reporting Criteria on pages [x] to [y] of that report, which [name of entity] has developed and applied to prepare the subject matter information.[The absence of a significant body of established practice on which to draw to evaluate and measure the subject matter information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.]

Or, when the entity has selected aspects from a number of different frameworks, but has developed its own additional criteria, as follows:

The KPIs subject to independent assurance are set out on pages [xx] to [xx] of the [name of entity's EER report]. These KPIs have been prepared based on criteria selected from [name of framework 1] and [name of framework 2], and further developed by [name of entity] to result in the criteria set out on pages [x] to [y] of the [name of the entity's EER report].

In this case, it is clear to the user that the entity has not prepared the subject matter information 'in accordance with' the framework(s), but has selectively applied aspects of the frameworks to result in the criteria actually applied. Simply stating that it had 'selectively applied' may be insufficient for a user to understand the differences between the framework criteria and the criteria used by the entity.

350. [172] If the preparer does not want to make the criteria available, then the preconditions for assurance will not be present and either the assurance engagement cannot be accepted (if discovered before acceptance (S.25)) or the matter is required to be addressed in accordance with S.42-43 (if subsequently discovered). When subsequently discovered, the practitioner is required to discuss the matter with the preparer to see if it can be resolved to the practitioner's satisfaction. If the practitioner continues with the engagement and the matter is not resolved, the practitioner is required to determine whether and if so how to communicate the matter in the assurance report.
351. [173] When the criteria are not included in the subject matter information or not otherwise made available in a suitable manner by the preparer (G.Ch5), the practitioner may need to include them in the assurance report to enable the intended users to understand how the subject matter information has been prepared and to meet the requirements of the Standard. However, this may need to be in the same detail as if had they been made publicly available or made available within

the preparer's report. Including, in the assurance report, only a brief summary of the criteria may not enable the intended users to understand the basis of preparation of the subject matter information. However, it is the preparer's responsibility to make the criteria available to the intended users; including them in the assurance report is not ideal.

352. [174] Criteria need to be readily available to intended users; it should not be difficult for the intended users to find the criteria that are needed to understand how the subject matter information has been prepared. For example, a hyperlink from the preparer's report to an entity's home web page may not be enough if the user then has to navigate from the home page to another page if it is not clear from that other page what comprises the criteria.
353. [175] In order to enhance the intended users' understanding of the assurance report, it may be helpful for the practitioner not only to identify the criteria used, but also to indicate where they may be found, and to identify them by name, date or version number. Changes may be made by the preparer to the criteria over time and is important that the assurance report identifies the criteria that were used in performing the assurance engagement.

EXAMPLE

For example the assurance report may refer to the criteria as follows:

The Reporting Criteria used by ABC to prepare the subject matter information are set out in "ABC's Criteria for the Preparation of the Sustainability Information 2019" available at www.ABC.com/ara2019/downloadbasisofpreparation/

354. [176] Sometimes preparers may report the subject matter information using more than one framework. In such a case, user understanding is likely to be enhanced if the preparer makes available the criteria relating to each framework separately, rather than being summarized or combined. The practitioner can then separately identify the criteria in their assurance report.
355. [177] A preparer may not wish to disclose the criteria on the grounds that they are confidential or commercially sensitive. Without the criteria being made available, the intended user would not be able understand how the underlying subject matter had been measured or evaluated and the requirements of the Standard would not have been met (see G.Ch5). In such a situation, the rational purpose of the engagement may also be called into question. If there is sensitive information that only a few may be party to (for example in a contractual arrangement), then it may be expected the assurance report would be made available only to those users who are party to the contract, and would not be more widely available. In such case, the criteria could be made available to the intended users. When the criteria will not be made available to the intended users or when they are so summarized that they are not likely to be regarded as suitable, the preconditions for the assurance engagement will not have been met (see G.Ch4).

Where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria (S.69.e).

356. [178] The practitioner may find it useful to consider this requirement in conjunction with the requirement in S.69.c as it may be clearer to refer to any inherent limitations when describing the subject matter information, particularly if that description includes the characteristics of the underlying subject matter, rather than in a separate, isolated paragraph.

357. [179] In some cases, inherent limitations can be expected to be well-understood by the intended users of an assurance report, in other cases it may be appropriate to make explicit reference to them in the assurance report (S.A165).
358. [180] Some inherent limitation wordings may have become standard, for example those relating to measurement methods applied to greenhouse gases, for which examples can be found in ISAE 3410. However, it may be unclear to a user what impact the described limitations have on the assurance conclusion, for example, whether the assurance conclusion 'stands' or whether the inherent limitations weaken the practitioner's conclusion and, if so, in what way and by how much. To enhance user understanding, the practitioner may consider:
- (a) When inherent limitations can be expected to be well-understood, whether it is necessary to include them as standard language in the assurance report;
 - (b) Whether it may be helpful to explain not only that there are limitations, but also the impact on the assurance procedures and the assurance conclusion;
 - (c) Whether there are unusual subject matter specific limitations that may need to be described in more detail to be understood by the intended users and how the description of such limitations can be worded so that it avoids 'boilerplate' language and helps the intended users to understand the implications in the specific context of the subject matter information and assurance engagement.

EXAMPLE

As described in [insert reference – e.g., non-financial information] the Subject Matter is subject to measurement uncertainties resulting from limitations inherent in the nature and the methods used for preparing such data. The selection of different but acceptable measurement techniques can result in materially different measurements. The precision of different measurement techniques may also vary.

359. [181] It may also be important that any description of inherent limitations is clearly separated from the practitioner's conclusion so that it such a description is not read by users as, in some way, modifying the assurance conclusion.

When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose (S.69.f)

360. [182] To avoid misunderstandings, the practitioner alerts readers of the assurance report to the fact that the applicable criteria may be designed for a specific purpose. It may be helpful for the practitioner to consider this requirement in conjunction with the requirement in paragraph 69 (b).

A statement to identify the responsible party...and to describe their responsibilities and the practitioner's responsibilities (S.69.g)

361. [183] A statement to identify the responsible party informs the intended users who is responsible for the underlying subject matter and the measurement or evaluation of the underlying subject matter against the applicable criteria, and that the practitioner's role is to independently express a conclusion about the subject matter information (S.A168).

362. [184] It may help to enhance users' understanding of the boundaries of the respective roles, and avoid the perception that assurance may be there to 'fill the gaps', by explaining in the assurance report why the assurance practitioner cannot become involved in the preparation of the subject matter information in an assurance engagement, i.e., assurance is designed to give an independent conclusion over the subject matter information.

EXAMPLE

The *Directors ABC PLC* are responsible for:

- *Designing, implementing and maintaining systems, processes and internal controls over the preparation of [identified subject matter information];*
- *Establishing suitable criteria for preparing the [identified subject matter information] and making the reporting criteria available to the intended users of the [name of report];*
- *Measuring or evaluating and reporting the [identified subject matter information] based on the criteria;*
- *Maintaining proper documentation and records to support the reported information.*

We are responsible for planning and performing the engagement to obtain [limited/reasonable] assurance about the [identified subject matter information] and for forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained. As we are engaged to provide an independent conclusion, we are not [permitted to be] involved in the preparation of the subject matter information as doing so may compromise our independence.

A statement that the engagement was performed in accordance with ISAE 3000 (Revised) or a subject-matter specific ISAE (S.69.h)

363. [185] Such a statement enables users to understand which standard is governing the conduct of the engagement.
364. [186] Performance of the engagement under the Standard requires compliance with all of the applicable requirements of the Standard. Where a subject matter specific ISAE (e.g. 3400, 3410), is used, compliance with both that standard and ISAE 3000 (Revised) is required.
365. [187] Practitioner's statements that contain imprecise or limiting language (for example "the engagement was performed by reference to ISAE 3000") may mislead users of assurance reports (S.A170). Users are not likely to be able to differentiate between an assurance engagement carried out 'in accordance with' the Standard and an assurance engagement carried out 'by reference to' or 'based on' the Standard. While the former meets all the requirements of the Standard; the latter may apply only certain aspects of the Standard and the user would not necessarily be aware of this. If all the requirements of the Standard have not been complied with, then no reference to the Standard is permitted to be made in the assurance report.

EXAMPLE

A statement as follows is acceptable:

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information', and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board.

Statements such as the following are not in line with the requirements of the Standard: 'We performed our work having regard to ISAE 3000 (Revised)' or 'Our assurance engagement was performed on the basis of ISAE 3000 (Revised)'

366. [188] If the practitioner has been engaged under two different standards, for example, both ISAE 3000 (Revised) and AA1000 AS, the practitioner may need to consider whether the requirements of both are able to be met, or whether the other standard may conflict with the requirements of ISAE 3000 (Revised). If they do not conflict, and it is clear that any additional information set out in the other standard does not affect the assurance conclusion, as required by ISAE 3000 (Revised), (see G.371.f), then the practitioner may want to refer to both standards in their assurance report. As discussed above, when reference is made to ISAE 3000 (Revised), then all the requirements of that Standard need to be met.

EXAMPLE

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information', and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements' issued by the International Auditing and Assurance Standards Board, and AA1000APS (Type 1, moderate, which is the equivalent to ISAE 3000 (Revised) limited assurance).

A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation that are just as demanding (S.69.i)

- 366A. S.A171 sets out an example statement regarding the applicable quality control requirements, which informs users which quality control standards the firm applies, and what those quality controls standards require.

A statement that the practitioner complies with the independence and other ethical requirements... (S.69.j)

- 366A. S.A172 sets out an illustrative statement regarding compliance with ethical requirements.

An informative summary of the work performed as the basis for the practitioner's conclusion (S.69.k)

367. [190] Such a summary enables the intended users of the assurance report to understand what has been done in the context of the particular engagement as the basis for the practitioner's conclusion. For many assurance engagements, infinite variations in procedures are possible in

theory, making it difficult to communicate clearly and ambiguously. S.A176 sets out factors to consider in determining the level of detail to be provided in the summary of work.

368. [191] It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner's conclusion. In most cases, this will not involve detailing the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished (S.173). 'Boilerplate' language is unlikely to aid the intended users' understanding; describing the work performed in sufficient detail for a user to understand both the nature and extent of the procedures and what that means in terms of their ability to have confidence in the subject matter information is likely to be more helpful. However, a description that is too detailed may detract from the users' understanding.
369. [192] The procedures for limited assurance may appear to a user to be more comprehensive than the procedures described for a reasonable assurance engagement so it may be helpful for the practitioner to explain why this is the case.

| | |
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| EXAMPLE | <p><i>We are required to plan and perform our work in order to consider the areas where a material misstatement of the [identified subject matter information] is likely to arise. In carrying out our limited assurance engagement, we:</i></p> <ul style="list-style-type: none"> <i>• Held discussions with key management of ABC PLC to understand the governance over their reporting of the [identified subject matter information], and the processes, systems and controls they use to identify, record, check and report the [identified subject matter information]</i> <i>• Traced one example of each [transaction] through the system from recording to reporting to confirm our understanding of the governance, systems, processes and controls management had described to us, but we did not test the design of the internal controls or whether they operated effectively over the reporting period</i> <i>• Visited eight manufacturing sites out of a total of sixty sites. Selection of these sites was made on the basis of their inherent risk and materiality to the group</i> <i>• Tested, at each site visited, [describe what was tested]</i> <i>• Considered the presentation and disclosure of the [identified subject matter information]</i> <i>• [Add other procedures as necessary]</i> |
|---------|--|

370. [193] When experts are used, it may be helpful to include information relating to the extent of specialized skill or knowledge needed to apply assurance procedure to address a particular matter or to evaluate the results of those procedures. If the practitioner refers to the work of an expert, the wording in the assurance report cannot imply that the responsibility for the practitioner's conclusion is reduced because of the involvement of the expert (S.70), S.A187) notes that additional wording may be needed when such wording is included in a short form report to prevent the assurance report implying that the practitioner's responsibility is reduced because of the involvement of an expert. In a short form report the potential for misunderstanding may be higher than in a long form report.

The practitioner's conclusion (S.69.I)

371. [194] The assurance conclusion is the objective of the assurance engagement and is designed to enhance the degree of confidence of the intended users about the subject matter information, but:

- (a) Users may not readily understand the 'negative form' of wording used in the Standard to express a limited assurance conclusion (see G.345). It may be helpful for the practitioner to explain that the 'negative form' conclusion reflects a lower level of assurance than reasonable assurance because of the limited nature of procedures performed (nothing has come to our attention). It does not mean that there is nothing that could have come to the attention of the practitioner but, rather, that the procedures would not necessarily have been expected to result in anything coming to their attention due to the limited nature of the procedures. The Standard also permits a limited assurance conclusion to be expressed as 'we are not aware of', as an alternative to 'nothing has come to our attention...'.¹⁰
- (b) The Standard requires the conclusion to be expressed in one of two ways. Conclusions expressed in a different way, for example, by referring to 'moderate' or 'high' levels of assurance or stating 'We conclude that...' do not meet the requirements of the Standard and may not assist users' understanding.
- (c) As discussed in G.341, the concept of 'in all material respects' may not be understood, especially if it is unclear who the intended users are.
- (d) Conclusions may not be clearly delineated from other information in the assurance report, so it is unclear what the conclusion is.
- (e) Some practitioners may want to include recommendations and other observations within the assurance report. While this is permitted under the Standard, considerations relevant to deciding whether to include such observations in the assurance report may include whether their nature is relevant to the information needs of intended users.
- (f) Including observations of 'good practice' may be misunderstood by users to be part of the assurance conclusion, which may exacerbate the lack of clarity arising from the matter discussed in (d) above. Including those matters where recommendations have been made may raise questions in a user's mind as to whether or not they have not been appropriately dealt with in preparing the subject matter information or may be misunderstood as a qualification of the practitioner's conclusion on the subject matter information¹⁰.

¹⁰ ISAE 3410 paragraph A151

EXAMPLE

For example, the wording immediately below makes it clear what the conclusion is:

Based on the work we have done and the procedures we have performed, as described under the 'Work done' section of this report, and the evidence we have obtained, nothing has come to our attention that causes us to believe that the [identified subject matter information] has not been prepared in all material respects in accordance with the stated criteria.

The following wording is not in accordance with the requirements of the Standard and it is both unclear and potentially misleading to a user as to what it means:

We note that ABC PLC is committed to holistic sustainability reporting and has made significant progress in its in-depth reporting of its sustainability impacts. We conclude that the information presented in ABC PLC's sustainability report is balanced and accurate.

- 372A. When parts of the EER report are subject to limited assurance and other parts are subject to reasonable assurance, to aid users' understanding of what has been subject to limited assurance and what has been subjected to reasonable assurance, clear identification of both the subject matter information subjected to each different level of assurance will be needed. The practitioner may also consider delineating the procedures performed for each level of assurance so that it is clear to the users what procedures were performed in relation to the subject matter information. The conclusions relating to each also need to be made clear to the intended users.

EXAMPLE

The preparer may identify the subject matter information subject to limited assurance with one identifying mark, or in one column or table headed up 'Subject Matter Information subject to limited assurance' and may separately identify the subject matter information subject to reasonable assurance with a different identifying mark or in a table headed up 'Subject Matter Information subject to reasonable assurance'. The wording below is an example of how the practitioner may then refer to where the subject matter is identified, so that it is clear what each conclusion is, and which subject matter information it relates to:

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected sustainability information [identified with an identifying mark/set out in the table 'Subject Matter Information subject to limited assurance')] in the Subject Matter Information paragraph of this report for the year ended [x] is not prepared, in all material respects, in accordance with the reporting criteria.

Reasonable assurance conclusion

In our opinion, the selected sustainability information set out in the Subject Matter Information paragraph [and identified with a different identifying mark or set out in a different column or table] for the year ended [x] is prepared, in all material respects, in accordance with the reporting criteria.

343. [165] The practitioner may also consider it appropriate to include other information in a long form report, for example, information about materiality considerations so that it is transparent to the intended user what tolerance for misstatement has been applied in conducting the assurance engagement.

Example

Based on our professional judgment, we determined materiality for the [identified subject matter information] as follows:

Scope 1 greenhouse gas emissions: 5% of ABC PLC's reported Scope 1 greenhouse gas emissions, etc

This threshold means that a misstatement of x tonnes of CO₂e either as an individual misstatement or as an aggregate of smaller misstatements would lead us to conclude that the Scope 1 emissions had not been prepared in all material respects with the stated criteria.

For qualitative information, materiality considerations consider qualitative matters, including balance, understandability, and lack of bias.

Chapter 12: Addressing Qualitative EER Information

Matters Addressed by the Guidance in this Chapter

263A. This Chapter provides guidance on the nature of qualitative EER information may comprise, and on specific considerations in the context of qualitative EER information in:

- (a) Determining suitability of criteria;
- (b) Obtaining evidence;
- (c) Evaluating misstatements;
- (d) When presented alongside other information; and
- (e) Communicating in the assurance report.

Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners

263B. There is often a high degree of uncertainty inherent in the measurement or evaluation of EER underlying subject matters, which gives rise to subjectivity in their measurement or evaluation and a greater range of possible measurement or evaluation outcomes.

263C. When the measurement of EER underlying subject matter(s) is purely quantitative, even when there is inherent uncertainty in the measurement of the underlying subject matter, the practitioner may be more readily able to determine the suitability of the criteria used in its measurement than when the underlying subject matter is qualitative. The evidence needed may also be more readily available and more persuasive, even if it involves the use of estimates or proxies, or the use of subject matter experts in obtaining or evaluating it. It is also possible to aggregate the effect of identified misstatements on the subject matter information and evaluate their materiality in combination, to the extent their measurement outcomes are expressed in common units.

263D. However, when underlying subject matter cannot be measured and expressed in quantified terms, it may be more susceptible to being more reflective of, and more variable with, the views of those reporting it. This may raise questions about the suitability of the criteria, including whether there are additional disclosure criteria that may be needed for the subject matter information to be understandable and for the criteria to be capable of reasonably consistent evaluation of the underlying subject matter (reliable).

263E. A number of challenges may also arise in the context of obtaining evidence for qualitative subject matter information because the underlying subject matter may not be capable of direct evaluation, and it may be difficult for the entity's reporting process to capture data and information about it.

263F. The processes and controls to identify, record, process and report the subject matter information may not be sufficiently developed or effective in providing a reasonable basis for the qualitative subject matter information. This may have implications for the ability of the practitioner to obtain the evidence needed when assurance procedures other than testing of controls (hereafter referred to as 'substantive procedures'), alone, may not be sufficient.

263G. The way in which qualitative information is presented may also give rise to challenges in delineating the boundary between subject matter information and 'other information'.

The Nature of Qualitative EER Information

264. [186] [187] [103] Qualitative EER information is subject matter information expressed in qualitative terms rather than in quantitative terms (numbers). Qualitative information is essentially non-numerical information. Non-numerical information may, for example, be narrative information, descriptions, categorizations or ratings. The subject matter information for some aspects of the underlying subject matter may be expressed primarily in qualitative terms, rather than in quantified terms. However, even when an aspect of the underlying subject matter is expressed primarily in quantitative terms, other parts of the subject matter information relating to that aspect (such as related disclosures) may be expressed in qualitative terms. For example, an entity's governance structure, business model, goals or strategic objectives may be described in qualitative terms, although there may also be some supporting quantitative disclosures.

264A. Qualitative information is often expressed predominantly using written words, although it may be presented in an EER report in other forms, such as embedded video or sound recordings. However, words are not always non-numerical, since numbers can also be expressed in words. What makes information qualitative rather than quantitative is its non-numerical nature.

264B. Qualitative information included in EER reports may be:

- (a) factual (directly observable); or
- (b) inherently subjective (not directly observable and variable with the views of those reporting it).

EXAMPLE

Examples of factual qualitative subject matter information:

- "An audit committee comprised of non-executive directors was established in the year"
- "We bought a factory in Canada"

Examples of subjective EER information:

- "We produce healthy food for children"
- "Our impact on the environment is minimal"
- "We have successfully implemented flexible working throughout the organization"

These particular examples of subjective information may be overly vague and unsubstantiated, as the underlined claims may be interpreted in different ways by different people. As such, it is unlikely that the criteria would be suitable, and those claims would not constitute subject matter information. Further development of the criteria by the preparer would be needed so that the application of those criteria result in information that could be reasonably consistently measured or evaluated (i.e. would result in subject matter information).

For the first example of subjective EER information above, 'healthy food for children' could be defined for the purpose of reporting as 'food containing less than x g of salt and less than x g of sugar per 100g portion. Then, if those criteria were made available, the 'healthy food for children' might be suitable for assurance. However, there may also need to be disclosure if the entity produced unhealthy food for children in another product range (completeness of information or balance).

Specific Considerations for Determining the Suitability of Criteria for Qualitative Information

266. [189] [105] Subject matter information expressed in words may result from criteria representing different aspects of the underlying subject matter compared to numerical subject matter information, however the requirements for criteria to be suitable remain the same.
267. [190] [106] Reliable criteria for qualitative information need to be well-defined and therefore reasonably unambiguous so as to allow reasonably consistent measurement or evaluation of the underlying subject matter.

EXAMPLE

In applying criteria requiring an entity to report the aspects of its strategy that will help it achieve its principal objectives, an entity may report that such an aspect is its policy to prioritize providing high standards of service to its customers. The criteria behind this information appear to be insufficiently defined as the information is ambiguous (hence the criteria may not be reliable because the resulting information may not result from reasonably consistent evaluation of the underlying subject matter). It is unclear whether the criteria require the entity merely to disclose that it has such a policy in place (either formally written or not), or that its behavior complies with that policy or that the policy is effective in helping it achieve its objectives.

268. [191] [107] It is particularly important for qualitative information that the criteria result in subject matter information that is understandable (including being unambiguous as to its intended meaning) and neutral, as words and images can be inherently ambiguous in their meaning, or may be presented out of context. Most importantly, the criteria cannot result in subject matter information that is misleading to the intended users (S.A50).
269. [108] When the criteria are not suitable and the resulting EER information is subjective and therefore not capable of being assured, the practitioner may discuss this with the preparer so that the preparer has the opportunity to amend the subjective information.
270. [109] If the preparer is unwilling to change the qualitative information that does not result from applying suitable criteria (i.e. is not subject matter information), the practitioner may request the preparer to move such information out of the EER report, otherwise clearly identify it as 'other information' not subject to assurance, or further develop the criteria relating to the underlying subject matter, to result in subject matter information that is capable of being assured. If the preparer is unwilling to:
- (a) remove such information,
 - (b) clearly delineate it as 'other information' or
 - (c) develop suitable criteria,
- the practitioner may need to consider carefully what that means for the assurance conclusion.

EXAMPLE

The criteria require an entity to report its principal achievements in the year. A simple statement such as “We won the award for Best Company of the Year” could be technically free from error, but still be misleading if:

- The award relates to the company’s operations in only one small jurisdiction and not the whole company.
- The award was not awarded by a well-recognized and respected body, independent to the company.
- The award was not the result of a fair competition, for example if not all companies were eligible.

In such circumstances the practitioner may need to consider whether the criteria define the concept of a ‘principal achievement’ in sufficient detail, for example, addressing matters such as the scope of the company’s operations addressed by the award, the standing of the awarding body, or the scope of eligibility for the award, to be understandable, and whether the criteria should require disclosures about such matters for the resulting subject matter information not to be misleading and therefore for the criteria to be suitable.

Specific Considerations for Obtaining Evidence about Qualitative Information

271. [\[110\]](#) A number of challenges may arise in the context of obtaining evidence for qualitative subject matter information, including:

- (a) The effectiveness or otherwise of an entity’s reporting process (see G.Ch6). Substantive testing alone may be insufficient to obtain evidence about qualitative information, as it may not provide evidence as to the completeness and balance of the subject matter information. The practitioner may therefore need to consider whether they will be able to obtain evidence through performing tests of controls. In accepting an engagement, the practitioner determines that the preparer has a reasonable basis for the subject matter information. Accordingly, the preparer’s reporting process and related controls may provide the practitioner with a reasonable expectation of being able to obtain the evidence needed to support the practitioner’s conclusion. If the engagement circumstances are not complex, there may be relatively informal or simple controls; the greater the complexity the more complex the reporting process and related controls may be.
- (c) The use of internal sources as a basis for reporting the information, for example, information may be entered directly into the entity’s system on a real time basis without any hard copy documentation to support it, or may be obtained through informal communication by way of telephone calls, email or other internal communications. The practitioner may need to consider what evidence can be obtained to support the information being recorded or gathered in this way as these sources, alone, may not be sufficient. For example, when information is being captured by the entity directly onto a computerized system, the practitioner may need to understand and confirm the physical and logical security and access controls in place around the entry of information, and the basis for the entries being made. Where information is gathered through informal communications, the preparer’s underlying books and records may need to include sufficient evidence to back up those communications.

EXAMPLE

A parent company preparer may receive an email from its foreign subsidiary telling the parent about an accidental spillage of hazardous sludge into water sources during the production process at its local operations. The email may say that the spillage was not significant, that there had been an immediate clean-up to bring it under control and that no further action was needed.

The preparer may base the EER report wording on the wording in the email when preparing the subject matter information. Such an email may not provide sufficient evidence to support the subject matter information in the EER report. The practitioner may need to consider what further evidence might be available, for example, there may be documentation from the local environment agency that provides evidence of an inspection and clean up, and confirms that levels of hazardous chemicals after the clean-up were within safe limits.



- (d) The timeliness with which qualitative information is prepared. Preparers may focus on providing quantitative information to the practitioner, but it may be important for the practitioner to obtain the entity's draft EER report early in the engagement, so that there is sufficient time for the practitioner to evaluate the suitability of the criteria, and to plan and perform procedures to obtain evidence in relation to both the quantitative and non-quantitative (i.e. qualitative) subject matter information, and for the preparer to consider making adjustments to the subject matter information, if appropriate. 67.[37] Whether the scope of the assurance engagement is an entire EER report, or part of an EER report, which includes both qualitative and quantitative representations and related disclosures, the qualitative subject matter information is as much part of the subject matter information as the quantitative subject matter information.
272. [111] Assertions embodied in the qualitative information may be explicit or implicit. Different categories of assertions may be used for qualitative information from those used for numerical subject matter information, but this will depend on the criteria being used. Even in situations where the same assertions are applicable, there may be more focus on assertions such as understandability and comparability for qualitative information, as well as consistency with other information presented by the entity in the same document. For further guidance on the use of assertions, see G.Ch 8 and the example in SuB [x].
273. [112] When testing and documenting the practitioner's work in relation to qualitative information, it may be helpful to the practitioner to break up long pieces of text and consider sections, paragraphs or sentences separately when these talk about different things. It is likely that different assertions will be applicable to each. When the scope of the assurance engagement is the entire EER report, then qualitative information may need to be subject to the same rigor as numerical information when obtaining evidence. Some of the evidence may be available from procedures performed in respect of related quantitative information, but additional work is likely to be needed.
274. [194] [113] Individual claims or indicators in the subject matter information can be individually significant and can be tested separately, particularly where they are part of wider sections of qualitative subject matter information (not all of which might be as significant). In other circumstances paragraphs of text comprising related qualitative and quantitative subject matter information may need to be considered together.
275. [195] [114] Practical methods of doing this may include highlighting the text in different colors or by drawing boxes around sentences or sections of significant qualitative information in the

practitioner's documentation of the work done and evidence obtained. The practitioner can perform procedures on each one, and ultimately the assurance working papers can be referenced to the related parts of the text in the subject matter information. See SuB [x] for an example of how this might be done.

Specific Considerations for Evaluating Misstatements in Qualitative Information

279. [198] [118] Evaluating whether misstatements in qualitative subject matter information are material may require use of the materiality considerations in G.Ch10 as numerical thresholds are not appropriate. S.A96 also sets out various qualitative factors that may be considered when evaluating the materiality of misstatements. When evaluating a misstatement within qualitative subject matter information, the same considerations may be used to conclude whether the misstatement is material, where applicable, focusing on whether the misstatement could reasonably be expected to influence decision-making by the intended users. Misstatements in qualitative subject matter information may arise through:
- (a) The inclusion of inappropriate information, for example, information that does not meet the criteria or that obscures or distorts information required by the criteria;
 - (b) The inclusion of information that is not supported by the available evidence, or the omission of information for which there is evidence that suggests it should have been included;
 - (c) The omission of information required by the criteria, for example, information relating to a significant subsequent event that would be likely to change the decisions of users but has not been disclosed;
 - (d) Misstatements of fact;
 - (e) Ambiguous statements or statements the meaning of which is unclear;
 - (f) Presenting in vague terms information that is capable of being determined precisely;
 - (g) Changes since the previous reporting period to disclosures or presentation without reasonable justification for doing so or without disclosure of the reasons for doing so; or
 - (h) The manner in which the information is presented. For example, it may be presented out of context, distorted, or given greater or lesser prominence than is warranted, based on the available evidence.
280. [119] When misstatements are identified in qualitative (i.e. non-quantifiable) information, the practitioner may record them by listing them or by marking up or highlighting them in a copy of the subject matter information presented in the EER report. Irrespective of how misstatements are accumulated during the engagement, when evaluating the evidence obtained and in forming the assurance conclusion, the practitioner needs to consider not only individually material uncorrected misstatements, but also individually immaterial misstatements that, when considered collectively, may have a material impact on the subject matter information. However, where the subject matter information is not quantifiably measurable, it is not possible to simply add the misstatements together to determine their effect in aggregate.
281. [120] When the qualitative subject matter information relates to one underlying subject matter, it may be relatively straightforward to evaluate the combined effect of individually immaterial misstatements on the subject matter information, as the misstatements are considered within the context of that subject matter information only.

- 281A. When the subject matter information is an entire EER report covering a wide range of underlying subject matters, it may be more challenging to find a way of evaluating the combined effect of uncorrected qualitative misstatements on the EER report when the criteria consider materiality for the report as a whole. There may not be a common factor linking the various parts of the subject matter information, different emphasis may have been given to different aspects of the information included in the EER report, or different aspects may be more significant than others to intended users.
282. [121] The practitioner's understanding of who the intended users are and what aspects of the subject matter information are likely to be important may be essential to the practitioner's ability to make judgments about which misstatements are material. Depending on the definition of materiality, materiality judgments are made from the perspective of the intended users.
283. [122] It may be possible, once all non-quantifiable misstatements have been listed, to group them together, for example, by whether they relate, in common, to particular aspects of the underlying subject matter or to particular criteria. For example, in an entity's ESG report, there may be one or more individually immaterial misstatements in the qualitative statements management has made about the health and safety of its workforce and another immaterial misstatement relating to employee diversity. As health and safety and diversity both relate to the social aspect of an ESG report, the practitioner may be able to group these misstatements together and consider their combined effect on the social dimension of the entity's ESG report. Similarly, a number of immaterial misstatements in the reported water usage information and another immaterial misstatement relating to waste generated may be able to be considered together as they both relate to the environmental aspect of the ESG report.
- 283A However, the ability for the practitioner to do this may depend on the level of aggregation or disaggregation required by the criteria. If the criteria require the ESG reporting to be at the social dimension 'level', then considering the combined effect of misstatements arising in aspects of the social dimension may be appropriate; if the criteria require reporting of the subject matter information on a more disaggregated basis, then misstatements arising in relation to each disaggregated aspect may need to be considered in relation to each individual aspect.
- 283B A further consideration for the practitioner is whether misstatements that are immaterial in the context of each individual aspect of the subject matter information may, in aggregate, result in a material misstatement of the subject matter information as a whole.
284. [123] Even if there are misstatements that are not be able to be grouped together by underlying subject matter or other common factor, they may exhibit a common 'direction' or trend. For example, if the effect of the misstatements is to make the subject matter information, taken as a whole, look better than it really is, or all the misstatements overstate the positive efforts and impacts of the company's actions, and downplay the negative aspects, that may add up to give a biased and misleading picture to a user of the subject matter information taken as a whole.
285. [124] Understanding the underlying cause of identified misstatements may also help the practitioner to evaluate their materiality to the subject matter information. For example, qualitative misstatements may be due to misunderstanding, oversight or error by an employee preparing the subject matter information, or may be because management has intentionally taken a decision to misrepresent facts. The former may not be considered to be material, whereas the latter may be.
286. [200] [125] As with any other misstatements, the practitioner may encourage the preparer to correct them. In the case of subject matter information expressed in narrative form, this may

frequently involve either re-wording or removing the misstated text. If the preparer declines to correct them, the practitioner is required to consider whether an unmodified conclusion is appropriate.

Specific Considerations When Qualitative Information Presented Alongside Other Information

288. [127] When the subject matter information is part, but not all of an EER report (e.g. only part of the preparer's EER report is subject to assurance), but that part comprises both qualitative and quantitative information, then the part that is subject to assurance (both the qualitative and quantitative aspects of it) are the subject matter information, and any information outside of that subject matter information is 'other information'. It will be important that the information subject to assurance is clearly delineated from the 'other information' so that it is clear to the intended users what has, and what has not, been assured.
231. 'Other information' in an EER report may also include images or other visual enhancements to the report. 278. [117] The practitioner may need to consider whether such 'other information' is congruent with the messages in the qualitative information presented in narrative form in the EER report, or whether they give a conflicting impression. For example, it may be incongruent for the preparer to show images of happy communities where the company is reporting that it has relocated a community to make way for new production facilities.
287. [126] When an entity's EER reporting is integrated with its financial reporting, the practitioner's responsibility to read the 'other information' as required by the Standard will extend to the information contained within the same document(s) as the EER report – i.e. to the financial statements and narrative related to those financial statements. The practitioner is required to consider the consistency of that other information with the subject matter information. There may be legitimate differences between the subject matter information included in an EER report and the 'other information' related to the same underlying subject matter, depending on the criteria used, but the differences may need to be explained or reconciled by the preparer and disclosed so that a user of the EER report can understand the reasons for the differences.

Specific Considerations for Communicating in Assurance Report on Qualitative Information

287A. As discussed in G.Ch11, the aim of the practitioner is to obtain sufficient appropriate evidence to be able to express a conclusion designed to enhance the degree of confidence of the intended users about the outcome of the measurement or evaluation of the underlying subject matter(s) against the criteria.

287B. When the underlying subject matter is not able to be quantified, the way in which it is evaluated may be subject to more variability or open to greater interpretation than if it were able to be quantified, which may result in subject matter information that could be misunderstood or misinterpreted by intended users. Consequently, it may be particularly important for intended users to have an understanding of the criteria used to evaluate the underlying subject matter, and for their attention to be drawn to this in the assurance report.

Chapter 13: Addressing Future-Oriented EER Information

Matters Addressed by the Guidance in this Chapter

289A. This Chapter provides guidance for the practitioner on specific considerations in the context of future-oriented EER information in:

- (a) Determining suitability of criteria;
- (b) Obtaining evidence
- (c) Evaluating misstatements; and
- (d) Communicating in assurance report.

289B. The focus of the guidance is future-oriented subject matter information that is subject to estimation or occurrence uncertainty.

263. While qualitative information is considered separately in chapter 12, qualitative and future-oriented information are not mutually exclusive. For example, qualitative information may be future-oriented or historically-oriented, and future-oriented information may be expressed in either qualitative or quantitative terms. The practitioner may find it helpful to consider the guidance in this chapter together with the guidance in Chapter 12.

Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners

289. [201] [128] EER reports may contain different forms of future-oriented subject matter information, such as:

- (a) Information about future conditions or outcomes. This may include forecasts, projections, and information about future risks and opportunities.
- (b) Information regarding the entity's intentions or future strategy.

289A. While future-oriented information results from applying criteria to the underlying subject matter, just as for any other subject matter information, the underlying subject matter (a future event, occurrence or action) may be subject to greater uncertainty, and generally able to be evaluated with less precision than historical underlying subject matter(s). As a result, it can be challenging

to determine whether the criteria for its evaluation are suitable, because there may be a wide range of possible assumptions and outcomes. It is difficult to know what the subject matter information should be, or what may be of consequence to a user's decision-making, when a range of different, yet possibly acceptable, outcomes may be possible.

303. [212] [142] Evidence may be available to support the assumptions on which the future-oriented subject matter information is based, but such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in relation to historical events and conditions.
- 303A. As a result of the inherent uncertainties relating to the underlying subject matter(s) the criteria and assumptions used to evaluate it, and the speculative nature of the available evidence, which give rise to a wide range of possible outcomes, it can also be difficult to identify whether there is a material misstatement of the subject matter information.
293. [204] [132] Some future-oriented information is factual and therefore does not contain a significant degree of uncertainty, for example the debt maturity profile of an entity that is determined by contractual terms. [204] [133] As performing an assurance engagement on this type of information is not considered to pose a particular challenge for a practitioner, the remainder of this chapter of the document only considers future-oriented information subject to estimation or occurrence uncertainty.

The Nature of Future-Oriented EER Information

302. [211] [141] Subject matter information forecasting or projecting future conditions or outcomes relates to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways.
291. [203] [130] Future-oriented subject matter information may describe:
- (a) Things that will be subsequently observable; or
 - (b) Hypothetical things that will never be observable.
292. [203] [131] For subsequently observable future-oriented information, it will be possible at a later point in time to observe the precision with which the forecast, projection, or intention reflected the subsequent reality, or the extent to which anticipated and unanticipated future risks or opportunities materialized. Hypothetical information includes a condition on the projection, prediction or intention. For example, a projection could be made, conditional on an entity winning a particular contract, that the entity's profit would increase 5% next year.

EXAMPLE

The difference between observable and hypothetical subject matter information is illustrated by the difference between a forecast and a projection (as based on definitions in ISAE 3400¹¹, paragraphs 4-5):

A **forecast** is prepared on the basis of assumptions as to future events that management expects to take place and the actions management expects to take as of the date the information is prepared (best estimate assumptions).

A **projection** is based on hypothetical assumptions about future events and management actions that are not necessarily expected to take place, or a combination of hypothetical and best estimate assumptions. Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur. This may be known as a scenario analysis.

Specific Considerations for Determining the Suitability of Criteria for Qualitative Information²⁹⁵. The criteria will ask different questions about the underlying subject matter, often asking for description of the future state or condition of an aspect of the underlying subject matter, or a future change in state or condition over time.

296. [206] [135] Whether the criteria from which future-oriented information results are suitable or not can be determined in the same way as any other criteria as described in G.Ch5
297. [207] [136] For subjective future-oriented information, the practitioner may conclude that, in order for the criteria to be suitable, disclosure criteria are needed for the assumptions made, and the nature, sources and extent of uncertainty. It may still be possible to obtain assurance on uncertain subject matter information if it is supported by adequate disclosure such that the uncertainty is adequately conveyed to the intended users.

Specific Considerations for Obtaining Evidence about Future-Oriented Information

298. [208] [137] Considerations for future-oriented subject matter information are likely to be similar to historical subject matter information with inherent measurement, evaluation or occurrence uncertainty, and therefore the guidance in G.Ch8 and the thought process set out in G.Ch 9 are broadly applicable. When future-oriented information is more subjective, considerations relating to neutrality, presentation and understandability may become relatively more important when designing procedures, due to the risk of management bias.
299. [209] [138] When criteria require a statement of intended future strategy, a target, or other intentions of an entity (an explicit assertion), a practitioner can design procedures to evaluate whether management or those charged with governance have an intention to follow that strategy, or that the target or intention exists. Appropriate evidence could be obtained in the form of documentation of board meetings or actions that management have already taken to work towards adopting the strategy or agreeing the target.
- 299A. There is likely to be a further implied assertion that the entity has the capability to carry out its intent, or will develop the means to do so, or there may be separate explicit criteria addressing capability. While there is not likely to be evidence available that the outcome will be achieved, the

¹¹ International Standard on Assurance Engagements (ISAE) 3400 (Revised), *The Examination of Prospective Financial Information*

practitioner can design procedures to obtain evidence as to whether the preparer has a reasonable basis for making the assertions that are being made about future actions or events, for example, by considering the processes, systems, controls over the development of the assumptions, and the source data on which they are based.

300. [210] [139] Similarly, where criteria require information about future risks and opportunities to be reported, the risks of material misstatement at the assertion level (for a reasonable assurance engagement) will likely include that the risks and opportunities exist (existence assertion) and that the list of risks and opportunities is complete (or relating to the completeness assertion) with respect to the risks and opportunities which would assist intended users' decision-making. Appropriate evidence could be obtained in the form of reference to the entity's risk register or records of discussions of those charged with governance. However, it is important that the processes and controls in place over the maintenance of the risk register and the minuting of discussions provide a reasonable basis for using these sources as evidence. See G.Ch6 for further guidance on considering the entity's system of internal control.
301. [210] [140] A practitioner is ordinarily not able to obtain assurance on whether the risks and opportunities will materialize or not, however it may be possible in some circumstances to obtain assurance on information about the nature of the risks and opportunities, for example their likelihood or potential impact. Whether this is possible will depend on whether the applicable criteria are suitable and the availability of appropriate evidence. A common challenge is that the likelihood of and potential impact of risks and opportunities can change significantly and quickly due to factors that may be unknown by the entity or outside of its control.
302. [211] [141] Subject matter information predicting future conditions or outcomes relates to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. It is not possible for the practitioner to determine whether the results or outcomes forecasted, or projected will be achieved or realized. The practitioner may instead focus on whether any assumptions are reasonable, are supported by evidence, and that the subject matter information has been properly prepared in accordance with the applicable criteria. However, the practitioner may need to bear in mind that the such evidence may, itself, be speculative in nature, and it may be necessary to perform sensitivity analyses to consider how significantly the outcomes might change if the assumptions were to change.
304. [143] When considering subject matter information predicting future conditions or outcomes, the same thought process as was considered in G.Ch9 can be applied. The practitioner may ask what decision is to be made, why the representations being made by the entity may not be true, how the risks of material misstatement might arise of those representations not being true, and how management of the entity manages and mitigates those risks.
305. [144] The practitioner's considerations in relation to the evidence that may be available may include, amongst other matters:
- (a) What governance and oversight the entity has in place over the reporting of the subject matter information, and whether there are systems, processes and internal controls that provide a reasonable basis for the assumptions made by the entity and for the data or other information used as basis for its forecasts (see G.Ch6);
 - (b) What sources of information the preparer has used as basis for the assumptions made, and the reliability of those sources;

- (c) What statistical, mathematical or computer-assisted modelling techniques, if any, the preparer has used, and what methods for developing and applying the assumptions have been used;
 - (d) How reliable those techniques and methods are, and how relevant they are to the underlying subject matter being forecast;
 - (e) The preparer's previous experience and competence in making forecasts;
 - (f) The accuracy of previous forecasts made by the preparer and the reasons for significant differences between the forecast outcome and the actual outcome. When the preparer has a history of making reasonably reliable forecasts, that may reduce the risk of the future-oriented representations made by the entity being materially misstated. However, that may not be the case if the underlying subject matter is inherently volatile or subject to change. Even when conditions have been fairly stable or predictable in the past, that may not continue to be the case. For example, there may be more volatility in economic conditions than has been the case, historically, or matters such as the impacts of climate change may make it difficult to predict whether existing conditions will continue to prevail, whether there may be a change and, if there is, how significant that change might be or when it might occur;
 - (g) The time period being covered by the future-oriented information. The longer the time period covered, the more speculative the assumptions become as the ability to make a best estimate decreases;
 - (h) The inherent susceptibility of the underlying subject matter to change and the sensitivity of the assumptions to changes that may occur;
 - (i) The extent to which the future conditions are solely or partly under the entity's own control or whether they are outside of the entity's control;
 - (j) The evidence and documentation the preparer has in place to support both the assumptions made and the proper preparation of the subject matter information from those assumptions and how persuasive the evidence is; and
 - (k) Whether there is a need for subject matter or other expertise on the engagement team and, if so, the sources of that expertise.
306. [145] The considerations when designing and performing the procedures to obtain sufficient, appropriate evidence and when evaluating the sufficiency and appropriateness of evidence obtained are similar to those set out in G.Ch9 and, where future-oriented information is presented in narrative form, also to the considerations set out in G.Ch12.
307. [146] However, it may be more difficult to determine the persuasiveness of evidence when it is more speculative in nature than when it is factual. While written representations from management do not take the place of sufficient, appropriate evidence, it may be relatively more important in the context of an engagement to assure future-oriented information to obtain written representations from those charged with governance of the entity confirming that the assumptions as of the date of the assurance report remain appropriate even though the underlying information may have been accumulated over time.
308. [147] As future-oriented information is subject to greater uncertainty than historical information, it may also be acceptable to evaluate whether the outcome is within a reasonable range of possible outcomes.

309. [148] Presentation and disclosures may be particularly important in the context of future-oriented information to enable a user to understand the context for the subject matter information and the inherent uncertainties involved. The practitioner's considerations on whether the presentation and disclosures in the subject matter information are appropriate may include whether:

- (a) The presentation of the future-oriented information is informative, neutral and not misleading;
- (b) The assumptions used and the basis for those assumptions are clearly disclosed;
- (c) The basis for establishing points in a range is disclosed and the range is not selected in a biased or misleading manner when the future-oriented EER subject matter information is expressed in terms of a range;
- (d) The date as of which the future-oriented information was prepared is clear and there is a statement that the assumptions are appropriate as at that date;
- (e) The uncertainties and sensitivities involved are disclosed, enabling a user to understand the implications of 'what if?'
- (f) Where comparatives are presented, whether there have been any changes in the current period to the assumptions made or the basis on which the underlying subject matter has been prepared, the changes are disclosed together with the reasons for those changes and their effect on the subject matter information

309A. For an example of obtaining assurance on future-oriented information with both qualitative and quantitative aspects, and including disclosures; see SuB [placeholder x]

Specific Considerations for Evaluating Misstatements in Future-Oriented Information

309B. As discussed in G.x, future-oriented information is generally subject to greater measurement, estimation, or evaluation uncertainty than historical information. As a result there may be a broad range of possible measurement or evaluation outcomes, and it can be more difficult to evaluate whether there is misstatement in the subject matter information, and the materiality of such a misstatement.

309C. For the purposes of evaluating the effect of uncorrected misstatements, and based on the evidence obtained, it may be helpful for the practitioner to distinguish between misstatements that are:

- (a) Misstatements about which there is no doubt (factual misstatements)
- (b) Differences arising from the preparer's judgments concerning estimates or forecasts that the practitioner considers unreasonable, or the selection or application of assumptions and methods that the practitioner considers inappropriate (judgmental misstatements)
- (c) The practitioner's best estimate of quantitative misstatements in a population, involving the projection of misstatements identified in samples, selected by the practitioner for the purpose of performing their procedures, to the entire population from which the sample was drawn (projected misstatements).

309D. In some cases, misstatement could arise as a result of a combination of these circumstances, making separate identification difficult.

309E. The practitioner may also consider whether there are indicators of possible management bias in the selection of assumptions, methods or in the way in which the subject matter information is presented that may have implications for the rest of the EER engagement. For example, when the preparer has:

- (a) changed the assumptions or methods used, or has made a subjective assessment that there has been a change in circumstances, without reasonable justification
- (b) used assumptions that are inconsistent with observable marketplace assumptions, or has
- (c) selected significant assumptions that favor management's objectives, or that may indicate a pattern or trend.

309F. The practitioner may also consider whether the preparer has made adequate disclosures about the assumptions used in measuring or evaluating the subject matter information, and the uncertainties involved, to enable the intended users to understand the implications for their decision-making, and do not result in misleading subject matter information.

Specific Considerations for Communicating in Assurance Report on Future-Oriented Information

309G As discussed in G.Ch11 and G.Ch12, the aim of the practitioner is to obtain sufficient appropriate evidence to be able to express a conclusion designed to enhance the degree of confidence of the intended users about the outcome of the measurement or evaluation of the underlying subject matter(s) against the criteria.

309H. When the underlying subject matter is subject to a high degree of estimation or evaluation uncertainty, there may be more variability or it may be open to greater interpretation than when there is less uncertainty. This may result in subject matter information that could be misunderstood or misinterpreted by intended users. Consequently, it may be particularly important for intended users to have an understanding of the criteria used to evaluate the underlying subject matter, and for their attention to be drawn to this in the assurance report, for example by describing the inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria (see S.69.e)

EXAMPLE

For example,

[Name of entity] has prepared its forecast of expected outcomes related to [identified subject matter information] using a set of assumptions that include hypothetical assumptions about future events and management's actions. Actual outcomes are likely to be different from those forecast as anticipated events frequently do not occur as expected and the difference between the forecast outcome and the actual outcome may be material.

Appendix 1

Terms used in this Guidance

| Terms used | How described in the Guidance |
|---|---|
| Assurance competence | The competence needed to perform an assurance engagement, including competence in both assurance skills and techniques. G.88 |
| Boundary of the subject matter information | Subject matter information for the engagement that is only part(s) of entity's EER report. G.12B |
| EER | Extended external reporting. G.7 |
| EER assurance engagement | An assurance engagements on EER. G. |
| EER information | Information about the financial and non-financial consequences of an entity's activities included in an entity's EER report. G.1 |
| EER report | EER information presented as one or more section(s), report(s) or statement(s). G.2 |
| Entity developed criteria | Criteria developed by the entity. G.3 |
| Entity's reporting process | An entity's process to collect data and information, apply the criteria to the underlying subject matter and report information relevant to the preparation of the EER subject matter information. G.127A |
| External information source | An external (external to the preparer) individual or organization that provides data or information that is used by the preparer in the preparation of an EER report. G.137 |
| Financial information | Information about an entity's economic resources or obligations, or changes therein, as a consequence of the entity's transactions and other events and conditions. G.1A |
| Framework criteria | Criteria in EER frameworks, standards or guidance established by law or regulation, by international or national standard setters, or by other bodies. G.3 |
| Preparer | A responsible party who is also the measurer or evaluator. |

| Terms used | How described in the Guidance |
|---------------------------|--|
| Reporting topics | Relevant (aspects of) underlying subject matter. G.51F |
| Subject matter competence | Competence in the underlying subject matter of the engagement and in its measurement or evaluation. G.88 |
| Subject matter experts | Experts in the underlying subject matter and its measurement or evaluation.G.94 |
| Substantive procedures | Assurance procedures other than testing of controls. G.263 |

Appendix 2

Table 1: Types of EER Reports, Example Frameworks Used and Whether Covered by this Guidance

| Subject | Example of Available Reporting Frameworks or Standards | IAASB Standard(s) | Covered by the EER Guidance? |
|---|---|---|---|
| Greenhouse Gas Emissions | <ul style="list-style-type: none"> WBCSD/WRI GHG Protocol ISO 14064 | <ul style="list-style-type: none"> ISAE 3410 (requires compliance with ISAE 3000 (Revised)) | <ul style="list-style-type: none"> Yes |
| Integrated Reporting | <ul style="list-style-type: none"> IIRC Integrated Reporting Framework | <ul style="list-style-type: none"> ISAE 3000 (Revised) | <ul style="list-style-type: none"> Yes |
| Intellectual Capital | <ul style="list-style-type: none"> WICI Intangibles Reporting Framework | <ul style="list-style-type: none"> ISAE 3000 (Revised) | <ul style="list-style-type: none"> Yes |
| Management Commentary related to Financial Statements prepared under IFRS | <ul style="list-style-type: none"> IASB Management Commentary Practice Statement | <ul style="list-style-type: none"> ISAE 3000 (Revised) | <ul style="list-style-type: none"> Yes |
| Public Sector Service Performance or Value for Money Statements | <ul style="list-style-type: none"> Law, Regulation or Standards | <ul style="list-style-type: none"> ISAE 3000 (Revised) | <ul style="list-style-type: none"> Yes |
| Sustainability (Environment, Social, Governance) | <ul style="list-style-type: none"> CDSB Framework GSSB Standards SASB Standards TCFD Framework | <ul style="list-style-type: none"> ISAE 3000 (Revised) | <ul style="list-style-type: none"> Yes |
| Country-by-Country Taxes | <ul style="list-style-type: none"> Law or Regulation GSSB Standard: Tax and Payments to Governments | <ul style="list-style-type: none"> ISAE 3000 (Revised) ISA 800/805 | <ul style="list-style-type: none"> Yes No |
| Compliance | <ul style="list-style-type: none"> Law or Regulation Contractual Terms | <ul style="list-style-type: none"> ISAE 3000 (Revised) | <ul style="list-style-type: none"> No |
| Historical Financial Statements | <ul style="list-style-type: none"> IASB International Financial Reporting Standards (IFRS) | <ul style="list-style-type: none"> ISAs ISRE 2400 (Revised) or ISRE 2410 | <ul style="list-style-type: none"> No |
| Internal Controls at a Service Organisation | <ul style="list-style-type: none"> COSO Internal Control - Integrated Framework AICPA SOC 2 Trust Services Criteria | <ul style="list-style-type: none"> ISAE 3402 (requires compliance with ISAE 3000 (Revised)) ISAE 3000 (Revised) | <ul style="list-style-type: none"> No |



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **16.7.0**

Meeting Date: 3-4 December 2019

Subject: Audits of Less Complex Entities

Prepared By: Tim Austin

Date Prepared: 26 November 2019

☐ **Action Required**

☒ **For Information Purposes Only**

| IAASB Project Objective | AUASB SMEs |
|---|------------|
| The objective of this initiative is to explore possible actions to address perceived issues when undertaking audits of less complex entities for further IAASB consideration. | Tim/Justin |
| AUASB Key Points | |
| Agenda Item Objectives | |
| <ol style="list-style-type: none">1. Provide a summary of the global feedback received from the IFAC Survey, responses to the Audits of Less Complex Entities Discussion Paper and the Paris Conference.2. Outline the LCE Task Force's proposed way forward. | |
| Background | |
| <ol style="list-style-type: none">3. At the September 2019 AUASB Meeting, the AUASB discussed and approved the AUASB's submission to the IAASB's Audits of Less Complex Entities Discussion Paper.4. The IAASB Discussion Paper and IFAC Survey sought feedback from stakeholders on the following areas:<ol style="list-style-type: none">(a) The definition of an LCE;(b) Challenges in applying the ISAs in audits of LCEs;(c) Possible actions and priorities to be explored; and(d) Other considerations and areas of IAASB focus.5. This paper will focus on (a)-(c) and the proposed way forward. | |

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Summary of Global Feedback:

Definition of an LCE

6. Respondents raised that given that both large and small entities can be complex, it is important that the LCE definition avoids any ambiguity, and specifically excludes from its scope listed entities. This was emphasised by the Monitoring Group who viewed that it should not be applicable to listed entities, irrespective of their size or complexity.
7. Other respondents raised that the definition should provide adequate consideration for entities classified as Public Interest Entities (PIEs) as defined by IESBA and also clarifying how it is to be applied to the audit of the separate entities forming part of a group
8. With regards to the specific factors, respondents raised that the qualitative characteristics provided in the DP are a good starting point for developing the LCE definition, and highlighted that should the outcome of this consultation process result in development of a separate auditing standard for LCEs, further guidance and examples would be necessary to avoid ambiguity.
9. Respondents broadly agreed that the qualitative characteristics are not exhaustive or exclusive to LCEs but expressed concerns that the characteristics in the definition of the DP continue to emphasize size and volume and that careful consideration of the LCE definition must be made to ensure it does not become a checklist-based definition.
10. The global feedback is consistent with the matters raised by the AUASB in its submission.

Challenges related to applying the ISAs in Audits of LCEs

11. Respondents broadly supported the root causes of the challenges within the DP and raised that the underlining causes and challenges related to applying ISAs are not unique for audits of LCE and are relevant for all engagements. The key challenges raised included:
 - (a) Length and volume of the ISAs;
 - (b) Understanding how certain procedures add value;
 - (c) Onerous documentation;
 - (d) Use of complex language; and
 - (e) Increasing levels of prescriptiveness.
12. The standards which were raised as the providing the most challenges were, ISA 540, ISA 315, ISA 240 and ISA 230.
13. The underlying challenges and the particular standards raised were consistent with the AUASB's submission. The feedback received from Australian respondents to the AUASB's LCE survey on the underlying challenges and standards which created those challenges was published in a [feedback statement](#) in September.

Possible actions and priorities to be explored

14. Overall respondents expressed mixed views and there was not an overwhelmingly clear direction for one action. The Task Force summarised respondents' views on each of the options into the following table.

| | Pros | Cons |
|--------------------------|---|---|
| Revising the ISAs | <ul style="list-style-type: none"> • Ideal and effective long-term solution • Retaining one set of standards while addressing scalability issues for all audits, including LCEs • Would benefit all audits through enhancing clarity and focus as to “what” the auditor needs to do and “why” | <ul style="list-style-type: none"> • May not be a practical solution as it requires significant time and resources to implement • May come in too late to meet the immediate needs of LCE audits • May add further length and volume to the standards |
| Separate standard | <ul style="list-style-type: none"> • Possibility to develop a shorter and clearer standard addressing issues directly for audits of LCEs • Focus the LCE auditor on relevant aspects of the audit and emphasize the need for professional judgement (addressing concerns about proportionality) • More practicable solution in the short- to medium-term | <ul style="list-style-type: none"> • May cause dual perceptions on the value of audit whereby audits of LCEs are considered of a lesser quality relative to an ISA audit, which may lead to a two-tier auditing profession • May cause confusion with users on the level of assurance expressed under the LCE standard(s), especially if based on a different framework than ISA • May cause practical implementation issues when classifying and transitioning entities to/from the LCE standard(s) and ISAs, issues with dual methodologies and training of auditors |
| Guidance | <ul style="list-style-type: none"> • Complementary with other options (enhancing the impact of the “total package”) • Less time and resources to develop • Timely solution achievable in short term | <ul style="list-style-type: none"> • Already available and not a solution on its own • May exaggerate the length and complexity as there would be more material for auditors to read and understand • Guidance is non-authoritative and consistency of application cannot be ensured |

15. The pros and cons of each of the options were largely consistent with the AUASB’s submission. The AUASB’s preference was a revision of the ISAs as a whole as the challenges identified with the ISAs for audits of LCEs were not unique to LCEs.

What is the Task Force proposing?

16. Based on the feedback received, the Task Force is proposing establishing two distinct work streams:
 - (a) An LCE focussed workstream; and
 - (b) A broader ISA focussed workstream.
17. The **LCE workstream's** proposed direction is to explore the development of a separate standard for audits of LCEs. This work will include further considerations of the scalability and proportionality of requirements in the current standards, determine the most appropriate basis for developing a separate standard learn from other jurisdictions and regions who have developed separate standards.
18. The broader **ISA focussed workstream's** proposed direction is split into short-term and long-term. The short-term actions include articulating the new drafting style proposed in ISA 315 and considering how the changes address concerns of complexity, readability, understandability, scalability and proportionality, exploring different approaches to revising the ISAs and consideration of the specific comments on which ISAs are challenging.

IAASB timeline and impact on AUASB activities/Next steps

19. The IAASB LCE Task Force are asking for an indicative direction from the IAASB at the December 2019 IAASB Meeting.
20. A specific recommendation of the way forward will be brought to the March 2020 IAASB Meeting.

Material Presented

Agenda Item 16.7.0

AUASB BMSP LCEs

Action Required

| No. | Action Item | Responsibility | Due Date | Status |
|-----|-------------|----------------|----------|--------|
| 1. | N/A | AUASB | N/A | N/A |



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **16.8.0**

Meeting Date: 3 & 4 December 2019

Subject:

Date Prepared: 28 November 2019

☒ Action Required

☐ For Information Purposes Only

A. Background

- 1 At the September 2019 IAASB Meeting, the IAASB presented a revised IAASB Strategy for 2020–2023 and Work Plan for 2020–2021 for review.
- 2 AUASB members did not raise any significant concerns with the revised IAASB Strategy and Work Plan, although did express disappointment that the IAASB’s focus on the short term had very much diverted to focusing mainly on completing existing standard setting projects rather than expanding the IAASB’s role into other areas such as research and implementation guidance to the extent originally presented in the Draft Strategy and Work Plan released in February 2019.
- 3 At its September 2019 IAASB Meeting, IAASB members were very supportive of the revised Strategy and Work Plan, providing some minor feedback to add further detail on what the measures of success are; provide more detail on what the IAASB is doing to address issues associated with the complexity and scalability of standards more prominently; and include more focus on the IAASB’s engagement with the public sector through INTOSAI and National Standard Setters (NSS).
- 4 A revised draft Strategy and Work Plan are being presented for discussion and approval at the December 2019 IAASB meeting. AUASB members are asked for their feedback on this document as outlined below.

B. What the Audit Technical Group (ATG) is seeking from the AUASB at the December 2019 AUASB meeting

- 5 The objective of this agenda item is to:
 - (a) Update and inform the AUASB on the key changes made to the revised IAASB Strategy for 2020–2023 and Work Plan for 2020–2021 which is being presented to the IAASB for approval at its December 2019 meeting; and
 - (b) Obtain the AUASB’s feedback on these documents, and the initial draft of the IAASB’s proposed draft ‘Framework for Activities’, for AUASB Chair to consider in their capacity as an IAASB member, in line with the AUASB’s International Strategy.

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C. Matters raised at the previous IAASB Meeting:

- 6 At the September 2019 IAASB Meeting the Board members discussed the comment letters received on the Consultation Paper and the proposed changes to the Strategy for 2020–2023 (the Strategy) and Work Plan for 2020–2021 (the Work Plan), supporting the proposed way forward, including the strategic objectives and related strategic actions, but suggesting that how the strategic drivers impact the future work should be clarified. The Board provided input on further possible projects for IAASB consideration and supported the planned efforts to further develop the Framework for Activities.
- 7 Most of the major changes made to the revised Strategy and Work plan presented to the IAASB in September 2019 were consistent with the points raised in the AUASB’s submission on the original draft Strategy and Work Plan submitted in late June 2019. However there were a number of items raised in the AUASB submission which have not been explicitly addressed in the changes made by the IAASB Steering Committee, in particular greater focus on thought leadership and the value of audit by the IAASB, and prioritising the update of IAASB standards governing the conduct of review engagements.
- 8 These suggestions from the AUASB not addressed by the IAASB continue to be absent from the revised IAASB Strategy and Work Plan being presented at the December 2019 meeting for approval, so it is unlikely they will be added at this late stage.

D. Changes to the revised IAASB Strategy and Work Plan being presented for approval at the December 2019 IAASB Meeting

- 9 Key additions or amendments to this final draft of the IAASB Strategy for 2020-2023 are:
- (a) A Chair’s Foreword has been added and it is very positive to see that it directly refers to the IAASB’s intention to be an “innovator among standards-setters” and a direct reference to collaboration with the NSS;
 - (b) Enhancements to the ‘strategic drivers’ (refer page 7) which better align with the AUASB’s current areas of focus (e.g. Technology, LCE, EER, complexity of reporting requirements);
 - (c) A new element in the IAASB’s proposed ‘Framework of Activities’ exploring how ‘narrow scope amendments’ could work within the IAASB’s due process;
 - (d) Increased references to the role of the Monitoring Group and the need to engage with any future Monitoring Group reviews;
 - (e) Making it clearer what falls within the IAASB’s responsibilities, in particular in relation to implementation activities, and what is for others;
 - (f) Descriptions of the work the IAASB does in conjunction with others (such as IFAC and the NSS) has been revised to more clearly articulate the collaboration activities, and to highlight that these are ongoing, important relationships.
- 10 A copy of the revised IAASB Strategy for 2020-2023 is included in the AUASB December 2019 Board Papers for review at **Agenda Item 16.8.1**.
- 11 Key additions or amendments to this final draft of the IAASB Work Plan for 2020–2021 are:
- (a) Updates to way different IAASB projects are categorised, in particular further exploration about the way that topics could be grouped and addressed under the information gathering and research component of the Work Plan;

- (b) Changes to the detailed Work Plan table to reflect all of the work activities being undertaken by the IAASB staff even when they are not being directly addressed by the IAASB Board, such as for implementation activities directly after a new or revised standard is finalised, to better reflect the full work activities of the IAASB;
 - (c) Placeholders in the detailed Work Plan table for new projects to reflect that there will be future projects, but with explanatory notes detailing that these will only be specified once the relevant work has been undertaken to identify the IAASB's next priority (NB: Fraud and Going Concern seem to be the most likely areas based on current global developments and inquiries, as highlighted on page 6 in the Work Plan table);
 - (d) In Appendix 2 the previous list of possible topics for IAASB consideration has been deleted as the Steering Committee didn't want to create unrealistic expectations of the Board. Instead more detail has been provided on the pre-existing topics which are already captured as the 'Pool of Possible Topics for Future Consideration' (refer pages 3 & 4 of the Work Plan for more information).
- 12 A copy of the revised IAASB Work Plan for 2020–2021 is included in the AUASB December 2019 Board Papers for review at **Agenda Item 16.8.2**.
- E. AUASB Technical Group comments on the revised IAASB Strategy and Work Plan**
- 13 When reviewing the updated IAASB Strategy for 2020–2023 and Work Plan for 2020–2021 the ATG has performed a 'fatal flaw' review on the basis these documents are scheduled for approval by IAASB members and only major issues will be considered for editing or additional over the course of the week of the December 2019 IAASB meeting.
- 14 The ATG doesn't believe there are any fatal flaws in the proposed IAASB Strategy for 2020–2023.
- 15 In the Work Plan for 2020–2021 the following items are highlighted as those potentially requiring significant change or revision:
- (a) The removal of the 'long list' of possible topics for IAASB consideration – Whilst the IAASB Steering Committee's view is that these should not be included in the Work Plan to avoid any unrealistic expectations of the Board's output the ATG's view is that greater transparency of such topics is desirable and the removal of these topics disregards the various submissions made by respondents to the original draft workplan which suggested these topics for future IAASB consideration in the first place.
 - (b) The explanations of the different categories of future work streams on page 4 of the Work Plan is cumbersome and could be made clearer, perhaps via a diagram or examples of how topics are identified and move through the different categories.
 - (c) The timing of the Auditor Reporting Post Implementation review (per the detailed work plan not scheduled to report back to the IAASB until December 2020) should be brought forward and given greater priority.
 - (d) Greater detail and analysis of projects which may be the focus of the IAASB's liaison activities with the IASB (e.g. no mention of management reporting, primary financial statements, climate change disclosures, etc).

Questions

AUASB members are requested to provide feedback on both the:

- a) Revised proposed Strategy as presented in Agenda Item 16.8.1; and
- b) Revised proposed Work Plan as presented in Agenda Item 16.8.2, including the detailed Work Plan table and the indicative timing of projects and initiatives.

F. Framework for Activities

- 16 In addition to the revised Strategy and Work Plan a revised draft of the IAASB's proposed "Framework for Activities" (the Framework) has been provided to IAASB members for review at the December 2019 IAASB meeting. The document sets out a framework for how the IAASB undertakes its work, including describing the processes and procedures for selecting and prioritizing specific activities to deliver on its committed actions.
- 17 The Framework was originally presented in the IAASB's Draft Strategy and Work Plan released in February 2019 but withdrawn in September as the IAASB Steering Committee felt additional work was required to develop this framework. It will subsequently be revised over the course of 2020 and this is reflected in the IAASB 2020-21 Work Plan.
- 18 The IAASB Steering Committee has flagged that a 'nimble' approach to making changes to the standards is needed (where appropriate), and it is through the proposed "Framework for Activities" this agility could be achieved.
- 19 As the Framework is still in its early stages and very much a work in progress a copy has not been provided for review in the AUASB December 2019 Board Papers. However AUASB members wishing to review the current version of the Framework can locate it at <https://www.ifac.org/system/files/meetings/files/20191209-IAASB-Agenda-Item-3C-Draft-IAASB-Framework-for-Activities-Final.pdf>.
- 20 The AUASB Chair and Technical Director, as part of their efforts promoting collaboration with other NSS and the IAASB, have identified the Framework as part of the mechanism which will be used to ensure meaningful and active participation from the NSS in the IAASB's agenda.
- 21 The AUASB Technical Group will provide further update and analysis of the development of the Framework at future AUASB meetings.

Material Presented

| | |
|--------------------|--|
| Agenda Item 16.8.0 | AUASB Board Meeting Summary Paper |
| Agenda Item 16.8.1 | Revised IAASB Strategy for 2020–2023 Work Plan for 2020–2021 |
| Agenda Item 16.8.2 | Revised IAASB Work Plan for 2020–2021 |

Agenda Item 3-A

International Auditing and Assurance Standards Board®

[Draft] Strategy for 2020–2023



The International Auditing and Assurance Standards Board (IAASB) is a global independent standard-setting body that serves the public interest by setting high-quality international standards which are generally accepted worldwide.

The IAASB believes that high-quality, robust and operable international standards contribute to enhanced engagement quality and consistency of practice throughout the world, and strengthened public confidence in the global auditing and assurance profession. The IAASB sets its standards in the public interest with advice from the IAASB Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board.



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Chair's Foreword

The IAASB plays a meaningful role in the financial reporting ecosystem and wants to remain relevant as an international standard-setter. Therefore, we are committed to operating with a high degree of accountability to our stakeholders and demonstrating our responsiveness in an evolving world.

Sustained high quality audit, assurance and related services engagements require all relevant parties in the broader external reporting ecosystem to continue to play their respective roles. While we recognize that the IAASB is only one role player in the external reporting ecosystem, we must remain focused on fulfilling our mandate.

We will finish our substantial projects from our 2015–2019 Strategy in order to set a strong foundation for our future efforts. These projects include changes to some of our more significant International Standards on Auditing (ISAs) and quality control standards, which are key to high-quality audits and other engagements.

We stand ready to support the effective first-time implementation of these standards. We are aware that these projects will result in considerable changes to be implemented by our stakeholders over the short- to medium-term and must allow time for the changes to be properly and effectively implemented, and for the benefits to be observed. Although we have some responsibility in this regard, efforts to ensure effective transition for these changes will also require accountancy organizations, firms, regulators and others to play their part. We are particularly pleased and appreciative that the International Federation of Accountants (IFAC), one of our key stakeholders with whom we have a strong collaborative relationship, continues to be a leader in promoting and monitoring global adoption of our standards and has renewed its commitment to implementation support and education as a strategic priority.

There are increasingly competing demands for our attention. During this upcoming strategy period, we will face difficult prioritization choices as capacity for new work becomes available. In this document, we point to emerging public interest challenges, including addressing the impact of evolving technology and demands for reporting to meet the changing needs of stakeholders. I expect those topics, along with our early implementation support and work to identify emerging application issues, to require more relative attention in the coming years.

I want the IAASB to be an innovator among standard-setters by making our processes more agile and reducing the barriers to participating in our standard-setting activities for those who have interest in reporting and auditing activities. One way that we will do so is by developing a new *Framework for Activities* that should give even more transparency to our decisions and provide a more deliberate approach on where and how to focus our work effort.

We do not work in isolation. All of our work is underpinned by our interactions with our stakeholders – through our extensive outreach program and in collaboration with others. The foundational relationships already built must be further enhanced. In particular, we need to explore how we can more effectively work with others, National Standard Setters (NSS) and IFAC, to expand our capacity.

The IAASB developed this Strategy and Work Plan with a recognition that the Monitoring Group review of our governance arrangements is ongoing. We have developed a Strategy and Work Plan in a way that we



can adapt to changing circumstances. Our focus is to continue to act in a timely and independent manner to ensure the public interest is served.

We expect the changes we would like to make to how we work, to take time. But we are confident that as we navigate forward, these changes will facilitate and promote a more agile response while maintaining our core mandate as an international standard-setter.

Tom Seidenstein

IAASB Chair

DRAFT

Our Goal and Stakeholder Value Proposition

Our mandate is straightforward. However, standard-setting itself is not, especially in a global context. The following messages frame the broad lens of our strategic thinking.

Our Goal

- **Sustained trust** in financial and other reporting, enhanced by high-quality audits, assurance and related services engagements, through delivery of **robust global standards** that are in the **public interest** and capable of **consistent and proper implementation**.
-

Our Stakeholder Value Proposition

- **Public Interest Mindset:** A mindset that puts the public interest first, backed by focused work plans, processes, and activities that reflect our strategic focus as an independent, standard-setting board.
 - **Accountability:** Building trust and inspiring confidence through communication and transparency about our actions.
 - **Standards:** Globally relevant, forward-looking, applicable to entities of all sizes and complexities, adaptable in an evolving environment, and operable; developed and supported through activities that are independent and free of undue influence, timely, and responsive to the needs of our stakeholders.
 - **Engagement with Our Stakeholders:** Timely and meaningful dialogue with a broad range of stakeholders, including with regulatory, user and practitioner communities.
 - **Work Plans:** Focused on delivery of our International Standards and other related activities through timely identification of, and response to, our stakeholder needs; addressing issues with a global impact while carefully balancing speed and quality, capacity utilization, and coordination with others.
 - **Methods:** Rigorous and inclusive, including leveraging external resources where feasible. Continuously reviewed and improved to better facilitate delivery of committed work plans.
 - **Collaboration Efforts:** Leveraging efforts of, and continuing to strengthen coordination and cooperation with, in particular, the International Ethics Standards Board for Accountants (IESBA), IFAC and NSS.
 - **Implementation Support:** Supporting the timely and effective implementation of our major new and revised standards.
-

Strategic Drivers

Key to our success is delivering on the strategic actions set forth in this Strategy for 2020–2023 (Strategy), which is facilitated:

- Through our commitment to **engage, listen and learn** from our key stakeholders, and to **lead and adapt** in our global standard setting responsibilities.
- By **fostering confidence** in the quality and relevance of our processes and standards, evidenced by the many jurisdictions (over 130) using or committed to using the ISAs, including their oversight bodies (regulatory and inspection), and by user and practitioner communities.

Adapting to the environment, and meeting stakeholder needs, are the most significant drivers that have shaped our Strategy and Work Plan for 2020–2021 (Work Plan). The most relevant **strategic drivers** influencing our standards and future activities include:

| | |
|---|--|
| Advancement in, and Use of, Technology | <ul style="list-style-type: none"> • Rapidly changing and evolving technologies (e.g., artificial intelligence, robotics, blockchain, cloud computing, social networks and digital payment platforms). • Developments in the use of advancing technologies, including how automated tools (including automated data analytics) are used to perform work on audit and assurance engagements, and the way that such technologies influence how engagement teams are structured and interact. |
| Environment for SMEs | <ul style="list-style-type: none"> • Increasing pressure regarding the scalability and proportionality of the standards, in particular the ISAs. • Changing audit thresholds are increasing the demand for other types of assurance or other services for less complex entities. |
| Increasing Complexity and Its Implications | <ul style="list-style-type: none"> • The business environment is becoming increasingly complex and as a result, financial reporting standards are responding and becoming more complex. • Accounting practice is evolving—as transactions become more complex and financial reporting changes, more estimates and management judgments are needed. • The pace of change is driving complexity by exacerbating the impact of many of the factors referred to in this section, increasing pressures on responsiveness and relevance. • The growing adoption of more complex standards increases implementation and application challenges for practitioners, and, consequently, the need for guidance and support. |
| Changing Reporting Needs of Stakeholders | <ul style="list-style-type: none"> • Corporate reporting is evolving, with many users of corporate reports increasingly focusing on available non-financial information (e.g., sustainability reporting, enhanced reporting requirements for financial institutions or reports addressing an entity's governance arrangements and internal control, and other forms of extended external reporting) and seeking assurance thereon. |
| Changing Public Confidence in Audits | <ul style="list-style-type: none"> • Fluctuating confidence and trust in audits arising from recent high-profile corporate failures and reported poor results of external inspections in some jurisdictions. • Emerging public interest topics resulting from changing stakeholders' expectations about what the standards should require the auditor to do, such as relating to the detection and reporting of fraud, and consideration of going concern issues (i.e., the 'expectation gap' between what is expected from an audit and what the current standards require the auditor to do). |

Our Strategy and Focus

The three **strategic objectives** set out below will direct the activities we commit to in pursuit of our goal.

Continuously understanding our key opportunities and challenges, and balancing the needs of all stakeholders, are crucial to the continued use and ongoing adoption of our standards globally.

Undertaking standard-setting and related activities that reflect the opportunities and challenges (identified as the **strategic drivers** influencing our work) is key to our goal. The emphasis of our actions will be on making timely and relevant changes to respond to the evolving environment, in particular the rapid advances in technology and other areas identified as driving our work. The success of this key strategic objective is underpinned by our independence, effective and efficient processes, being innovative about how we undertake our work, and broad and engaging outreach and collaboration, which are reflected in our other two strategic objectives described below.

The **strategic actions** broadly describe our planned actions for each strategic objective. Our **work plans** set out the specific actions we will undertake.

I. Increasing the Emphasis on Emerging Issues to Ensure that Our International Standards Provide a Foundation for High-Quality Audit, Assurance and Related Services Engagements

Core to our activities is developing and maintaining high-quality international audit, assurance and related services standards. We will continue to focus on our traditional, core standard-setting activities, while giving greater attention to supporting the first-time implementation of changes arising from our recent significant projects, and addressing emerging and ongoing issues related to our standards. This balanced approach should enable our standards to remain relevant, robust and operable.

Strategic Actions – We will:

- Complete our major audit quality enhancements and other work underway at the start of 2020.
 - Undertake actions to develop ways to address understandability, scalability, proportionality and usability.
 - Challenge and enhance the fundamentals of our International Standards, with an increased focus on addressing emerging issues identified from the evolving environment (such as relating to the detection and reporting of fraud and the auditor's consideration of going concern), or relating to our identified strategic drivers (such as how technology is impacting the implementation of the International Standards), in an appropriate way and in a timely manner, to reflect the changing public interest.
 - Undertake actions to provide standards that are easily accessible and searchable.
 - Respond, as appropriate, where public interest bodies or regulators identify divergence in practice.
 - Support and facilitate the effective implementation of new and revised standards, through developing or collaborating on material to assist first-time implementation, and other related activities to promote the changes in the initial period after a final new or revised standard is published.
-

II. Innovate Our Ways of Working to Strengthen and Broaden Our Agility, Capabilities, and Capacity to Do the Right Work at the Right Time

Enhancing and strengthening our processes is critical to our success.

Strategic Actions – We will:

- Innovate how we work through the use of technology, new collaboration tools, and other means to increase our agility and maximize the impact of our activities.
- Develop and implement a *Framework for Activities* that will include:
 - Undertaking more structured and robust information-gathering and research activities as a foundation for future workstreams, while also providing transparency about the decisions made for the work we undertake.
 - Procedures for developing and revising standards, and the effective implementation thereof.
 - Developing mechanisms for addressing issues and challenges on a more timely basis.
- Consider how we can continue to improve our due process to ensure continuing public confidence.

III. Maintain and Deepen Our Relationships with Our Stakeholders to Achieve Globally Relevant, Progressive and Operable Standards

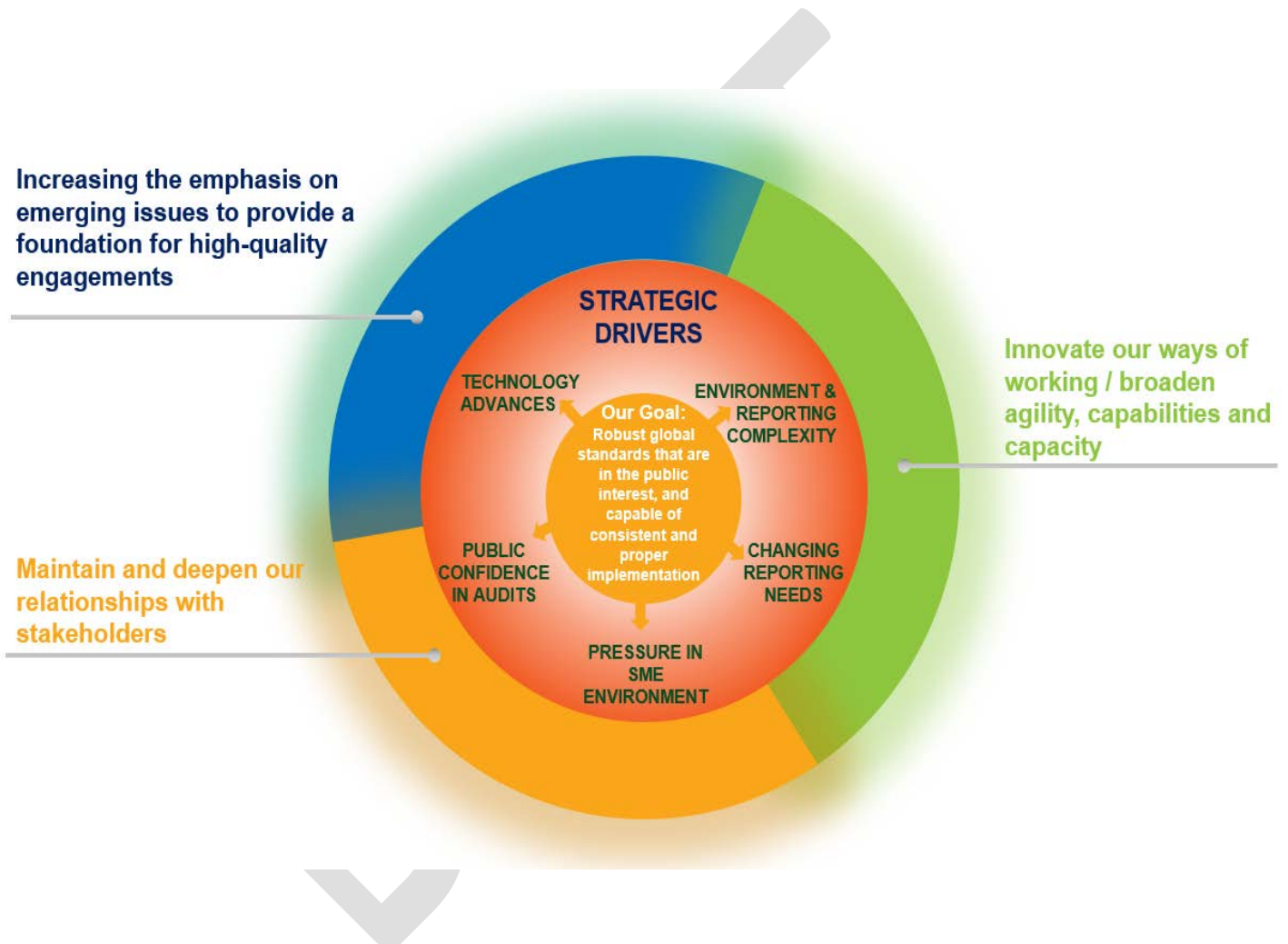
Timely and meaningful outreach and collaboration to appropriately inform our work, and to deliver on our mandate.

Strategic Actions – We will, in addition to maintaining and deepening our relationships with our key stakeholders (see Appendix 1), focus on:

- Exploring new ways to collaborate with, and leverage insight, knowledge and resources of, NSS, , academics and others, as needed.
- Building on our ongoing collaborative relationship with IFAC in promoting adoption and effective implementation of the ISAs and our other standards, in particular for audits of less complex entities, emerging markets and public sector.
- Understanding issues, including implementation issues and challenges, that affect our standards through our wide-ranging outreach program.
- Broadening the level of stakeholder interaction among all interested parties throughout the standard-setting process.

The Relationship Between Our Planned Activities and Our Goal

To achieve our goal, we have developed three strategic objectives to help guide our activities for our Work Plans. The strategic objectives have been developed taking into account the strategic drivers within the environment in which we operate, and the need to maintain the relevance of our standards. Our planned activities in 2020–2023 will be representative of those actions we have committed to focus on within each of the three strategic objectives.



Our Work Plan and Framework for Activities

Work Plans

Our specific activities are set out in our work plans. The *Work Plan for 2020–2021* [\[link\]](#) describes our planned projects and activities in 2020 and 2021, including projected timelines where relevant. We will develop our Work Plan for 2022–2023¹ using the strategic objectives to guide our planned activities.

The prioritization, timing and expected outcomes in the work plans reflect our current thinking about the allocation of resources but will evolve as we address new topics and undertake actions to respond to a continually evolving environment. Therefore, the planned work in the forward agenda may evolve over time to reflect changing timelines and circumstances. During our strategy period, we will continue to monitor internal and external developments and evaluate how changes may impact our approach to delivery of our Strategy and Work Plan.

In our previous strategy period (2015–2019) we allocated most of our resources to revising and developing standards. Our current strategy, particularly the first and second strategic objectives, drives us to be a more agile and responsive standard-setter. Our aim is to respond to public interest issue in a more targeted manner.

As we move into our new workstream activities, it is expected that we will devote increasing time and resources to support the early implementation and application issues relating to the changes in our standards, address complexity in, and usability of, the standards, and emerging issues (as set out in our strategic objectives and strategic actions). Accordingly, we plan to increase the relative amount of resources to support our new and enhanced activities and workstreams, while still being mindful of our mandate as a standard-setter and allocating relatively significant effort to the revision and development of our International Standards.

Past experience has shown that we have allocated our resources to a mix of activities, but with a significant focus on revising and developing standards (in particular in the 2015–2019 strategy period). As some of the significant projects started in the 2015–2019 strategy period will continue into 2020, the mix of activities in Diagram 1 below is still reflective of this as we complete our significant standard-setting projects. As we finish these projects and shift our focus in line with our strategic objectives during 2021 there is expected to be a change in the mix of activities, with the same resources, as illustrated in Diagram 2.

¹ The Work Plan for 2022–2023 will be developed during 2021, with consultation on the proposed activities as needed.

Framework for Activities

Our *Framework for Activities* (the Framework) [\[link\]](#) describes how we undertake our work (i.e., the processes and procedures) to deliver on our committed actions.² Key components of the Framework include:

- *Information Gathering and Research Activities*—our activities to support future workstreams. Output from this component informs the Board's decisions about its future work streams. Features of this component include:
 - Fact-finding activities to monitor, understand, research and explore emerging issues and developments that may affect our auditing, assurance and other standards.
 - Post-implementation reviews to understand whether new and revised standards have been implemented as intended, i.e., in terms of the purpose for which they were developed, how they are being understood and applied, identifying any practical challenges and concerns, and to gauge the demand for any change or possible further actions.
 - Targeted information-gathering on specified issues or challenges (including understanding causal factors).
 - The determination of possible projects, or other actions as appropriate, for addressing identified issues, and assessment thereof (using applicable criteria).
 - Clearer scoping of future projects or other agreed actions.
 - A structure to guide the decisions about what matters are introduced into this workstream activity, how they are dealt with and how the relevant outputs are determined.

In carrying out these activities, we will look to continued collaboration and resource leveraging opportunities, as appropriate, with IFAC, NSS, the academic community, or others as appropriate.

- *Revising and Developing Standards*—following agreed scoping and due process to develop proposals for public consultation, analyzing the feedback, and refining the proposals to issue a final new, or revised, standard.
- *Narrow Scope Maintenance of Standards*—Considering how we can be responsive in addressing issues in a more nimble or timely way, such as undertaking narrow-scope amendments or interpretations relating to specific questions about an approved standard.
- *Implementation Activities (including effectively implementing new and revised standards and developing non-authoritative guidance)*—Developing support materials, and other related activities (e.g., webinars, presentations etc.), to assist with the effective implementation of new and revised standards, in the initial period after a final standard is published, or developing non-authoritative guidance where information gathering has indicated that guidance is needed, or the issue relates to a specific industry. We will also coordinate with IFAC and others regarding broader implementation of our standards.



² The Framework will be more comprehensively developed as we continuously enhance our processes and procedures to adapt to the Framework during the strategy period (and in accordance with our strategic objectives).

Delivery of the Strategy and Work Plan

Delivery of our Strategy and Work Plan is under constant scrutiny by ourselves and our stakeholders in relation to:

- Meeting targeted outcomes set out in our Work Plan.
- Expanding global adoption of our standards, including adoption of new and revised standards by jurisdictions who are already using our standards.
- Facilitating the effective first-time and continuing implementation of new and revised standards.
- Building stronger relationships with key stakeholders.

Managing delivery of our committed Work Plans with limited resources requires careful consideration of the allocation of the available resources to the planned activities in the Work Plan in the most effective way. Our primary resources include a combination of staff and volunteer time from Board members, technical advisors and others, and financial resources in the form of operating budget. The Framework being developed will help guide our decisions regarding the allocations of these resources, for which there are inherent limitations.

Accountability to our stakeholders about our actions, including how we undertake our activities, underlies the trust and confidence our stakeholders have in our standards. Therefore, we recognize the importance of demonstrating accountability to our stakeholders. As we develop our Framework, we will, in parallel, further consider how we can enhance transparency about how we are meeting our objectives and our goal. This will likely take into account, among other things, our efforts to change the focus of our activities (for example, enhanced implementation activities and more robust information gathering), changes in the adoption and use of our standards, how we collaborate with others to increase the capacity for our activities, and how we have strengthened relationships.



Appendix 1

Maintain and Deepen Our Connections with Our Key Stakeholders

We work with many stakeholders, with a variety of expectations and needs that must be balanced and prioritized. Where necessary, we will seek out additional stakeholders in an effort to expand our influence or gain a greater understanding. Most importantly, our strategy must reflect and respond to the needs of all stakeholders in an integrated way. In maintaining and deepening our connections we plan to:



- Continue to **interact with the CAG**. The CAG is a fundamental part of our engagement with our stakeholders and is a key element of our due process. The CAG is comprised of over 30 member organizations representing global regulators, business and international organizations, accountancy regional bodies and users and preparers of financial statements.
- Further enhance our **coordination efforts with IESBA**.
- Explore new ways to expand our **collaboration with NSS** to optimize our activities.
- Continue our two-way liaison with the **International Accounting Standards Board**, providing input on auditability and verifiability of new and revised International Financial Reporting Standards, thereby contributing to the quality of financial reporting.³
- Increase collaboration with the **International Forum of Independent Audit Regulators** and other **regulators and oversight bodies** to identify emerging issues related to the application of our standards and further explore causal factors for these issues.
- Further enhance working relationships with **investor groups, audit firms, the public sector, and other standard-setting bodies** (such as the International Valuation Standards Council) to help understand their concerns.
- Build on our existing **collaborative relationship with IFAC** and its various committees, in particular in relation to implementation support activities.
- Continue to establish **subject-specific Advisory Panels**, as needed, to enable Task Forces and Working Groups to receive timely input on developing proposals from a broad range of relevant stakeholders.

³ For more information about the IAASB's liaison with the IASB see the project page: <http://www.iaasb.org/projects/iaasb-iasb-liaison>

International Auditing and Assurance Standards Board®

[Draft] Work Plan for 2020–2021



This **Work Plan** for the period 2020–2021 (the ‘Work Plan’) sets out our specific projects and activities that we have identified to help us deliver on our strategic objectives (and strategic actions therein) as set out in our **Strategy for 2020–2023** [\[link\]](#) (the ‘Strategy’). Our Work Plan has been developed in the context of the **Framework for Activities** (the ‘Framework’). The Framework helps us select, prioritize and scope our work by setting out processes, procedures, and criteria for making decisions about how best to deploy our resources, which are inherently limited.

The Work Plan also illustrates the shift in focus to enable more agility in our responsiveness.



Our Detailed Work Plan for 2020–2021

Our detailed Work Plan is presented below and is our best estimate, at the time of publication, for how we will progress the various projects and workstreams. This Work Plan may change given the nature of the issues, the complexities of the projects, stakeholders feedback, and the need to be flexible in responding to environmental changes.

Broadly, our time and effort in 2020 to 2021 will focus on:

- Initially, completing projects already underway.
- Activities to support the effective implementation of the recently issued, or completed, International Standards on Auditing (ISAs) and quality management standards.
- Information gathering and research activities to inform the nature and scope of new projects.
- Monitoring the environment and timely analysis of new and evolving issues that may affect our standards, and related activities thereafter as needed.
- Developing the Framework.
- Outreach and related activities.



How We Determine Our New Activities and Priorities

Our *new* projects and activities that will commence in 2020 and 2021, as capacity opens up on completion of projects underway at the start of 2020, will:

- ❖ Originate from the activities within the Information Gathering and Research workstream; and
- ❖ Be determined taking into account:
 - The global need for action;
 - Whether it is in the public interest to pursue the action.
 - Our capacity for new projects in relation to available resources.
 - The nature of the project or activity.
 - Whether a global response will be timely.
 - If standard-setting, the ability of practitioners to be able to adopt the standard in a high-quality manner.

Pool of Possible Topics for Future Consideration

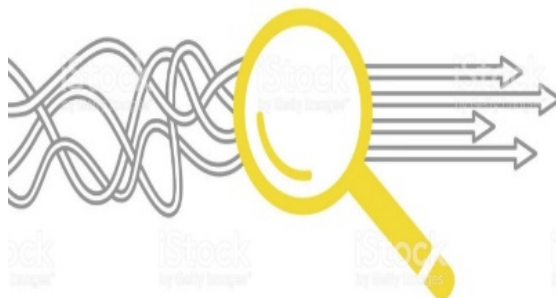
Information gathering and research is one of the components of the Framework, the outputs of which informs the Board's decisions about its future projects and workstreams. Those decisions determine the nature and scope of new projects or workstreams in terms of one or a combination of the other components of the Framework (i.e., Revising and Developing Standards; Effectively Implementing New and Revised Standards; Developing Non-Authoritative Guidance; or Maintenance of Standards).

Information gathering and research activities, in collaboration with others (such as National Standard Setters (NSS), academics or others), where appropriate, is expected to help inform our future work through various streams:

- **Category A**—Activities to explore new topics that fall into our remit and require further Board consideration. Actions for gathering information may include for example, post-implementation reviews, scanning the environment, interacting with stakeholders and other surveys. Once a possible new topic is identified and its further consideration is indicated, it will move to Category B for more focused action or may be subject to another action that may be appropriate to the circumstances.
- **Category B**—More focused information gathering and research activities to understand and evidence identified issues and challenges that fall into our remit, and that are globally relevant. Such topics may move to Category C, or the Board may determine that no further action is necessary. Appendix 2 sets out a list of the known topics that form the basis of our work within Category B during this Work Plan period.
- **Category C**—Activities focusing on analyzing identified topics to determine recommendations for Board action (including the scoping of such activities and the development of project proposals as needed). The outcomes from these activities may include new projects or workstreams on our work plan to address identified issues and challenges through revising and developing standards, narrow scope amendments, developing non-authoritative guidance or other activities as needed. Topics within this category would likely utilize Board plenary time for discussion of matters being considered.

Topics move between categories as relevant criteria (as set out in the Framework) for further action are met. The relevant criteria guide our assessment about the category to which a topic is allocated (i.e., assigning the activity level related to the topic), and is based on which projects or activities would provide the greatest public interest benefit to our stakeholders. It is not intended that topics in our information gathering and research categories necessarily travel in a linear manner through these categories, and will be dependent on the relevant criteria for each category, as well as the outcomes of the information gathering activities. In reflecting on the public interest benefits, we independently consider:

- The extent to which the action will further enhance the quality and value of audit, assurance and related services engagements globally;
- The appropriateness of the action to contribute overall to standards that are relevant, robust and operable in accordance with the needs of our stakeholders; and
- The extent to which the action serves to facilitate enhanced public confidence in financial and other external reporting.



| OUR DETAILED WORK PLAN Project | 2020 | | | | 2021 | | | |
|---|-------|------|------|-----|-------|------|------|-----|
| | March | June | Sept | Dec | March | June | Sept | Dec |
| I. Increasing the Emphasis on Emerging Issues to Ensure that Our International Standards Provide a Foundation for High-Quality Audit, Assurance and Related Services Engagements | | | | | | | | |
| Revising and Developing Standards | | | | | | | | |
| ISQM 1 ¹ | X | F | | | | | | |
| ISQM 2 ² | X | F | | | | | | |
| ISA 220 (Revised) ³ | X | F | | | | | | |
| Conforming Amendments to Other Standards Arising from Quality Management Standards | | | X | E | | X | F | |
| ISA 600 (Revised) ⁴ | E | | X | X | X | F | | |
| Standard-Setting Project 1 Placeholder (Note 1) | | | | | | | | |
| Standard-Setting Project 2 Placeholder (Note 1) | | | | | | | | |
| Development of Non-Authoritative Guidance and Other Activities Related to Standard-Setting | | | | | | | | |
| Extended External Reporting (EER) (non-authoritative guidance) | | X | X | F | | | | |
| Technology (ongoing) (Note 2) | X | X | X | X | | X | | X |
| Professional Skepticism (ongoing) (Note 2) | | | X | | X | | X | |
| Work Plan 2022–2023 | | | | | X | | X | F |
| First-time Implementation Activities (Note 3) | | | | | | | | |
| ISA 540 (Revised) ⁵ | | | | | | | | |
| ISA 315 (Revised 2019) ⁶ | | | X | | | | | |
| Revised Quality Management Standards (ISQM 1, ISQM 2, ISA 220 (Revised)) | | | | | X | | | |
| ISA 600 (Revised) | | | | | | | | |
| Maintenance of Standards | | | | | | | | |
| New Project(s) Placeholder (Note 1) | | | | | | X | X | X |

¹ Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control (ISQC) 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 Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁴ Proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁵ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁶ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

| OUR DETAILED WORK PLAN Project | 2020 | | | | 2021 | | | |
|--|-------|------|------|-----|-------|------|------|-----|
| | March | June | Sept | Dec | March | June | Sept | Dec |
| Information Gathering and Research | | | | | | | | |
| Matters Related to Audits of Less Complex Entities (Category C) (Note 4) | X | | X | X | X | | | |
| Audit Evidence (Category C) (Note 4) | X | X | P | | | | | |
| Fraud (Category A / B) | | | | X | | | | |
| Going Concern (Category A / B) | | | | X | | | | |
| Other (Category A or B or C) (Note 5) | | | | | | X | | X |
| Auditor Reporting Post-Implementation Review (Note 5) | | | | X | | X | | |
| ISA 540 (Revised) Post-Implementation Review (Note 5) | | | | | | | X | |
| II. Innovate Our Ways of Working to Strengthen and Broaden Our Agility, Capabilities and Capacity | | | | | | | | |
| Developing the Framework for Activities | X | X | X | X | | | | |
| Strengthening collaboration efforts with NSS and the International Federation of Accountants (IFAC) | | | | | | | | |
| III. Maintain and Deepen Our Relationships with Our Stakeholders | | | | | | | | |
| Outreach program (see Appendix 3) | | | | | | | | |
| Coordination with the International Ethics Board for Accountants (IESBA) | | | X | | | | X | |
| Liaison activities with the International Accounting Standards Board (IASB) | | | X | | | X | | |

Key to Our Detailed Work Plan:

Appendix 1 sets out a description of the projects and workstreams included in the table above, which also categorizes the projects and workstreams by strategic action.

Cells with a(n):

- Green highlight indicates expected Working Group, Task Force or Staff activity. The **darker** the shade of color, the more time and activity is needed for that particular workstream.
- 'X' indicates that IAASB plenary meeting time is scheduled.
- 'P' indicates the **targeted** approval of project proposal.
- 'E' indicates the **targeted** approval of an Exposure Draft.
- 'F' indicates the **targeted** final approval by the IAASB of a new or revised standard

Notes:

- 1 = These represent placeholder for new project(s), which may be standard-setting or another activity. Due to the uncertain nature of future workstreams, these may be moved to another category once the project has been scoped in terms of the new Framework. In some cases, these possible new projects do not have Board time allocated due to the uncertain nature of what future work we will undertake. The number of projects we will undertake may also vary; it may be one significant standard setting project or more than one smaller project. In addition, the new project(s) may not necessarily be a new standard-setting project in which case this allocation would change to another category, such as maintenance of standards. Placeholders have been added to this Work Plan, however, the number and category may change as explained.
- 2 = Ongoing initiatives, including dedicated working groups to undertake ongoing information gathering and research activities, as well as working to a plan for the development of guidance and other materials as needed, and inputting to our other projects as relevant.
- 3 = Although limited Board plenary time, in the six to nine months following the approval of a new or revised standard there will be a focus on implementation activities. These activities may include the development of guides (e.g., a 'first-time implementation guide' explaining the substantial changes made), flow charts, frequently asked question documents, video panel discussions or focused presentations relating to the changes. These activities are in addition to the preparation of a Basis for Conclusions and the 'At a Glance' document that we have historically published for a new or revised standard.
- 4 = The topics under consideration within the information gathering and research component of the Framework will be monitored by a dedicated resource within the IAASB, including which topics become actively pursued. The outcomes of information-gathering and research activities may result in standard-setting or other projects or workstreams, such as maintenance of standard or the development of non-authoritative guidance. The projection of Board plenary discussions and timing of consultations and finalization will be presented in this Work Plan at the time when the project proposal is approved.
- 5 = The findings from the Post Implementation Reviews may result in further information gathering and research activities, or a project or other workstream activity for the IAASB depending on the findings from the review.

Allocation of Resources

Our Work Plan is ambitious in 2020 and 2021, and will draw on our full capacity to deliver high-quality standards, and undertake our activities, in a timely manner. The Work Plan as set out above is expected to be supported by a direct operating budget of approximately \$12.5 million over the period (excluding operational support received from IFAC).

The work that can be undertaken is also limited to the volunteer hours, consultant hours and staff capacity available to undertake activities that we have committed to. As projects and initiatives are completed, and resources become available, including budget that has not yet been allocated to work committed to, we will allocate these resources on the basis of information about new initiatives or projects that will need to be started (from the Information Gathering and Research component of the Framework) and past experience of the capacity needed to deliver our projects and initiatives.

Appendix 1

Description of Projects and Initiatives in the Work Plan 2020–2021

More information about our projects can be found on the project page: <http://www.iaasb.org/consultations-projects>. A direct link to the project page is included in the project title.

The last column illustrates the component within the Framework that the planned action is related to. For new and ongoing activities, and where feasible, these have been grouped to reflect the strategic drivers being addressed by the relevant planned action.

| I. Increase the Emphasis on Emerging Issues | | Framework for Activities Component |
|---|---|------------------------------------|
| Complete Our Major Audit Quality Enhancements and Other Work Underway and Support and Facilitate Effective Implementation | | |
| Revising and Developing Standards and Non-Authoritative Guidance | | |
| <u>ISQM 1 – Quality Management at Firm Level</u> | The purpose of the revisions to ISQC 1 ⁷ is to improve firms’ management of quality for all engagements performed under the IAASB’s International Standards. This will be achieved through the introduction of a risk-based approach to the management of quality and strengthening various aspects of the standard, including governance and leadership, resources, information and communication, monitoring and remediation and networks. | Revising and Developing Standards |
| <u>ISQM 2 – Engagement Quality Reviews</u> | ISQM 2 aims to strengthen and clarify various aspects of engagement quality reviews, including the engagements to be subject to such reviews, the eligibility criteria for engagement quality reviewers and the performance and documentation of the reviews. | Revising and Developing Standards |
| <u>ISA 220⁸ – Quality Management at Engagement Level</u> | The purpose of the revisions to ISA 220 is to strengthen aspects of quality management for individual engagements by focusing on the identification, assessment and response to quality risks in a broad range of engagement circumstances. | Revising and Developing Standards |
| <u>ISA 600⁹ – Group Audits</u> | This project revises ISA 600 to strengthen the auditor’s approach to a group audit and clarify the role of ISA 600 | Revising and Developing Standards |

⁷ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

⁸ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁹ ISA 220, *Quality Control for an Audit of Financial Statements*

| | | |
|---|--|--|
| | in relation to other ISAs, such as ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330. ¹⁰ | |
| Changing Reporting Needs of Stakeholders | | |
| <u>Extended External Reporting</u> | The purpose of this project is to develop non-authoritative guidance in applying ISAE 3000 (Revised) ¹¹ to EER engagements and provides thought leadership on assurance issues in relation to EER. This includes determining the scope of an EER assurance engagement, exercising professional skepticism and professional judgment, obtaining the competence necessary to perform the engagement, and communicating effectively in the assurance report. | Developing Non-Authoritative Guidance |
| Implementation Activities | | |
| ISA 315 (Revised 2019) | Activities to support awareness, understanding and effective implementation of ISA 315 (Revised 2019) as needed. | Developing Resources for the Effective Implementation of New and Revised Standards |
| Quality Management Standards | Activities to support awareness, understanding and the effective implementation of the quality management standards as appropriate | Developing Resources for the Effective Implementation of New and Revised Standards |
| ISA 600 (Revised) | Activities to support awareness, understanding and effective implementation of ISA 600 (Revised) as needed. | Developing Resources for the Effective Implementation of New and Revised Standards |

¹⁰ ISA 330, *The Auditor's Responses to Assessed Risks*

¹¹ International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

| Information Gathering and Research | | |
|---|--|---|
| Addressing the Environment for Small- and Medium-Sized Entities and Developing Ways to Address Increasing Complexity | | |
| <u>Matters Related to Audits of Less Complex Entities (Category C)</u> | In 2020 and 2021, we will analyze the responses from the Discussion Paper, <i>Audits of Less Complex Entities</i> , determine a way forward, and commence activities related to the determined actions. | Initially Information Gathering and Research Activities |
| Developing Ways to Address Increasing Complexity and Advancement in, and Use of, Technology | | |
| <u>Audit Evidence (Category C)</u> | The initial objective of this workstream is to perform further information gathering and research activities to identify and prioritize audit-evidence-related issues when applying the ISAs. This information will be used to develop informed recommendations for possible further Board action to address such issues. | Initially Information Gathering and Research Activities |
| <u>Technology</u> | The objective of this workstream is to identify matters for which there is an opportunity for a more immediate response through developing and issuing guidance to address the effect of technology when applying certain aspects of the ISAs. The Technology Working Group also work with other task forces and working groups to input on relevant matters relating to technology on current projects. | Information Gathering and Research Activities and Developing Non-Authoritative Guidance |
| Addressing Some or All Strategic Drivers | | |
| <u>Ongoing Information Gathering and Research (Categories A or B)</u> | The objective of our research activities is to support future workstreams with activities as relevant to the topics within Categories A or B. Output from this stage informs the Board's decisions about its future work streams and activities. The strategic drivers identified and environmental development during the strategy period will influence the topics that are taken up by the IAASB. | Information Gathering and Research Activities |
| <u>Auditor Reporting Post-Implementation Review</u> | Monitoring global developments in auditor reporting, with a focus on identifying practical implementation and other related issues that are causing the new and revised Auditor Reporting Standards, ¹² and ISA 720 | Information Gathering and Research Activities |

¹² The new and revised Auditor Reporting Standards comprise ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; New ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other*

| | | |
|--|---|--|
| | (Revised), ¹³ to not achieve their intended purpose. In addition, the post-implementation review will explore whether there are ways to improve the quality of the communication of key audit matters and other matters that could improve transparency about the audit that were not included in the new and revised Auditor Reporting Standards and ISA 720 (Revised). | |
| <u>ISA 540 (Revised) Post-Implementation Review</u> | The commencement of activities to monitor the implementation of ISA 540 (Revised), with a focus on identifying practical implementation and other related issues that are causing the revised standard to not achieve its intended purpose. | Information Gathering and Research Activities |
| <u>Professional Skepticism</u> | The objective of this workstream is to make recommendations on how to more effectively respond to issues related to professional skepticism. The Professional Skepticism Working Group also work with other task forces and working groups to input on relevant matters relating to professional skepticism on current projects. | Information Gathering and Research Activities |
| II. Innovate Our Ways of Working to Strengthen and Broaden Our Agility, Capabilities and Capacity | | |
| <u>Framework for Activities</u> | Develop and implement a Framework that will include: <ul style="list-style-type: none"> • Undertaking more structured and robust information gathering and research activities as a foundation for future work streams, while also providing transparency about the decisions made for the work we undertake. • Revising and developing standards, and the effective implementation thereof. • Developing mechanisms for addressing issues and challenges on a more timely basis | Strengthening and Broadening Capabilities and Capacity |
| <u>Enhancing Collaboration with NSS and IFAC</u> | Explore new ways to expand our collaboration with national auditing standard setters and IFAC to optimize our activities, for example in relation to implementation support activities. | Strengthening and Broadening Capabilities and Capacity |

Matter Paragraphs in the Independent Auditor's Report; ISA 570 (Revised), Going Concern; ISA 260 (Revised), Communication with Those Charged with Governance; and conforming amendments to other ISAs

¹³ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

| III. Deepening Our Relationships with Our Stakeholders ¹⁴ | | |
|--|--|----------|
| Coordination with IESBA | Coordination activities with IESBA involve proactive collaboration and transparent and timely communications between staff and members of the two Boards to determine and address matters of mutual impact. | Outreach |
| Liaison Activities with IASB | Continue our two-way liaison with the IASB providing input on the audibility and verifiability of new and revised International Financial Reporting Standards, thereby contributing to the quality of financial reporting. | Outreach |

¹⁴ Appendix 3 sets out details about the IAASB's outreach program

Appendix 2

Possible Known Topics for Further Consideration

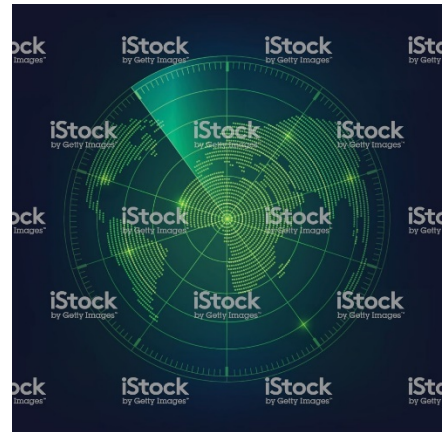
Topics within the Information Gathering and Research Component of the Framework contemplate the identified strategic drivers to help identify topics and issues where further action may be needed. In order to make the decisions about which topics to pursue, guidelines within the Framework help determine whether the topic should be included on our work agenda (including what the possible action may be), and its priority.

The following sets out those topics that will form the initial basis¹⁵ of Category B of the Information Gathering component of the Framework in 2020 and 2021 (areas under active review in Category C (e.g., related to the Audit Evidence or Less Complex Entities initiatives) have been presented as separate workstreams in the Work Plan as they are being actively pursued):

- Matters relating to fraud, including ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, in light of changing public confidence in audits, increasing complexity in the environment and advancements in, and use of, technology.
- Matters relating to responses to the identified and assessed risks of material misstatement and ISA 330, *The Auditor's Responses to Assessed Risks*,¹⁶ in light of the significant revisions that have been undertaken to ISA 315 (Revised 2019), advancement in, and use of, technology and increasing complexity within the environment.
- ISA 570 (Revised), *Going Concern*, in light of changing public confidence in audits, increasing complexity in the environment and advancements in, and use of, technology.

Category A Topics:

The list of topics in Category A (i.e., they are on our radar but we have not yet commenced actively undertaking further information gathering and research activities) are numerous (and have therefore not been listed). The topics within this category have been identified through post-implementation reviews, outreach, interactions with our stakeholders, scanning the environment for changes and through more formal consultations (including those undertaken in developing this strategy). We will continue to monitor, on a regular basis, all of the topics within this category for changes in status where more active information -gathering and research may be needed.



¹⁵ The topics within Category B may change during the Work Plan period as those topics that form Category A are further considered or a need for more active information gathering is identified.

¹⁶ A project to revise ISA 330 was strongly encouraged in the responses to the exposure draft of proposed ISA 315 (Revised 2019).

Appendix 3

Our Outreach Program



Annually, IAASB representatives undertake outreach with our key stakeholders, to maintain our stakeholder relationships, obtain input and monitor developments within the environment. IAASB members and Staff also undertake a considered and active engagement strategy, including personal visits and meetings, participation in conferences, discussion groups and forums, as well as webinars and other methods of communication to inform and engage on technical topics.¹⁷ In 2020 and 2021 we will also be exploring new collaboration tools to reduce barriers to engagement with all our stakeholders.

Summary of Annual Stakeholder Engagement

It is intended that the following minimum stakeholder engagement will be undertaken by IAASB members, technical advisors and staff. In addition to the outreach listed below, we will focus on enhancing its outreach with certain stakeholder groups, such as investors and those charged with governance, that have had more limited outreach in the past strategy period.

| Stakeholder | Description of Interactions |
|---|--|
| Consultative Advisory Group (CAG) | <ul style="list-style-type: none"> • Bi-annual 2-day meetings with CAG Representatives • Teleconferences with CAG Representatives as necessary |
| Other International Standard-Setting Boards | <ul style="list-style-type: none"> • Annual joint session with IESBA and other collaboration activities as described in the Strategy and Work Plan • Annual IASB Update from a Representative and annual meeting with IASB leadership • Regular interactions between chairs of other standard-setting setting boards to discuss areas of joint interest |
| Meetings with Regulators and Oversight Bodies | <ul style="list-style-type: none"> • Annual or semi-annual meetings with representatives from, or presentations to regular meetings of: <ul style="list-style-type: none"> ○ The International Forum of Independent Audit Regulators, and its Standards Coordination Working Group |

¹⁷ In addition to the outreach activities included in this section, we inform our stakeholders about our activities through press releases, newsletters, reports and podcasts.

| Stakeholder | Description of Interactions |
|--|--|
| | <ul style="list-style-type: none"> ○ International Organization of Securities Commissions, and its Committee on Issuer Accounting, Audit and Disclosure ○ International Association of Insurance Supervisors ○ Basel Committee on Banking Supervision's Audit Subgroup • Meetings with regulators and oversight bodies on "country visits" (see below) |
| NSS | <ul style="list-style-type: none"> • Annual two-day annual standard setters meeting with representatives from 18 standard setters globally • Meeting with representatives from standard-setters in "country visits" (see below) |
| IFAC Member Bodies and Accountancy Organizations | <ul style="list-style-type: none"> • Meetings with representatives from member bodies on "country visits" (see below) • Presentations about our activities at member body conferences and forums • Participation in panels at member body conferences and forums |
| Accounting Firms | <ul style="list-style-type: none"> • Presentations at, and participation in, bi-annual meetings of the Forum of Firms (representing the 31 largest networks) • Meetings with firm leadership • Presentations at global and regional conferences of firms |
| Public Sector | <ul style="list-style-type: none"> • Attendance at annual International Organization of Supreme Audit Institutions Financial Audit and Accounting Subcommittee meetings |
| Academic Community | <ul style="list-style-type: none"> • Presentations about our activities at various academic related conferences |
| Country Visits | <ul style="list-style-type: none"> • Meetings with relevant stakeholders including regulators and audit oversight bodies, NSS, member bodies, investor groups and others on a rolling basis globally |



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **17.1.0**

Meeting Date: 3 & 4 December 2019

Subject: Update of AASB-AUASB Charter

Date Prepared: 26 November 2019

Prepared By: Matthew Zappulla

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

1. Provide the AUASB with a revised version of the AASB-AUASB Board Charter based on updates made by the AASB Chair and staff.

Background

1. The AASB-AUASB Board Charter was last updated in November 2018.
2. The AASB Chair and staff reviewed the Charter in October 2019 to reflect recent changes to the AASB's Due Process documentation and other updates which were AASB specific. In the course of that update several editorial changes have been made, such as revising the paragraph numbering and some minor wording changes. There have been no changes in substance to the Board Charter that impact the AUASB.

Matters to Consider

3. AUASB members are asked to review the updated Board Charter, which is presented with changes marked up at **Agenda Item 17.1.1** and a full clean updated version at **Agenda Item 17.1.2**.

Material Presented

| | |
|--------------------|---|
| Agenda Item 17.1.0 | AUASB Board Meeting Summary Paper |
| Agenda Item 17.1.1 | AASB-AUASB Board Charter (Marked up to November 2018) |
| Agenda Item 17.1.2 | AASB-AUASB Board Charter (Clean) |

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.



AASB and AUASB Board Charter

[To finalise this document – Link needed in para 6.18 to AASB Due Process Framework?
Para 6.19 and 9.2 still refer to intended AUASB due process document]

~~November 2018~~



October 2019

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1 Purpose

- 1.1 This Charter outlines the main corporate governance principles that apply to the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) (together, the Boards).
- 1.2 The Charter will be reviewed annually by the AASB and the AUASB to ensure it remains consistent with the Boards' objectives, responsibilities and relevant standards of corporate governance.

2 Objectives

- 2.1 The Boards operate within a framework set out in Part 12 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act). The ASIC Act sets out core objectives for accounting and auditing and assurance standard setting in Australia.
- 2.2 Under section 224 of the ASIC Act, the main objects of Part 12 are that:
 - (a) accounting standards should require the provision of financial information that:
 - (i) allows users to make and evaluate decisions about allocating scarce resources;
 - (ii) assists directors to discharge their obligations in relation to financial reporting;
 - (iii) is relevant to assessing performance, financial position, financing and investment;
 - (iv) is relevant and reliable;
 - (v) facilitates comparability;
 - (vi) is readily understandable;
 - (b) auditing and assurance standards should require the provision of information that:
 - (i) provide Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the *Corporations Act 2001* (Corporations Act);
 - (ii) require the preparation of auditors' reports that are reliable and readily understandable by the users of the financial reports to which they relate; and



- (c) the Australian financial reporting system should:
 - (i) facilitate the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively overseas;
 - (ii) facilitate the Australian economy by having accounting and auditing and assurance standards that are clearly stated and easy to understand;
 - (iii) maintain investor confidence in the Australian economy, including its capital markets.

3 Board Functions

3.1 Under section 227 of the ASIC Act, the AASB's functions are to:

- (a) develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards;
- (b) make accounting standards under section 334 of the Corporations Act for the purposes of the corporations legislation;
- (c) formulate accounting standards for other purposes;
- (d) participate in and contribute to the development of a single set of accounting standards for world-wide use; and
- (e) advance and promote the main objects of Part 12 of the ASIC Act.

3.2 In carrying out its functions the AASB must:

- (a) have regard to the interests of Australian corporations which raise or propose to raise capital in major international financial centres;
- (b) have regard to the suitability of a proposed standard for different types of entities;
- (c) ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards but may apply different accounting requirements to different types of entities;
- (d) in the case of domestic standards – carry out a cost/benefit analysis of the impact of a proposed accounting standard before making or formulating the standard; and
- (e) in the case of international standards – carry out a cost/benefit analysis of the impact of a proposed international accounting standard before providing comments on a draft of the standard or proposing the standard for adoption as an international standard.



- 3.3 Under section 227B of the ASIC Act, the AUASB's functions are to:
- (a) make auditing standards under section 336 of the Corporations Act for the purposes of the corporations legislation;
 - (b) formulate auditing and assurance standards for other purposes;
 - (c) formulate guidance on auditing and assurance matters;
 - (d) participate in and contribute to the development of a single set of auditing standards for world-wide use; and
 - (e) advance and promote the main objects of Part 12 of the ASIC Act.
- 3.4 Final pronouncements have legal status if required for the purposes of the Corporations Act. Other applications of accounting and auditing and assurance standards are dependent upon relevant industry regulators. The Boards do not have enforcement powers, but will consult with regulators in relation to implementation issues where appropriate.
- 3.5 The Boards perform a technical function and contribute to Board strategy. The Boards do not have supervisory powers in respect of the functions and administration of the Offices of the AASB and the AUASB, which are the responsibility of the respective Chairs (see Role of Chair below).

4 Accountability and Reporting

- 4.1 The Financial Reporting Council (FRC) has a broad oversight role in relation to the accounting and auditing and assurance standards setting processes in Australia, and is responsible for giving the Minister (i.e. the Treasurer) reports and advice about those processes.
- 4.2 The FRC determines the AASB's and the AUASB's broad strategic direction and provides advice or feedback on the Boards' priorities, business plans, procedures, budgets and staffing arrangements.
- 4.3 The Boards are responsible for setting strategy in line with the FRC's broad directions. The National Director is responsible for preparing a corporate plan to implement the strategy and reports periodically to the Boards, the FRC and the Commonwealth on how strategy is being implemented and achieved.
- 4.4 The AASB and the AUASB maintain ongoing communication with the FRC, principally through the Board Chairs who are members of the FRC. The Chairs report on the respective activities of the Boards to meetings of the FRC and also liaise regularly with the FRC Chair and Secretariat outside of FRC meetings.
- 4.5 The FRC conducts an annual performance review of Board members against achievement of stated objectives, strategies and key performance indicators. The FRC provides feedback to Chairs regarding their performance and Chairs provide feedback to members.



- 4.6 The Boards must comply with any direction given by the Minister (on the advice of the FRC) about the role of international accounting or auditing and assurance standards in the Australian accounting or auditing and assurance standard setting system.
- 4.7 To ensure the independence of the standard-setting bodies, the FRC does not have the power to:
- (a) direct the AASB or the AUASB in relation to the development, or making, of a particular accounting or auditing or assurance standard; or
 - (b) veto a standard made, formulated or recommended by the AASB or the AUASB.

5 Membership

Composition

- 5.1 The Boards shall comprise a maximum of 12 members each, including the Chairs. The number of members of each Board may change from time to time but must ensure the sufficient representation of the various stakeholder groups affected by their standards, including preparers, practitioners and users.

Role of Chair

- 5.2 The Chairs are responsible for managing the Offices of their respective Boards. In particular, the Chair of each Board:
- (a) is responsible for approving the Board's priorities, business plans, procedures, and the Office's budgets and staffing arrangements;
 - (b) may employ such staff as the Chair thinks necessary to assist the Office in the performance of its functions and the exercise of its powers;
 - (c) must determine, in writing, a Code of Conduct applicable to the Chair and staff employed by the Chair;
 - (d) may engage consultants to perform services for the Office in connection with the performance of the Office's functions; and
 - (e) may seek legal advice in accordance with the Legal Service Directions 2017, where clarification is required as to the Board's mandate or regarding the potential legislative impacts of standards.

The Chairs have agreed to run the Offices for their respective Boards as one office supporting both Boards wherever possible, and have delegated administrative responsibilities to the National Director to the maximum extent possible.

- 5.3 The Chairs of the Boards consult with the FRC prior to taking action that is inconsistent with advice the FRC has given. Where FRC advice is not followed, the



Chair must make a written record of the reasons for not following the advice and give a copy of the advice and reasons to the FRC and the Minister. A copy of the advice and reasons must also be included in the annual report prepared by the Chair under section 46 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

- 5.4 The Chairs are not subject to direction by the Boards in relation to the Chairs' performance of functions, or exercise of powers, under the PGPA Act or the *Public Service Act 1999* (~~PSA Act~~) in relation to the Offices of the Boards.

Remuneration

- 5.5 Board members are paid remuneration and allowances in accordance with the AASB and AUASB Policy on Board Member Remuneration, which is developed in compliance with guidance issued by the Commonwealth Remuneration Tribunal.

Appointment

- 5.6 The Chair of each Board is appointed by the Minister and the other members are appointed by the FRC.
- 5.7 The Chairs will identify a Deputy Chair for consideration by the respective Board. Appointment as Deputy Chair requires approval by a majority of Board members.
- 5.8 To be eligible for appointment, a person must have appropriate knowledge of, or experience in, business, accounting, auditing or assurance, law or government. Appointments to the respective Boards are aimed at achieving balance between members with private sector and public sector expertise, and will generally include representatives from industry, academia and professional practice.
- 5.9 The Minister determines the term of appointment for the Chairs, and the FRC determines the term of appointment for other Board members. The term of appointment must not exceed 5 years and members are eligible for reappointment. Terms of appointment are scheduled to avoid significant numbers of new members starting together.

Acting appointments

- 5.10 The Minister may appoint a person to act as Chair of either Board during a vacancy in the office of Chair of that Board, or during any period when the Chair is absent from duty or from Australia, or is for any reason unable to perform the duties of the office.
- 5.11 The AASB and the AUASB may appoint one of their members to act as Deputy Chair, where the Deputy Chair of that Board is unavailable, under the same conditions as that applied by the Minister in respect of the Chairs.

Leave of absence

- 5.12 A request for a formal leave of absence is distinct from an apology. An apology is when a member is unable to attend a **meeting** and notifies the Chair, National Director or Technical Director as soon as possible before the meeting. The apology will be



recorded in the minutes. A leave of absence relates to an extended period of time where the member is not available to participate in Board meetings.

- 5.13 The Minister has the power to grant a Board member with a leave of absence. The Chair may request that the Minister consider a request to grant a leave of absence. The request should be in writing and identify the circumstances in support of the request.
- 5.14 The FRC may appoint a person to act as a member of either Board (other than the Chair) when a member is not available, or has been granted a leave of absence by the Minister. Any appointment will be made under the same conditions as that applied by the Minister in respect of the Chairs. The FRC has resolved such appointments may be made when a member is unable to attend two consecutive meetings.
- 5.15 Where a Board Member has missed two consecutive meetings without recording an apology or been being granted a formal leave of absence, the Chair of that Board may notify the Chair of the FRC and request that the FRC appoint a person to act as a Board member. The decision to appoint a person to act as a Board member is the responsibility of the FRC.
- 5.16 Board Members of the AASB and the AUASB are personal appointments and the use of alternate Members is not permitted.

Resignation

- 5.17 The Chair of either Board may resign their appointment by giving a written resignation to the Minister. Other members may resign by giving a written resignation to the Chair of the FRC.

Termination

- 5.18 The Minister may terminate the appointment of the Chair of either Board for misbehaviour, physical or mental incapacity, or breach of the terms and conditions of their appointment.
- 5.19 The Minister must terminate the appointment of the Chair of either Board if the Chair becomes bankrupt, applies to take the benefit of any law for the relief of bankrupt or insolvent debtors, compounds with their creditors, makes an assignment of their remuneration or property for the benefit of their creditors, or breaches their confidentiality obligations under section 237 of the ASIC Act.
- 5.20 The termination of other Board members is dealt with by the FRC, using the same criteria as that applied by the Minister in respect of the Chairs.

6 Meeting Procedures

- 6.1 The AASB and the AUASB have adopted the following operating procedures to ensure the efficient and effective fulfilment of their functions, as permitted by the ASIC Act.



- 6.2 The Boards must take into account any advice or feedback provided by the FRC about their procedures.

Meetings

- 6.3 Meetings will be held as frequently as necessary in order for the Boards to discharge their responsibilities. A schedule of meetings is arranged annually and publicly communicated. Additional meetings may be arranged upon the agreement of the majority of members of the relevant Board.
- 6.4 Members may attend a meeting in person or by teleconference, videoconference or other similar means.
- 6.5 A quorum at any meeting shall be a majority of members of the relevant Board.
- 6.6 Meetings will be chaired by the relevant Chair or, where the Chair is absent, by the Deputy Chair. Where both the Chair and the Deputy Chair are absent, the members present shall elect one of their number to chair the meeting.
- 6.7 All discussions at Board meetings pertaining to technical accounting or auditing or assurance matters are open to the public.
- 6.8 Minutes will be prepared for all Board meetings to record attendance and all key decisions of the Boards. The minutes are circulated to members after the meeting and subject to approval at the next Board meeting. Minutes are then made publicallypublicly available on the relevant Board's website.
- 6.9 The agenda and supporting staff technical papers offor AASB or AUASB meetings are provided to members on a timely basis and the meeting agenda and non-confidential agenda papers are placed on the relevant Board's website.
- 6.10 The Chair of the respective Board may declare part of the meeting to be "confidential" or "in camera". Minutes will reflect that part of the meeting was held "in camera²²²" however no details of that part of the meeting will be made public, subject to paragraph 6.12.
- 6.11 Separate minutes of the "in camera" section of the meeting must be made and retained for the required recordretention period.
- 6.12 Where a matter that relates to technical accounting, auditing or assurance issues is discussed "in camera", the Chair will as soon as practicable after the opening of the meeting to the public, summarise the discussion and outline any decisions made during the "in camera" session. This summary, including any decisions made₂, will be recorded in the public Minutes.

Observers

- 6.13 Representatives of various organisations with an interest in the setting of accounting and / or auditing and assurance standards may be invited (or have standing invitations) to attend AASB or AUASB meetings as official observers. Such individuals may, at



the Chair's discretion, also be invited to address the Board on specific matters.
Attendance of official observers is recorded in the minutes.

- 6.14 The general public are also able to attend all public sessions of the meetings.
Attendance of general public observers is recorded, but not referred to in the minutes.
Attendance can be by facilitated by electronic means.

- 6.15 No observers at Board meetings have voting rights.

Voting

- 6.16 When voting on pronouncements as described in paragraphs 6.4518 and 6.4619 below, each member, including the Chair, has one vote which can be exercised only by the appointed member.
- 6.17 Members shall vote according to their own beliefs, experience and judgment, and in the public interest – not according to the views of any firm, organisation or constituency with which they are associated.
- 6.18 ***For the AASB only*** ~~—~~ The affirmative vote of at least two-thirds of all AASB members (not just members present) is required to issue a Standard, Interpretation, or other mandatory pronouncements. Further details regarding pronouncements of the AASB can be found in the ~~[AASB Due Process and Working Procedures Document]~~ ***Framework for Setting Standards.***
- 6.19 ***For the AUASB only*** ~~—~~ The affirmative vote of at least two-thirds of all AUASB members (not just members present) is required to issue an Exposure Draft, Standard or Guidance Statement. Further details regarding pronouncements of the AUASB can be found in the [AUASB Due Process and Working Procedures Document].
- 6.20 All other decisions relating to the issuing of other Board pronouncements require a simple majority of those in attendance at the meeting, or of the members when voting out of session. The Boards may delegate decisions that require a simple majority vote to the Chairs.
- 6.21 A member not attending a meeting cannot vote on a matter voted on at that meeting.
- 6.22 Voting for the approval of pronouncements may be through out-of-session voting, by providing ballot papers to all Board members. Members must be advised of the results of such out-of-session voting no later than the next Board meeting.
- 6.23 All votes taken in meetings shall be documented in the minutes. The minutes shall constitute proper evidence of the decisions of the relevant Board.

7 Advisory Committees

- 7.1 The Boards have power to establish and disestablish committees, advisory panels and consultative groups as they deem necessary in carrying out their responsibilities. The Boards cannot delegate decision-making authority and, therefore, may create such groups with a mandate only to provide advice.



- 7.2 Staff provide support to advisory committees. The convening Board shall adopt terms of reference setting out matters relevant to the authority, functions, duration, membership, operations and responsibilities of advisory committees, and other matters that the Board may consider appropriate. Relevant advice from advisory committees shall be summarised and provided to its convening Board.
- 7.3 The performance of standing advisory committees shall be reviewed annually by the Boards.

8 Conduct of Members

Conflicts of interest

- 8.1 All direct or indirect pecuniary interests that conflict or could conflict with the proper performance of a Board member's functions must be disclosed in writing to the Chair of the relevant Board (or the Minister, if the member is the Chair).
- 8.2 A Board member who has a direct or indirect pecuniary interest in a matter that is being considered, or is about to be considered, by the AASB or the AUASB must disclose the nature and extent of the interest at a meeting of the relevant Board.
- 8.3 The disclosure must be made as soon as possible after the relevant facts have come to the member's knowledge, and must be recorded in the minutes of the meeting. Where possible, such conflicts should be discussed in advance with the Chair.
- 8.4 Unless the Chair (or the Minister, if the member is the Chair) otherwise determines, the member:
- (a) must not be present during any deliberation by the Board on the matter; and
 - (b) must not take part in any decision of the Board on the matter.

Other general obligations of Board members

- 8.5 Board members are subject to the general duties of officials set out in Part 2-2, Division 3 of the PGPA Act. Accordingly, Board members:
- (a) must exercise their powers, perform their functions and discharge their duties with the degree of care and diligence that a reasonable person would exercise if they occupied the same position as the Board member;
 - (b) must exercise their powers, perform their functions and discharge their duties honestly, in good faith and for a proper purpose;
 - (c) must not improperly use their position to gain an advantage for themselves or someone else, or cause detriment to the Board, the Commonwealth or another person;



- (d) must not improperly use information obtained in their capacity as a Board member to gain an advantage for themselves or someone else, or cause detriment to the Board, the Commonwealth or another person; and
- (e) must disclose at each meeting, and any time when the issues arise, details of any material personal interests that relate to the affairs of the relevant Board.

8.6 Board members must comply with the ~~AASB and AUASB Code of Conduct~~.

Confidentiality

8.7 The Boards must take all reasonable measures to protect from unauthorised use or disclosure information given to them in confidence, and matters and information that are considered and discussed by the Boards in confidence (other than matters and information considered and discussed during open sessions in public meetings).

8.8 It is expected that from time to time, members may seek counsel from individuals within their organisations on technical issues that are to be considered at Board meetings. Whilst permitted, this does not diminish a member's obligations not to disclose matters and information that are regarded by the relevant Board as being of a confidential nature.

Representing the Board

8.9 Only the Chairs are authorised to speak publicly on behalf of their respective Board. However, the Chairs may authorise another member or staff to speak publicly on behalf of the Board.

8.10 Where a member speaks publicly and their status as a Board member is promoted, but the member has not been authorised by the Chair to express views of the Board (for example, at external functions), the member must make clear that views expressed are their own personal views.

9 Due Process

9.1 The Boards adopt a rigorous due process to maintain appropriate transparency when developing or adopting standards and other pronouncements, and encourage constituents to participate actively in the standard-setting process. Extensive formal and informal consultation is conducted by the Boards and due process procedures have been put in place to ensure compliance with all Commonwealth regulatory requirements.

9.2 The due process and consultation activities adopted by the AASB and the AUASB, respectively, are documented in the ~~[AASB Due Process and Working Procedures Document]~~*Framework for Setting Standards* and the [AUASB Due Process and Working Procedures Document].



Appendix 1— Legislation References

The following table outlines the legislative basis relating to each paragraph within the Board Charter (where applicable). The references below refer to Part 12 of the Australian Securities and Investments Commission Act 2001 unless otherwise stated.

| Paragraph | Legislation Reference | Paragraph | Legislation Reference |
|------------------|--|------------------------|--|
| 1.1 | n/a | 6.2 | s236AA & s236EA |
| 1.21 | n/a s236A(4) & s236E(4) | 6.35.12 | s236A(4) & s236E(4) |
| 1.2.1 | s236A(4) & s236E(4) Part 12 | 6.45.13 | s236BA(5) & s236FA(5) s236A(4) & s236E(4) |
| 2.1 | Part 12 | 5.14-5.15 | s236D(3) & s236H(3) |
| 2.2 | s224 | 6.5.16 | s236A(4) & s236E(4) |
| 3.1 | s227(1) | 6.65.17 | s236As236C(1) & s236Es236G(1) |
| 3.2 | s227(2), s229(2) & s231 | 6.75.18 | s236C(3) & s236G(3) s236A(2) & s236E(2) |
| 3.3 | s227B(1) | 6.85.19 | s236As236C(4) & s236Es236G(4) |
| 3.4 | s334 & s336 Corporations Act ¹ | 6.95.20 | s236C(5)-(7) & s236G(5)-(7) s236A(4) & s236E(4) |
| 3.5 | s236D & s236DB s235H & s236DF | 6.101 | s236A(4) & s236E(4) |
| 4.1 | s225(1) | 6.112 | s236AA & s236EAs236A(4) & s236E(4) |
| 4.2 | s225(2) | 6.123-6.5 | s236A(4) & s236E(4) |
| 4.3 | s232 & s234C | 6.136 | s236A(41) & s236E(41) |
| 4.4 | n/a | 6.147 | s236A(2) & s236E(2) Part 2-2, Division 3 PGPA Act³ |
| 4.5 | s225 & s235C n/a | 6.158-6.23 | s236A(4) & s236E(4) |
| 4.6 | s233 & s234D | 6.167.1 | s227(3) & s227B(2) s236A(4) & s236E(4) |
| 4.7 | s225(5)-(8) | 6.177.2-7.3 | s236A(4) & s236E(4) |
| 5.1 | n/a | 6.188.1 | s236DA(1) & s236J(1) s236A(4) & s236E(4) |
| 5.2 | s235D, s235E, s235F, s236DB, s236DC & s236DD | 6.198.2 | s236DA(2) & s236J(2) s236A(4) & s236E(4) |
| 5.3 | s235D(3) & s236DB(3) | 7.18.3 | s236DA(3)-(4) & s236J(3)-(4) s227(3) & s227B(2) |
| 5.4 | s235H & s236DF | 7.28.4 | s236DA(5) & s236J(5) s236A(4) & s236E(4) |
| 5.5 | s236BA & s236FA | 7.38.5 | Part 2-2, Division 3 PGPA Act³ s236A(4) & s236E(4) |
| 5.6 | s236B(1)-(2) & s236F(1)-(2) | 8.16 | s236A(4) & s236E(4) s236DA(1) & s236J(1) |

¹ Corporations Act 2001.

² ~~Public Governance, Performance and Accountability Act 2013.~~

³ ~~Public Governance, Performance and Accountability Act 2013.~~



| Paragraph | Legislation Reference | Paragraph | Legislation Reference |
|-----------|--|-----------|---|
| 5.7 | s236B(2), s236A(4), s236F(3), & s236E(4) | 8.27 | s237 s236DA(2) & s236J(2) |
| 5.8 | s236B(3) & s236F(4) | 8.38-8.10 | s236DA(3) (s236A(4) & s236J(3) (s236E(4) |
| 5.9 | s236B(5) & s236F(6)-(7) | 8.49.1 | s236A(4) & s236E(4) s236DA(5) & s236J(5) |
| 5.10 | s236D(1) & s236H(1) | 8.59.2 | Part 2-2, Division 3 PGPA Actn/a |
| 5.11 | s236D(2) & s236H(2) | 8.6 | s236A(4) & s236E(4) |
| 5.12 | s236D(3) & s236H(3) | 8.7 | s237 |
| 5.13 | s236BA(5) & s236FA(5) | 8.8 | s237 |
| 5.13 | s236C(1) & s236G(1) | 8.9 | s236A(4) & s236E(4) |
| 5.14 | s236C(3) & s236G(3) | 8.10 | s236A(4) & s236E(4) |
| 5.15 | s236C(4) & s236G(4) | 9.1 | s236A(4) & s236E(4) |
| 5.16 | s236C(6)-(7) & s236G(6)-(7) | 9.2 | n/a |
| 6.1 | s236A(4) & s236E(4) | | |



AASB and AUASB Board Charter

October 2019

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1 Purpose

- 1.1 This Charter outlines the main corporate governance principles that apply to the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) (together, the Boards).
- 1.2 The Charter will be reviewed annually by the AASB and the AUASB to ensure it remains consistent with the Boards' objectives, responsibilities and relevant standards of corporate governance.

2 Objectives

- 2.1 The Boards operate within a framework set out in Part 12 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act). The ASIC Act sets out core objectives for accounting and auditing and assurance standard setting in Australia.
- 2.2 Under section 224 of the ASIC Act, the main objects of Part 12 are that:
 - (a) accounting standards should require the provision of financial information that:
 - (i) allows users to make and evaluate decisions about allocating scarce resources;
 - (ii) assists directors to discharge their obligations in relation to financial reporting;
 - (iii) is relevant to assessing performance, financial position, financing and investment;
 - (iv) is relevant and reliable;
 - (v) facilitates comparability;
 - (vi) is readily understandable;
 - (b) auditing and assurance standards should require the provision of information that:
 - (i) provide Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the *Corporations Act 2001* (Corporations Act);
 - (ii) require the preparation of auditors' reports that are reliable and readily understandable by the users of the financial reports to which they relate; and



- (c) the Australian financial reporting system should:
 - (i) facilitate the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively overseas;
 - (ii) facilitate the Australian economy by having accounting and auditing and assurance standards that are clearly stated and easy to understand;
 - (iii) maintain investor confidence in the Australian economy, including its capital markets.

3 Board Functions

3.1 Under section 227 of the ASIC Act, the AASB's functions are to:

- (a) develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards;
- (b) make accounting standards under section 334 of the Corporations Act for the purposes of the corporations legislation;
- (c) formulate accounting standards for other purposes;
- (d) participate in and contribute to the development of a single set of accounting standards for world-wide use; and
- (e) advance and promote the main objects of Part 12 of the ASIC Act.

3.2 In carrying out its functions the AASB must:

- (a) have regard to the interests of Australian corporations which raise or propose to raise capital in major international financial centres;
- (b) have regard to the suitability of a proposed standard for different types of entities;
- (c) ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards but may apply different accounting requirements to different types of entities;
- (d) in the case of domestic standards – carry out a cost/benefit analysis of the impact of a proposed accounting standard before making or formulating the standard; and
- (e) in the case of international standards – carry out a cost/benefit analysis of the impact of a proposed international accounting standard before providing comments on a draft of the standard or proposing the standard for adoption as an international standard.



- 3.3 Under section 227B of the ASIC Act, the AUASB's functions are to:
- (a) make auditing standards under section 336 of the Corporations Act for the purposes of the corporations legislation;
 - (b) formulate auditing and assurance standards for other purposes;
 - (c) formulate guidance on auditing and assurance matters;
 - (d) participate in and contribute to the development of a single set of auditing standards for world-wide use; and
 - (e) advance and promote the main objects of Part 12 of the ASIC Act.
- 3.4 Final pronouncements have legal status if required for the purposes of the Corporations Act. Other applications of accounting and auditing and assurance standards are dependent upon relevant industry regulators. The Boards do not have enforcement powers, but will consult with regulators in relation to implementation issues where appropriate.
- 3.5 The Boards perform a technical function and contribute to Board strategy. The Boards do not have supervisory powers in respect of the functions and administration of the Offices of the AASB and the AUASB, which are the responsibility of the respective Chairs (see Role of Chair below).

4 Accountability and Reporting

- 4.1 The Financial Reporting Council (FRC) has a broad oversight role in relation to the accounting and auditing and assurance standards setting processes in Australia, and is responsible for giving the Minister (i.e. the Treasurer) reports and advice about those processes.
- 4.2 The FRC determines the AASB's and the AUASB's broad strategic direction and provides advice or feedback on the Boards' priorities, business plans, procedures, budgets and staffing arrangements.
- 4.3 The Boards are responsible for setting strategy in line with the FRC's broad directions. The National Director is responsible for preparing a corporate plan to implement the strategy and reports periodically to the Boards, the FRC and the Commonwealth on how strategy is being implemented and achieved.
- 4.4 The AASB and the AUASB maintain ongoing communication with the FRC, principally through the Board Chairs who are members of the FRC. The Chairs report on the respective activities of the Boards to meetings of the FRC and also liaise regularly with the FRC Chair and Secretariat outside of FRC meetings.
- 4.5 The FRC conducts an annual performance review of Board members against achievement of stated objectives, strategies and key performance indicators. The FRC provides feedback to Chairs regarding their performance and Chairs provide feedback to members.



- 4.6 The Boards must comply with any direction given by the Minister (on the advice of the FRC) about the role of international accounting or auditing and assurance standards in the Australian accounting or auditing and assurance standard setting system.
- 4.7 To ensure the independence of the standard-setting bodies, the FRC does not have the power to:
- (a) direct the AASB or the AUASB in relation to the development, or making, of a particular accounting or auditing or assurance standard; or
 - (b) veto a standard made, formulated or recommended by the AASB or the AUASB.

5 Membership

Composition

- 5.1 The Boards shall comprise a maximum of 12 members each, including the Chairs. The number of members of each Board may change from time to time but must ensure the sufficient representation of the various stakeholder groups affected by their standards, including preparers, practitioners and users.

Role of Chair

- 5.2 The Chairs are responsible for managing the Offices of their respective Boards. In particular, the Chair of each Board:
- (a) is responsible for approving the Board's priorities, business plans, procedures, and the Office's budgets and staffing arrangements;
 - (b) may employ such staff as the Chair thinks necessary to assist the Office in the performance of its functions and the exercise of its powers;
 - (c) must determine, in writing, a Code of Conduct applicable to the Chair and staff employed by the Chair;
 - (d) may engage consultants to perform services for the Office in connection with the performance of the Office's functions; and
 - (e) may seek legal advice in accordance with the Legal Service Directions 2017, where clarification is required as to the Board's mandate or regarding the potential legislative impacts of standards.

The Chairs have agreed to run the Offices for their respective Boards as one office supporting both Boards wherever possible, and have delegated administrative responsibilities to the National Director to the maximum extent possible.

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Chair must make a written record of the reasons for not following the advice and give a copy of the advice and reasons to the FRC and the Minister. A copy of the advice and reasons must also be included in the annual report prepared by the Chair under section 46 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

- 5.4 The Chairs are not subject to direction by the Boards in relation to the Chairs' performance of functions, or exercise of powers, under the PGPA Act or the *Public Service Act 1999* in relation to the Offices of the Boards.

Remuneration

- 5.5 Board members are paid remuneration and allowances in accordance with the AASB and AUASB Policy on Board Member Remuneration, which is developed in compliance with guidance issued by the Commonwealth Remuneration Tribunal.

Appointment

- 5.6 The Chair of each Board is appointed by the Minister and the other members are appointed by the FRC.
- 5.7 The Chairs will identify a Deputy Chair for consideration by the respective Board. Appointment as Deputy Chair requires approval by a majority of Board members.
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Acting appointments

- 5.10 The Minister may appoint a person to act as Chair of either Board during a vacancy in the office of Chair of that Board, or during any period when the Chair is absent from duty or from Australia, or is for any reason unable to perform the duties of the office.
- 5.11 The AASB and the AUASB may appoint one of their members to act as Deputy Chair, where the Deputy Chair of that Board is unavailable, under the same conditions as that applied by the Minister in respect of the Chairs.

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recorded in the minutes. A leave of absence relates to an extended period of time where the member is not available to participate in Board meetings.

- 5.13 The Minister has the power to grant a Board member with a leave of absence. The Chair may request that the Minister consider a request to grant a leave of absence. The request should be in writing and identify the circumstances in support of the request.
- 5.14 The FRC may appoint a person to act as a member of either Board (other than the Chair) when a member is not available, or has been granted a leave of absence by the Minister. Any appointment will be made under the same conditions as that applied by the Minister in respect of the Chairs. The FRC has resolved such appointments may be made when a member is unable to attend two consecutive meetings.
- 5.15 Where a Board Member has missed two consecutive meetings without recording an apology or being granted a formal leave of absence, the Chair of that Board may notify the Chair of the FRC and request that the FRC appoint a person to act as a Board member. The decision to appoint a person to act as a Board member is the responsibility of the FRC.
- 5.16 Board Members of the AASB and the AUASB are personal appointments and the use of alternate Members is not permitted.

Resignation

- 5.17 The Chair of either Board may resign their appointment by giving a written resignation to the Minister. Other members may resign by giving a written resignation to the Chair of the FRC.

Termination

- 5.18 The Minister may terminate the appointment of the Chair of either Board for misbehaviour, physical or mental incapacity, or breach of the terms and conditions of their appointment.
- 5.19 The Minister must terminate the appointment of the Chair of either Board if the Chair becomes bankrupt, applies to take the benefit of any law for the relief of bankrupt or insolvent debtors, compounds with their creditors, makes an assignment of their remuneration or property for the benefit of their creditors, or breaches their confidentiality obligations under section 237 of the ASIC Act.
- 5.20 The termination of other Board members is dealt with by the FRC, using the same criteria as that applied by the Minister in respect of the Chairs.

6 Meeting Procedures

- 6.1 The AASB and the AUASB have adopted the following operating procedures to ensure the efficient and effective fulfilment of their functions, as permitted by the ASIC Act.



- 6.2 The Boards must take into account any advice or feedback provided by the FRC about their procedures.

Meetings

- 6.3 Meetings will be held as frequently as necessary in order for the Boards to discharge their responsibilities. A schedule of meetings is arranged annually and publicly communicated. Additional meetings may be arranged upon the agreement of the majority of members of the relevant Board.
- 6.4 Members may attend a meeting in person or by teleconference, videoconference or other similar means.
- 6.5 A quorum at any meeting shall be a majority of members of the relevant Board.
- 6.6 Meetings will be chaired by the relevant Chair or, where the Chair is absent, by the Deputy Chair. Where both the Chair and the Deputy Chair are absent, the members present shall elect one of their number to chair the meeting.
- 6.7 All discussions at Board meetings pertaining to technical accounting or auditing or assurance matters are open to the public.
- 6.8 Minutes will be prepared for all Board meetings to record attendance and all key decisions of the Boards. The minutes are circulated to members after the meeting and subject to approval at the next Board meeting. Minutes are then made publicly available on the relevant Board's website.
- 6.9 The agenda and supporting staff technical papers for AASB or AUASB meetings are provided to members on a timely basis and the meeting agenda and non-confidential agenda papers are placed on the relevant Board's website.
- 6.10 The Chair of the respective Board may declare part of the meeting to be "confidential" or "in camera". Minutes will reflect that part of the meeting was held "in camera", however no details of that part of the meeting will be made public, subject to paragraph 6.12.
- 6.11 Separate minutes of the "in camera" section of the meeting must be made and retained for the required record-retention period.
- 6.12 Where a matter that relates to technical accounting, auditing or assurance issues is discussed "in camera", the Chair will as soon as practicable after the opening of the meeting to the public, summarise the discussion and outline any decisions made during the "in camera" session. This summary, including any decisions made, will be recorded in the public Minutes.

Observers

- 6.13 Representatives of various organisations with an interest in the setting of accounting and / or auditing and assurance standards may be invited (or have standing invitations) to attend AASB or AUASB meetings as official observers. Such individuals may, at



the Chair's discretion, also be invited to address the Board on specific matters.
Attendance of official observers is recorded in the minutes.

- 6.14 The general public are also able to attend all public sessions of the meetings. Attendance of general public observers is recorded, but not referred to in the minutes. Attendance can be by facilitated by electronic means.
- 6.15 No observers at Board meetings have voting rights.

Voting

- 6.16 When voting on pronouncements as described in paragraphs 6.18 and 6.19 below, each member, including the Chair, has one vote which can be exercised only by the appointed member.
- 6.17 Members shall vote according to their own beliefs, experience and judgment, and in the public interest – not according to the views of any firm, organisation or constituency with which they are associated.
- 6.18 ***For the AASB only*** – The affirmative vote of at least two-thirds of all AASB members (not just members present) is required to issue a Standard, Interpretation, or other mandatory pronouncements. Further details regarding pronouncements of the AASB can be found in the *AASB Due Process Framework for Setting Standards*.
- 6.19 ***For the AUASB only*** – The affirmative vote of at least two-thirds of all AUASB members (not just members present) is required to issue an Exposure Draft, Standard or Guidance Statement. Further details regarding pronouncements of the AUASB can be found in the [AUASB Due Process and Working Procedures Document].
- 6.20 All other decisions relating to the issuing of other Board pronouncements require a simple majority of those in attendance at the meeting, or of the members when voting out of session. The Boards may delegate decisions that require a simple majority vote to the Chairs.
- 6.21 A member not attending a meeting cannot vote on a matter voted on at that meeting.
- 6.22 Voting for the approval of pronouncements may be through out-of-session voting, by providing ballot papers to all Board members. Members must be advised of the results of such out-of-session voting no later than the next Board meeting.
- 6.23 All votes taken in meetings shall be documented in the minutes. The minutes shall constitute proper evidence of the decisions of the relevant Board.

7 Advisory Committees

- 7.1 The Boards have power to establish and disestablish committees, advisory panels and consultative groups as they deem necessary in carrying out their responsibilities. The Boards cannot delegate decision-making authority and, therefore, may create such groups with a mandate only to provide advice.



- 7.2 Staff provide support to advisory committees. The convening Board shall adopt terms of reference setting out matters relevant to the authority, functions, duration, membership, operations and responsibilities of advisory committees, and other matters that the Board may consider appropriate. Relevant advice from advisory committees shall be summarised and provided to its convening Board.
- 7.3 The performance of standing advisory committees shall be reviewed annually by the Boards.

8 Conduct of Members

Conflicts of interest

- 8.1 All direct or indirect pecuniary interests that conflict or could conflict with the proper performance of a Board member's functions must be disclosed in writing to the Chair of the relevant Board (or the Minister, if the member is the Chair).
- 8.2 A Board member who has a direct or indirect pecuniary interest in a matter that is being considered, or is about to be considered, by the AASB or the AUASB must disclose the nature and extent of the interest at a meeting of the relevant Board.
- 8.3 The disclosure must be made as soon as possible after the relevant facts have come to the member's knowledge and must be recorded in the minutes of the meeting. Where possible, such conflicts should be discussed in advance with the Chair.
- 8.4 Unless the Chair (or the Minister, if the member is the Chair) otherwise determines, the member:
- (a) must not be present during any deliberation by the Board on the matter; and
 - (b) must not take part in any decision of the Board on the matter.

Other general obligations of Board members

- 8.5 Board members are subject to the general duties of officials set out in Part 2-2, Division 3 of the PGPA Act. Accordingly, Board members:
- (a) must exercise their powers, perform their functions and discharge their duties with the degree of care and diligence that a reasonable person would exercise if they occupied the same position as the Board member;
 - (b) must exercise their powers, perform their functions and discharge their duties honestly, in good faith and for a proper purpose;
 - (c) must not improperly use their position to gain an advantage for themselves or someone else, or cause detriment to the Board, the Commonwealth or another person;



- (d) must not improperly use information obtained in their capacity as a Board member to gain an advantage for themselves or someone else, or cause detriment to the Board, the Commonwealth or another person; and
- (e) must disclose at each meeting, and any time when the issues arise, details of any material personal interests that relate to the affairs of the relevant Board.

8.6 Board members must comply with the *AASB and AUASB Code of Conduct*.

Confidentiality

- 8.7 The Boards must take all reasonable measures to protect from unauthorised use or disclosure information given to them in confidence and matters and information that are considered and discussed by the Boards in confidence (other than matters and information considered and discussed during open sessions in public meetings).
- 8.8 It is expected that from time to time, members may seek counsel from individuals within their organisations on technical issues that are to be considered at Board meetings. Whilst permitted, this does not diminish a member's obligations not to disclose matters and information that are regarded by the relevant Board as being of a confidential nature.

Representing the Board

- 8.9 Only the Chairs are authorised to speak publicly on behalf of their respective Board. However, the Chairs may authorise another member or staff to speak publicly on behalf of the Board.
- 8.10 Where a member speaks publicly and their status as a Board member is promoted, but the member has not been authorised by the Chair to express views of the Board (for example, at external functions), the member must make clear that views expressed are their own personal views.

9 Due Process

- 9.1 The Boards adopt a rigorous due process to maintain appropriate transparency when developing or adopting standards and other pronouncements and encourage constituents to participate actively in the standard-setting process. Extensive formal and informal consultation is conducted by the Boards and due process procedures have been put in place to ensure compliance with all Commonwealth regulatory requirements.
- 9.2 The due process and consultation activities adopted by the AASB and the AUASB, respectively, are documented in the *AASB Due Process Framework for Setting Standards* and the [AUASB Due Process and Working Procedures Document].



Appendix – Legislation References

The following table outlines the legislative basis relating to each paragraph within the Board Charter (where applicable). The references below refer to Part 12 of the *Australian Securities and Investments Commission Act 2001* unless otherwise stated.

| Paragraph | Legislation Reference | Paragraph | Legislation Reference |
|-----------|--|-----------|--|
| 1.1 | n/a | 5.12 | s236A(4) & s236E(4) |
| 1.2 | s236A(4) & s236E(4) | 5.13 | s236BA(5) & s236FA(5) |
| 2.1 | Part 12 | 5.14-5.15 | s236D(3) & s236H(3) |
| 2.2 | s224 | 5.16 | s236A(4) & s236E(4) |
| 3.1 | s227(1) | 5.17 | s236C(1) & s236G(1) |
| 3.2 | s227(2), s229(2) & s231 | 5.18 | s236C(3) & s236G(3) |
| 3.3 | s227B(1) | 5.19 | s236C(4) & s236G(4) |
| 3.4 | s334 & s336 Corporations Act ¹ | 5.20 | s236C(5)-(7) & s236G(5)-(7) |
| 3.5 | s235H & s236DF | 6.1 | s236A(4) & s236E(4) |
| 4.1 | s225(1) | 6.2 | s236AA & s236EA |
| 4.2 | s225(2) | 6.3-6.5 | s236A(4) & s236E(4) |
| 4.3 | s232 & s234C | 6.6 | s236A(1) & s236E(1) |
| 4.4 | n/a | 6.7 | s236A(2) & s236E(2) |
| 4.5 | n/a | 6.8-6.23 | s236A(4) & s236E(4) |
| 4.6 | s233 & s234D | 7.1 | s227(3) & s227B(2) |
| 4.7 | s225(5)-(8) | 7.2-7.3 | s236A(4) & s236E(4) |
| 5.1 | n/a | 8.1 | s236DA(1) & s236J(1) |
| 5.2 | s235D, s235E, s235F, s236DB, s236DC & s236DD | 8.2 | s236DA(2) & s236J(2) |
| 5.3 | s235D(3) & s236DB(3) | 8.3 | s236DA(3)-(4) & s236J(3)-(4) |
| 5.4 | s235H & s236DF | 8.4 | s236DA(5) & s236J(5) |
| 5.5 | s236BA & s236FA | 8.5 | Part 2-2, Division 3 PGPA Act ² |
| 5.6 | s236B(1)-(2) & s236F(1)-(2) | 8.6 | s236A(4) & s236E(4) |
| 5.7 | s236B(2), s236A(4), s236F(3), & s236E(4) | 8.7 | s237 |
| 5.8 | s236B(3) & s236F(4) | 8.8-8.10 | s236A(4) & s236E(4) |
| 5.9 | s236B(5) & s236F(6)-(7) | 9.1 | s236A(4) & s236E(4) |
| 5.10 | s236D(1) & s236H(1) | 9.2 | n/a |
| 5.11 | s236D(2) & s236H(2) | | |

¹ Corporations Act 2001.

² Public Governance, Performance and Accountability Act 2013.



Australian Government
Australian Accounting Standards Board



Australian Government
Auditing and Assurance Standards Board

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and

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2018-19 Annual Reports

**Australian Accounting
Standards Board**

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Standards Board**

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LETTER OF TRANSMITTAL

11 September 2019

The Hon Michael Sukkar MP
Minister for Housing and Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Minister,

We have pleasure in presenting the annual reports for the year ended 30 June 2019 of the:

- Australian Accounting Standards Board (AASB) and the Office of the Australian Accounting Standards Board, and
- Auditing and Assurance Standards Board (AUASB) and the Office of the Auditing and Assurance Standards Board;

The reports have been prepared in accordance with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and have been combined into one publication.

Section 46 of the PGPA Act requires the Chair of the AASB and the Chair of the AUASB to respectively prepare a report of the operations of the AASB and its Office, and the AUASB and its Office, during the year. The respective reports must be tabled in each House of the Parliament as soon as practicable.

Yours sincerely,



Kris Peach
Chair
Australian Accounting Standards Board



Roger Simnett
Chair
Auditing and Assurance Standards Board

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ABBREVIATIONS

The following abbreviations are used by the AASB and AUASB in this report:

| | |
|----------|---|
| AASB | Australian Accounting Standards Board |
| ACNC | Australian Charities and Not-for-profits Commission |
| ANAO | Australian National Audit Office |
| AOSSG | Asian-Oceanian Standard-Setters Group |
| APRA | Australian Prudential Regulation Authority |
| ASA | Australian Auditing Standard |
| ASAE | Australian Standard on Assurance Engagements |
| ASAF | Accounting Standards Advisory Forum |
| ASIC | Australian Securities and Investments Commission |
| ASIC Act | <i>Australian Securities and Investments Commission Act 2001</i> |
| ASRE | Australian Standard on Review Engagements |
| AUASB | Auditing and Assurance Standards Board |
| AuASB | Auditing and Assurance Standards Board (to 30 June 2004) |
| BRLF | Business Reporting Leaders Forum |
| CA ANZ | Chartered Accountants Australia and New Zealand |
| CER | Clean Energy Regulator |
| CPAA | CPA Australia |
| FRC | Financial Reporting Council |
| GPFS | General Purpose Financial Statements |
| GST | Goods and Services Tax |
| IAASB | International Auditing and Assurance Standards Board |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IFASS | International Forum of Accounting Standard Setters (formerly NSS) |
| IFRS | International Financial Reporting Standards |
| IIA | Institute of Internal Auditors |
| IIRC | International Integrated Reporting Council |
| IPSASB | International Public Sector Accounting Standards Board |
| ISA | International Standard on Auditing |
| NFP | Not-for-Profit |
| NSS | National Standards Setters |
| NZASB | New Zealand Accounting Standards Board |
| NZAuASB | New Zealand Auditing and Assurance Standards Board |
| NZ XRB | New Zealand External Reporting Board |
| OHSC | Occupational Health and Safety Committee |
| PGPA Act | <i>Public Governance, Performance and Accountability Act 2013</i> |
| PSA | <i>Public Service Act 1999</i> |
| RDR | Reduced disclosure requirements |
| SME | Small and Medium Enterprises |
| SMSF | Self-Managed Superannuation Fund |

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Annual report location www.auasb.gov.au/About-the-AUASB/Annual-reports.aspx

AASB AND AUASB PURPOSE, VISION AND MISSION

This is the second year of our revised strategy and corporate plan and we are pleased to be able to report that the both boards and the teams have been working hard to realise the vision and mission statements.

| AASB Purpose & Vision | AUASB Purpose & Vision |
|--|--|
| Contribute to stakeholder confidence in the Australian economy, including its capital markets, and trust in external reporting. | Contribute to stakeholder confidence in the Australian economy, including its capital markets, and trust in auditing and assurance. |
| AASB Mission | AUASB Mission |
| Develop, issue and maintain principles-based Australian accounting and external reporting standards that meet user needs and enhance external reporting consistency and quality. | Develop, issue and maintain in the public interest, best practice Australian auditing and assurance standards and guidance that meet user needs and enhance audit and assurance consistency and quality. |
| Contribute to the development of a single set of accounting and external reporting standards for world-wide use. | Contribute to the development of a single set of auditing and assurance standards for world-wide use. |

WHY OUR STANDARDS MATTER

| AASB | AUASB |
|---|--|
| Accounting standards should require the provision of financial information that: <ul style="list-style-type: none"> i. allows users to make and evaluate decisions about allocating scarce resources ii. assists directors to discharge their obligations in relation to financial reporting iii. is relevant to assessing performance, financial position, financing and investment iv. is relevant and reliable v. facilitates comparability and is readily understandable | Auditing and assurance standards should require the provision of information that: <ul style="list-style-type: none"> i. provides Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the Corporations Act 2001 (Corporations Act) ii. requires the preparation of auditors' reports that are reliable and readily understandable by the users of the financial reports to which they relate |
| The Australian financial reporting system should: <ul style="list-style-type: none"> i. facilitate the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively domestically and internationally ii. facilitate the Australian economy by developing accounting and auditing and assurance standards that are clearly stated and easy to understand to maintain investor confidence in the Australian economy, including its capital markets | |

STRATEGY

| AASB | AUASB |
|--|---|
| 1. Develop, issue and maintain principles-based, Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced. For 'publicly accountable' entities maintain IFRS ² compliance; for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian-specific standards and guidance. | 1. Develop, issue and maintain high quality Australian auditing and assurance standards and guidance that meet the needs of stakeholders. Use IAASB Standards - where they exist, modified as necessary - or develop Australian-specific standards and guidance. |
| 2. With the AUASB, play a leading role in reshaping the Australian external reporting framework by working with the regulators to develop objective criteria on: <ul style="list-style-type: none"> who prepares external reports (including financial reports) the nature and extent of assurance required on these external reports. | 2. With the AASB, play a leading role in reshaping the Australian external reporting framework by working with the regulators to develop objective criteria on: <ul style="list-style-type: none"> who prepares external reports (including financial reports) the nature and extent of assurance required on external reports. |
| 3. Actively influence IASB ⁴ , IPSASB ⁵ standards and other international accounting and external reporting standards and guidance, by demonstrating thought leadership and enhancing key international relationships. | 3. Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships. |
| 4. Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach. | 4. Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach. |
| 5. Influence initiatives to develop standards and guidance that meet user needs for external reporting integral to financial reporting. | 5. Influence initiatives to develop assurance standards and guidance that meet user needs for extended external reporting. |
| 6. Monitor and respond to, or lead on, emerging issues impacting the development of accounting and external reporting standards, including changing technologies. | 6. Monitor and respond to, or lead on, emerging issues impacting the development of auditing and assurance standards and guidance, including changing technologies. |
| 7. Develop guidance and education initiatives, or promote development by others, to enhance the consistent application of accounting and external reporting standards and guidance. | 7. Develop guidance and education initiatives, or promote development by others, to enhance the consistent application of auditing and assurance standards and guidance. |
| 8. Build a high performing team that operates efficiently, effectively and within budget, complying with all relevant legislation and Commonwealth Government requirements | |

KEY ACHIEVEMENTS





AASB CHAIR'S REVIEW

OUR PERFORMANCE IN 2019



The Australian Accounting Standards Board (AASB) delivered on its strategic vision to facilitate confidence in the Australian economy and reached several important milestones. We also gained valuable insights from our stakeholders that will guide our strategic focus for 2020

INTERNATIONAL INFLUENCE

The AASB continued to exert its international influence with global standard setters from both a cooperative standpoint, and as a thought leader in topical areas.

Our joint bulletin with the Auditing and Assurance Standards Board (AUASB), *Climate-related and other emerging risks*

disclosures: assessing financial statement materiality using AASB Practice Statement 2, has been welcomed by the International Accounting Standards Board (IASB) and other key stakeholders. The non-mandatory guide for directors, preparers, and auditors highlights that climate and other emerging risks may need to be disclosed in financial statements even when the quantitative impact is minimal. Our Research Report No. 9 *Perspectives on IAS 36: A Case for Standard Setting Activity: Summary of Outreach Results*, prepared with Deloitte's assistance, provided useful insights to the IASB for its Goodwill and Impairment research project.

The pragmatic and thoughtful input of our Insurance Transition Resource Group to the IASB's deliberations on amending IFRS 17 *Insurance Contracts* has been well received.

Our innovative work on a replacement for our current Tier 2 General Purpose Financial Statements (GPFS) Reduced Disclosure Requirements using the full recognition and measurement requirements in Australian Accounting Standards / IFRS and disclosures based on the IFRS for SMEs Standard with minimal changes is being closely monitored by the IASB for its project on subsidiary SMEs.

"...sustainability issues can already have an impact that needs to be reflected in financial reporting as it currently is. The AASB recently published a very interesting paper that discusses when climate-related disclosures are material, and therefore should be included within the IFRS financial statements."

**Hans
Hoogervorst,
IASB Chair**

Representatives of the AASB have presented at global conferences, to strengthen international relations with other standard setters, and foster closer working relationships with key international stakeholders. Specifically, we have delved into financial reporting frameworks, disclosure initiatives, management commentary, intangible assets, goodwill and impairment, business combinations under common control, discount rates and crypto-currencies. Our work on crypto-currencies has been endorsed by the IASB's Interpretations Committee.

The AASB continues to work closely with the Asian-Oceanian Standard Setters Group (AOSSG), and as Chair of the Financial Instruments working group maintains a presence at the IASB's Accounting Standards Advisory Forum (ASAF). The AASB also had productive bilateral meetings with the Chinese Ministry of Finance and Accounting Standards Board of Japan (ASBJ), as well as hosting the ASBJ in Melbourne. The working relationship between the AASB and NZASB continues to be a key contributor to our international objectives and in particular ensuring that where relevant we can work towards Trans-Tasman harmonisation for publicly accountable entities. We look forward to continuing our leadership role in the Asia-Oceanic region, working closely with other regional and global standard-setting bodies, as we collaborate on the development of international standards and sharing of best practices.

MANAGEMENT COMMENTARY

I was appointed to the IASB's Management Commentary Consultative Group in July 2018, increasing our ability to influence the direction of the project. This project will require us to reassess our current Operating and Financial Review requirements, considering whether the IASB's proposals should be mandatory and audited in Australia, as management commentary is in Germany.

STAKEHOLDER ENGAGEMENT AND COMMUNICATIONS

The results from 196 respondents to our inaugural stakeholder survey provided valuable feedback, indicating 61% rated us 7 or more out of 10 for our standard setting activities and 71% with our performance. We will continue to look for new and innovative ways to keep you informed and engaged. The results are set out in more detail in 2018-19 Activities and Related Key Performance Indicators.

In addition to the AASB's continued outreach program involving roundtables, webinars and targeted consultation throughout Australia, we substantially progressed establishing a User Advisory Committee (UAC), with the inaugural meeting conducted in August 2019

Stakeholder outreach has been a constant through our subscriber database, social media, and industry bodies. We have amassed over 7,300 followers on LinkedIn and 970 on Twitter, and in the past year, have published 200 posts through both of these channels, in return receiving post engagement that has helped propel AASB's brand and message exponentially through these platforms. Our Weekly Update newsletter ensures that our database of 2,000 stakeholders (and counting), stay informed of the latest AASB and international news pertaining to accounting standards

Part of our communications strategy involves regular contact with media and industry bodies, to ensure stakeholders outside of AASB-owned channels and databases are being served timely news and updates. For example, to date, our *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2* campaign has received monthly media mentions in Australian news and industry publications, including the Australian Financial Review, Acuity magazine (Chartered Accountants Australia and New Zealand), In The Black magazine (CPA Australia), the CPA Australia Podcast, Footprint News, Actuaries Digital, Accru, Listed@ASX magazine (Australian Securities Exchange [ASX]), and the Climate Disclosure Standards Board (CDSB).



IMPROVING THE AUSTRALIAN REPORTING FRAMEWORK

This key strategy involves collaborating with other regulators to develop objective criteria on:

- who prepares financial reports;
- what needs to be reported; and
- the nature and extent of assurance required on financial reports.

The project is aimed at improving the comparability, transparency, consistency and enforceability of financial statements prepared in accordance with Australian Accounting Standards (AAS).

After hearing concerns from not-for-profit entities and considering the ACNC Legislative Review¹ report, the AASB decided it would be more appropriate to address reform for the public sector and the NFP private sector via separate targeted consultations.

As a result of ITC 39 *Applying the International Accounting Standards Board's (IASB's) Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* submissions, user surveys, extensive outreach and AASB commissioned research, the AASB is progressing with the following proposals:

¹ Strengthening for Purpose: Australian Charities and Not-for-Profit Commission Legislation Review 2018

- ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* to remove the ability for certain for-profit private sector entities to self-assess their financial reporting requirements when required to publicly lodge financial statements (mostly 10,500 large proprietary, unlisted public and small foreign controlled companies, with 700 up to 1700 expected to be significantly impacted by having to change their recognition and measurement accounting policies and 7,500 having to increase their disclosures to include amongst others, related party information). These proposals will significantly simplify the for-profit reporting framework and improve the comparability, transparency, and enforceability of financial statements for the benefit of users;
- ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to replace the existing Tier 2 GPFS (Reduced Disclosure Requirements) to reduce the disclosure burden for all Tier 2 entities, including not-for-profit entities; and
- ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* to require entities continuing to prepare SPFS to disclose an explicit statement as to whether or not the accounting policies comply with all the recognition and measurement requirements in AAS and if not, an indication of where they do not comply. These proposals will enhance the transparency of financial statements for the benefit of users.
- ED 291 *Not-for-Profit Entity Definition and Guidance* Improve the definition and guidance on who should be considered a not-for-profit entity

These proposals complement the recent doubling of the financial thresholds that determine when a private company is considered 'large' and needs to publicly lodge financial statements.

The above projects are informed by AASB Research Report No 7 *Financial Reporting Requirements Applicable to For Profit Private Sector Companies* issued in May 2018 and AASB Research Report No 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements*.

In the public sector we have seen key preparers and the Financial Reporting Council start to consider the opportunities for improving financial reporting suggested in AASB Research Report No 6 *Financial Reporting Requirements Applicable to Public Sector Entities* issued in May 2018 and AASB Discussion Paper *Improving Financial Reporting for Australian Public Sector* issued in June 2018.

In the not-for-profit private sector (charities and incorporated associations) we have had ongoing collaboration with other key regulators such as the ACNC and were pleased that an outcome of addressing the states and territories consumer affairs commissioners was a working group to progress financial reporting reform in this sector as suggested in AASB Research Report No 5 *Financial Reporting Requirements Applicable to Charities* and AASB Discussion Paper: *Improving Financial Reporting for Australian Charities*. The AASB also commissioned research into the extent of compliance with recognition and measurement requirements in AAS by entities lodging SPFS with ACNC. The findings of this research, Research Report No 11: *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities*, are critical to determining the need for, and extent of, reform in the not-for-profit private sector.

NOT-FOR-PROFIT SECTOR

Appropriate tailoring of IFRS for the not-for-profit sector remains a key strategy. Issues raised by public sector constituent's regarding implementation of AASB 1059 *Service Concession Arrangements: Grantors* are being addressed through amending the standard. We also continued our work on guidance to accompanying AASB 13 *Fair Value Measurement* for application by NFP public sector entities.

To respond to implementation concerns regarding AASB 1058 *Income for Not-For-Profits* and AASB 15 *Revenue from Contracts with Customers* we issued public sector guidance and examples for licensors and provided a temporary option for not-for-profit lessees to elect not to measure a class (or classes) of right-of-use (ROU) assets arising under 'concessionary leases' at fair value on initial recognition. We are also progressing a project to address implementation issues relating to research grants.

The submissions on ITC 41 *The AASB's Approach to International Public Sector Accounting Standards* indicated continued support for using IFRS as a base for public sector reporting, rather than IPSASB's at this time.

AREAS OF CONTINUED FOCUS

This year, the AASB had several projects not completed as quickly as planned. The reasons for this vary from deferred effective dates by the IASB to the need for further stakeholder consultation in order for us to make informed, evidence-based decisions that most accurately reflect stakeholder feedback.

These Projects include guidance for entities adopting the Tax Transparency Code (TTC) in preparing and presenting tax disclosures, reporting service performance information, remuneration reporting, insurance in the NFP public sector, and fair value measurement in the public sector. Further details can be found under section 2018-19 Activities and Related Key Performance Indicators.

We look forward to continuing progress and completing these projects in 2019-20.

We continue to liaise with other regulators regarding feedback on our standards and consider the extent to which financial reports are relevant to investors. We have not received any feedback that would indicate the AASB has not facilitated confidence in the Australian economy, including its capital markets.

PEOPLE

Our people continue to be critical to our success. As a result of significant restructuring to address budgetary issues in the recent past we are continuing to build our core team. As a result of employee feedback, we are progressing, with the assistance of HR experts, a number of initiatives to improve our culture, employee engagement, induction of new staff, professional development opportunities, growth pathways, and role clarity and accountability.

We are also progressing IT initiatives to promote flexible and adaptable ways of working.

LOOKING TOWARD 2020

In 2019-2020, our key priorities remain focused on reforming the Australian Reporting Framework, issuing IFRS standards, guidance and consultation documents on a timely basis and progressing projects on fair value measurement in the public sector, service performance reporting and tax transparency and research on intangible assets and extractive activities. We will seek to expand the range of stakeholders involved in our collaboration and consultation.

On the international front, we will be continuing to use our international influence to ensure that IFRS remains relevant to the needs of Australian preparers and users of external reporting. We will continue to work with the IASB through the AASB's User Advisory Committee, Insurance Transition Resource Group, my membership on the IASB's Management Commentary panel and the AOSSG to ensure IFRS remains relevant and applicable to Australian requirements. Our ongoing people and IT projects are designed to make AASB the place to be, providing career enhancing opportunities.

We have a full agenda in 2019-2020 and we are looking forward to continuing our work to ensure that principle-based accounting standards contribute to confidence in the Australian economy.

FINANCIAL RESULTS

The AASB has recognised a Total Comprehensive loss of \$23,332 (2018: Surplus of \$240,578) as a result of the current Information, Communication and Technology project being undertaken exceeding budget and the outgoing National Director severance pay.

As planned, our engagement of contractors decreased during the year, with expenses of \$484,162 (2018: \$832,121) (refer to Note 3A to the Financial Statements) and an associated increase in employee expenses.

Management fees received from the AUASB were \$767,761 (2018: \$777,072) as set out in our Memorandum of Understanding (MoU) (refer to Note 2A and 2B to the Financial Statements), higher than anticipated due to the additional costs referred to above.

Direct travel costs increased to \$342,278 (2018: \$284,077), due to attendance at the World Congress of Accountants (held in Sydney) which increased accommodation expenses, and greater participation at international conferences also increased our international travel costs. Publications and Subscriptions increased to \$123,025 (2018: \$98,128) due to our 50-year history documentary.

Note 12 to the Financial Statements provides further details of variances from the reported budget numbers.

ACKNOWLEDGEMENTS

First and foremost, I would like to thank the AASB's board members, panel members, and employees for their efforts in helping the AASB achieve its goals. We have invested time and

effort into recruiting professionals who bring unique strengths and skills to our team, people who believe in the mission of the AASB and the important role we play in the Australian economy.

This year saw several key changes. I would particularly like to acknowledge the contributions of our outgoing Deputy Chair, Regina Fikkers, whose input was invaluable during the restructuring of the AASB's activities. We also farewelled Marc Smit as a Board member whose insights into corporate Australia were helpful. Mr Mike Blake was appointed to Deputy Chair of the AASB, and we welcomed new board members Mr James Grant (Group Financial Controller at Westpac), and Mr Paul Rogers (Partner, Audit, Assurance & Risk Consulting at KPMG). The contributions of our outgoing employees, including Research Director, Professor Christine Helliard were greatly appreciated. We took the opportunity to refine our approach to engaging with the academic community and welcomed Dr Mukesh Garg as our Research and Education Principal. We also welcomed several new technical and business services employees.

The Technical and Business Services employees of the AASB have provided excellent support to the Board during the year, and the significant progress we have made on our key projects is due to their insights and engagement with stakeholders.

Finally, I would also like to give special thanks to the AASB Insurance TRG Chair Anne Driver, Auditing and Assurance Standards Board (AUASB) Chair, Mr Roger Simnett AO, and our outgoing National Director, Mr Damian Paull.



Kris Peach
Chair and CEO
11 September 2019

AASB ANNUAL PERFORMANCE STATEMENT

2018-19

I, Kris Peach, as the accountable authority of the Australian Accounting Standards Board, present the 2018-19 annual performance statement of the Australian Accounting Standards Board, as required under paragraph 39(1)(a) of the *Public Governance Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement is based on properly maintained records, accurately reflects the performance of the entity, and complies with subsection 39(2) of the PGPA Act Entity Purpose.



ENTITY PURPOSE

As set out in the Treasury Portfolio Budget Statements for 2018-19, the AASB's single outcome is to formulate and make accounting standards that are used by Australian entities to prepare financial reports and enable users of these reports to make informed decisions. The AASB's vision is to contribute to stakeholder confidence in the Australian economy, (including its capital markets) and in external reporting integral to financial reporting. Its mission and single program are:

- developing, issuing and maintaining accounting standards and guidance that meet user needs and enhance external reporting consistency and quality
- contributing to the development of a single set of accounting and external reporting standards for world-wide use.

Our purpose is to:

- make accounting standards under the Corporations Act 2001 for the purposes of the corporations legislation and for other purposes.
- participate in and contribute to the development of a single set of accounting standards for world-wide use.
- In a financial reporting context, enable Australian entities to compete effectively;
- maintain investor confidence in the Australian economy, including its capital markets;
- having regard to the interests of Australian corporations raising capital in major international financial centres.

The Chair's report sets out the contextual basis for progress made on achieving our strategies and purpose.

THE AASB'S STANDARD SETTING PROCESS

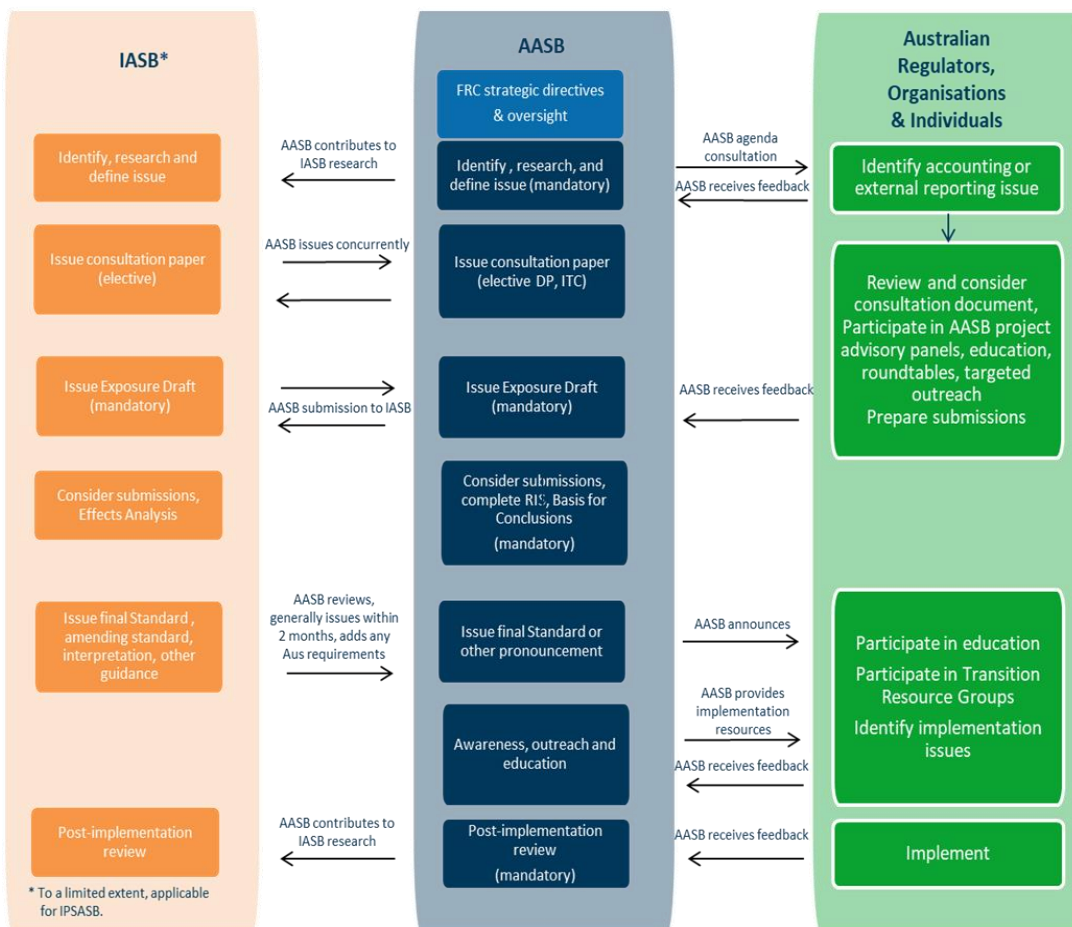
Developing issuing and maintaining principles-based accounting standards

The AASB, in accordance with the FRC direction in 2002, has adopted IFRS accounting and external reporting standards as part of our strategy to facilitate confidence in the Australian economy

Maintaining IFRS compliance for publicly accountable for-profit entities and using IFRS as a baseline for other entities, means that overseas investors understand our financial reporting and consistency helps reduce the costs incurred by our companies seeking to raise funds. In addition, using IFRS as a basis for other entities promotes professional mobility across the three sectors and also meets our objectives for improving comparability and user confidence in financial reporting.

The following diagram identifies the high-level interaction undertaken by the AASB in developing, issuing and maintaining Australian Accounting Standards.

AASB Due Process Framework for Setting Standards



The principles that underpin the standard-setting process, those of identifying issues, researching, consulting, and considering feedback, enable us to develop, issue and maintain principle-based accounting standards that meet user's needs and facilitate confidence in the Australian economy.

2018-19 AASB ACTIVITIES AND RELATED KEY PERFORMANCE INDICATORS

The tables below identify the activities the AASB identified in its Corporate Plan and Parliamentary Budget Statement (PBS) as contributing to the seven strategies above, for the 2018-19 reporting period. These tables also indicate whether or not the activities were achieved and, if not, why not.

| High-level priority activities to achieve AASB Strategy | Links to AASB Strategic Objectives | Key Priorities/KPI | Outcome (Achieved Not Achieved) | Explanation |
|--|--|--|---------------------------------|---|
| A. WORK PROGRAM ACTIVITIES | | | | |
| IASB equivalent Standards issued in the same timeframe of the release of the IFRS and in accordance with legislative drafting and registration requirements. | Strategy 1 PBS Outcome 1 Program 1 Deliverable 2 KPIs 1, 2 | IASB equivalent Standards issued within two months of the release of the IFRS. | Achieved | <p>The AASB issued the Australian equivalents of the below IASB amending Standards in December 2018 within two months of issue:</p> <ul style="list-style-type: none"> Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to clarify the definition of material, and Amendments to IFRS 3 <i>Business Combinations</i> to improve the definition of a business. |
| Develop Australian specific Standards and/or guidance for topics not specifically addressed by IFRS Standards within timelines in project plans agreed with the Board. | Strategy 1 PBS Outcome 1 Program 1 Deliverables 1, 2 KPIs 3, 4 | <p>Australian specific Standards for the projects outlined below developed within timelines agreed with the Board:</p> <p>→ insurance in the NFP public sector</p> | Partially achieved | Discussion paper issued in November 2017. Submissions were considered at the September 2018 AASB Meeting. The project has been deferred as the IASB is deferring the effective date of AASB 17 <i>Insurance Contracts</i> to 1 January 2022 |

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| | | <p>→ fair value measurement in the public sector</p> <p>→ revenue from licences in the public sector – Note: project to be completed by Q4 2018 to align with application date for AASB 15 and AASB 1058 for NFP entities</p> <p>→ revise Tier 2: Reduced Disclosure Requirements</p> | <p>Partially achieved</p> <p>Achieved</p> <p>Achieved</p> | <p>and other projects, such as reforming the Australian Financial Reporting Framework for the for-profit private sector entities are currently considered a higher priority.</p> <p>The Board has started considering practice issues experienced by public sector entities in applying AASB 13 <i>Fair Value Measurement</i> since Q2 2019. Staff are developing public-sector-specific guidance. An Exposure Draft is expected in Q4 2019.</p> <p>The final standard was issued in September 2018.</p> <p>Pre-ballot Exposure Draft proposing an alternative GPFS Tier 2 framework (based on the disclosure requirements in the IFRS for SMEs Standard) to replace the current RDR framework in Australia considered in June 2019. AASB ED 295 <i>General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities</i> was issued in August 2019.</p> |
| Develop consultative documents in relation to the Australian Financial Reporting Framework, to develop objective criteria for which entities in the for-profit sector and the not-for-profit sector prepare external reports including financial reports and the type of assurance needed for these reports. Includes working | Strategies 2, 5 PBS Outcome 1 Program 1, Deliverable 1 Strategies 1, 3 PBS Outcome 1 Program 1, Deliverable 4 | Consultative Documents outlined below developed within timelines agreed with the Board: | | <p>In June 2019, the AASB issued ED 291 <i>Not-for-Profit Entity Definition and Guidance</i> which proposes to replace the current definition of NFP entity to have greater focus on nature and purpose of a NFP entity with guidance and examples. The definition is significant to determining reporting requirements, particularly if there is a separate NFP financial reporting framework with simplified recognition and measurement requirements and different reporting tiers for NFP entities.</p> |

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| with policy makers in the for-profit and NFP sectors (including public sector policy makers). | | → NFP private sector | Progressing | <p>The AASB published Research Report 10 <i>Legislative and Regulatory Financial Reporting Requirements</i>, which identified the entities with financial reporting obligations under Federal and State/Territory legislation that will or may be captured by the AASB in its work to reform the Financial Reporting Framework for the FP and NFP entities.</p> <p>Research Report 11: <i>Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities</i> was finalised in August 2019. This report examines the extent of compliance with R&M requirements in AAS by medium and large charities.</p> <p>Based on feedback from not-for-profit (NFP) entities and discussions with the ACNC and other State and Territory regulators regarding recommendations in the ACNC Legislative Review report, the AASB decided that the proposals to remove the ability for certain entities to prepare SPFS when required to prepare financial statements in accordance with AAS should only apply to for-profit private sector entities, and that it would be more appropriate to address the reform of the financial reporting framework for NFP private sector via separate targeted consultations undertaken as part of the broader financial reporting framework project. The AASB also decided to consider the public sector financial reporting framework separately (refer below).</p> <p>The AASB discussed options of reporting tiers with the ACNC and other regulators and received positive feedback. The AASB will continue to work with the ACNC, state</p> |
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| | | → NFP public sector | Progressing | <p>and territory legislators on developing appropriate reporting requirements for NFP private sector.</p> <p>The AASB issued Discussion Paper (DP) <i>Improving Financial Reporting for Australian Public Sector</i> in June 2018.</p> <p>A sub-committee of the Financial Reporting Committee (FRC), will lead this project and engage with key stakeholders at the Commonwealth and State levels. The project is expected to run until at least 2022.</p> |
| | | → FP sector | Mostly Achieved | <p>Pre-ballot Exposure Draft proposing removing the ability of large proprietary, small foreign controlled and unlisted public companies (other than those limited by guarantee) to prepare special purpose financial statements (SPFS) considered in June 2019. AASB ED 297 <i>Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities</i> was issued in August 2019. Extensive outreach activities are planned in October 2019 to garner feedback. The proposals in the ED are expected to be made applicable for annual reporting periods beginning on or after 1 July 2020.</p> <p>Research Report 12: <i>Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements</i> was published in August 2019 which enables the AASB to take an evidence informed approach towards the reform of the Australian Financial Reporting Framework for for-profit private sector entities.</p> <p>As a result of feedback from users and research findings, a pre-ballot draft Exposure Draft, proposing to require entities preparing SPFS to make an explicit</p> |

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|--|--|--|--------------|--|
| | | | | statement as to whether or not the accounting policies applied in the SPFS comply with all the recognition and measurement requirements in AAS was considered in June 2019. Following this, ED 293 <i>Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements</i> was issued in July 2019. The proposals in ED 293 provide greater transparency to users of publicly lodged SPFS while the AASB progresses with its broader project. |
| Maintain Australia/New Zealand convergence in accordance with Trans-Tasman requirements for, for-profit entities by harmonising, wherever possible given the different regulatory environments, Australian and New Zealand Accounting Standards through working actively with the NZASB. | | Australian and New Zealand Accounting Standards harmonised for for-profit sector, wherever possible. | Achieved | <p>The two IFRS Standards mentioned above have also been issued in New Zealand for the for-profit entities</p> <p>ED 291 Not-for-Profit Entity Definition and Guidance, referred to above, is based on the NZ definition and guidance for Public Benefit Entity (PBE).</p> <p>ED 295 on simplified disclosures for Tier 2 entities, referred to above, would result in a divergence from the New Zealand RDR Framework i.e. Tier 2 framework. However, the R&M requirements for entities applying the Tier 2 reporting frameworks in Australia and New Zealand would remain consistent and given the current situation of many Australian entities not complying with full R&M requirements, the overall outcome is likely to be more consistency with NZ requirements than currently.</p> |
| Maintain and enhance key international relationships (IASB, IPSASB and AOSSG). | Strategy 3 PBS Outcome 1 Program 1 | → Maintain membership on the Accounting Standards Advisory Forum (ASAF). | Not achieved | Australia no longer has its own seat on ASAF as a result of the IASB rotating membership amongst the key Asia Oceanic accounting standard setting countries of China, Japan, Korea and |

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|--|-----------------------------|---|----------|---|
| | deliverable 4, KPIs 5, 6 | → Maintain close relationships with IPSASB and provided technical support to Australian member on IPSASB. | Achieved | Australia. However, Australia is still participating at ASAF through its AOSSG Financial Instruments Working Group leadership role and has taken 2 thought leadership pieces to ASAF. |
| | | → Maintain leadership of at least one AOSSG Working Group. | Achieved | Mike Blake, AASB Board member is also IPSASB Vice-Chair. AASB staff member provides technical support to Mike Blake and attends IPSASB meetings. |
| | | → Present at least one paper to ASAF, IFASS and/or AOSSG and receive positive feedback on the paper. | Achieved | AASB is the AOSSG working group leader for Financial instruments and Liabilities AASB Chair and staff presented the AASB-AUASB Bulletin <i>Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2</i> and AASB Research Report No. 9 <i>Perspectives on IAS 36: A Case for Standard Setting Activity: Summary of Outreach Results</i> at IFASS in March 2019 and at ASAF in April 2019. The climate-change bulletin has been well received with IASB endorsement from Chair Hans Hoogervorst, who quoted “sustainability issues can already have an impact that needs to be reflected in financial reporting as it currently is”. |

| High-level priority activities to achieve AASB Strategy | Links to AASB Strategic Objectives | Key Priorities/KPI | Outcome (Achieved Not Achieved) | Comments |
|--|--|---|---------------------------------|--|
| A. WORK PROGRAM ACTIVITIES | | | | |
| Complete projects for external reporting beyond financial reporting as per timelines in project plans agreed with the Board. | Strategy 5 PBS Outcome Program 1 Deliverables 1, 2 | The following projects for external reporting beyond financial reporting completed as per timelines in project plans agreed with the Board: | | |
| | | <ul style="list-style-type: none"> guidance for entities adopting the Tax Transparency Code (TTC) in preparing and presenting tax disclosures. | Partially Achieved | The Board of Taxation is revisiting the existing TTC requirements. The finalisation of AASB's guidance is subject to the Board of Tax timelines. Research on application of the AASB's draft guidance is being conducted. |
| | | <ul style="list-style-type: none"> reporting service performance information. | Partially Achieved | Literature review nearing completion. Options and proposals for Service Performance Reporting being considered as part of broader project to reform the Australian Reporting Framework for NFP entities (refer above) and IASB's management commentary project as there is likely to be significant overlap. |
| | | <ul style="list-style-type: none"> remuneration reporting. | Partially Achieved | Research report issued in February 2019. Staff undertaking international benchmarking work. |

| High-level priority activities to achieve AASB Strategy | Links to AASB Strategic Objectives | Key Priorities/KPI | Outcome (Achieved Not Achieved) | Comments |
|---|--|---|---------------------------------|--|
| A. WORK PROGRAM ACTIVITIES | | | | |
| Consider emerging issues and impact of changing technologies in all AASB submissions and each major AASB project. | Strategy 6 | Emerging issues and impact of changing technologies considered in all AASB submissions and each major AASB project. | Partially Achieved | The AASB issued a bulletin jointly with the AUASB on <i>Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2</i> , which received overwhelming positive response from the international and domestic accounting community and media. However, the AASB has not yet considered other emerging risks in its projects. |
| Education initiatives, such as webinars and presentations for new major Standards issued considered effective by stakeholders. | Strategy 7 PBS Outcome 1 Program 1 KPI 6 | Education initiatives for each major Standard issued agreed with Board and completed as per agreed timelines and receive positive feedback on education initiatives, such as webinars and presentations for new major Standards issued. | Achieved | The AASB conducted a webinar on staff FAQs related to Mutuals and Coops in February 2019. The slide pack and a recording of the webinar is available on the AASB website. |
| Promote the development of education initiatives by others (for example ACNC) by providing, technical input to their initiatives and co-presenting at their education sessions. | Strategies 4, 7 PBS Outcome 1 Program 1 KPI 6 | Provided technical input to education initiatives by others (for example ACNC) and co-presented at their education sessions in accordance with project plans agreed with the Board. | Achieved | AASB representatives presented on ITC 39, management commentary and new Standards at several CPA Australia and CAANZ conferences in H1 2019. |

| High-level priority activities to achieve AASB Strategy | Links to AASB Strategic Objectives | Key Priorities/KPI | Outcome (Achieved Not Achieved) | Comments |
|--|---|--|---------------------------------|---|
| A. WORK PROGRAM ACTIVITIES | | | | |
| Develop staff publications, and frequently asked questions (FAQs) to help with consistent application of accounting and external reporting standards as agreed with the Board. | Strategy 7 PBS Outcome 1 Program 1 KPI 6 | Staff publications and FAQs developed, as agreed with the Board. | Achieved | A number of FAQs related to AASB 1058 <i>Income of Not-for-Profit Entities</i> , AASB 16 <i>Leases</i> and AASB 15 <i>Revenue from Contracts with Customers</i> have been released. Currently consulting on research grants FAQ. |
| B. STAKEHOLDER ACTIVITIES | | | | |
| Conduct agenda consultation, usually in connection with IASB agenda consultation, to seek formal input on AASB's work program. | Strategies 1, 2, 4, 6, 7 PBS Outcome 1 Program 1 Deliverable 1 | Conduct formal agenda consultation every three years. | Progressing | Board to conduct agenda consultation in 2020 for the 2020-2022 period |
| The AASB has a thorough awareness of ideas and concerns of Australian Stakeholders through effective engagement. Stakeholder satisfaction survey net promoter score used to obtain initial year results to benchmark for | Strategies 1, 4 PBS Outcome 1 Program 1 Deliverable 1, KPI 7 | → Annual survey conducted and improved stakeholder satisfaction compared to previous year. | Partially Achieved | The inaugural stakeholder survey results indicate the views of 196 stakeholders: <ul style="list-style-type: none"> Overall, 61% (proportion of those who selected 7-10 on an 11-point scale) are satisfied with the standard setting activities of the AASB and 71% are satisfied with the performance of the AASB. 88% (proportion of those who selected 7-10 on an 11- point scale) are familiar with the organisation, and |

| High-level priority activities to achieve AASB Strategy | Links to AASB Strategic Objectives | Key Priorities/KPI | Outcome (Achieved Not Achieved) | Comments |
|---|------------------------------------|--|---------------------------------|--|
| B. STAKEHOLDER ACTIVITIES | | | | |
| performance improvement including of Board and staff. | | | | <p>52% believe that they are engaged with the AASB.</p> <ul style="list-style-type: none"> • Areas where stakeholders were most likely to agree were independence (80%), trust (79%), timely communication of upcoming changes (74%), active engagement with stakeholders before finalising standards & guidance (73%) and relevant communications (72%) • Areas where fewer stakeholders agreed include responsiveness to changes (51%), adapting international standards appropriately for charities & other not for profit entities (56%) and AASB standards and guidance are easy to understand & apply (58%). • A clear area for improvement is 35% of stakeholders do not believe it is easy to contact someone at the AASB |
| | | → Results of post-implementation reviews (PIRs) support issuance of Standards (and subsequent amendments), assessing user needs, benefits and costs. | | None for the reporting period |
| | | | | |

| High-level priority activities to achieve AASB Strategy | Links to AASB Strategic Objectives | Key Priorities/KPI | Outcome (Achieved Not Achieved) | Comments |
|---|---|---|---------------------------------|---|
| B. STAKEHOLDER ACTIVITIES | | | | |
| Improved levels of stakeholder engagement. | Strategy 4 PBS Outcome 1 Program 1 Deliverable 1 | → Participation at roundtables, education sessions, webinars, formal/informal submissions, targeted meetings, numbers of LinkedIn, Twitter followers, requests for presentations, and publication articles, increased year-on-year. | Achieved | <ul style="list-style-type: none"> • Number of AASB newsletter subscribers increased by 13% over the twelve months to June 2019 • Number of LinkedIn main page followers increased by 28.46% over the twelve months to June 2018 • Number of twitter followers increased by 15.6% over the twelve months to June 2018. |
| | | → At least four roundtables/education sessions held each year. | Achieved | Five roundtable sessions were conducted on ITC 39 in September 2018 by AASB staff. The AASB also held a webinar on staff FAQs related to Mutuals and Coops in February 2019. |
| | | → Increased average number of responses per key topic compared to previous year. | Partially Achieved | <p>The AASB had the following number of participants in each of its key events this year:</p> <ul style="list-style-type: none"> - Roundtables on Applying the Conceptual Framework in Australia – 176 attendees in total across 5 cities (increase by 12.1% from previous financial year) - 6 Exposure Drafts were published during the period to which the AASB received 24 submissions (0% change of average response per ED from previous financial year) - 2 Invitations to comments with 7 responses (average response per ITC |

| High-level priority activities to achieve AASB Strategy | Links to AASB Strategic Objectives | Key Priorities/KPI | Outcome (Achieved Not Achieved) | Comments |
|--|--|---|---------------------------------|--|
| B. STAKEHOLDER ACTIVITIES | | | | |
| | | | | <p>decreased by 76% from previous financial year)</p> <ul style="list-style-type: none"> - 90 attendees on 1 AASB webinar (decreased by 25% from previous financial year) - 3 AASB workshops and forums with 44 attendees (decreased by 25.42% from previous financial year) <p>• See above.</p> |
| | | → increased social media follower numbers compared with previous year. | | |
| Monitor through press coverage, Minister, FRC and other stakeholder feedback, ASIC, APRA and other regulator surveillance program results that there is no evidence that confidence in the Australian economy, including its capital market has been lost due to accounting standard issues. | Strategy 1 PBS Outcome 1 Program 1 Deliverables 1, 2 KPIs 3, 4 | There is no evidence that confidence in the Australian economy, including its capital market has been lost due to accounting standard issues. | Achieved | No evidence indicating concerns provided by other regulators or research from Melbourne University considering the value relevance of financial statements. |

OUTPUTS

The AASB's standards, exposure drafts and other research reports are listed in the tables below.

| Standards | |
|------------------------|---|
| AASB 2018-3 | <i>Amendments to Australian Accounting Standards – Reduced Disclosure Requirements</i> (August 2018) |
| AASB 2018-4 | <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors</i> (September 2018) |
| AASB 2018-5 | <i>Amendments to Australian Accounting Standards – Deferral of AASB 1059</i> (October 2018) |
| AASB 2018-6 | <i>Amendments to Australian Accounting Standards – Definition of a Business</i> (December 2018) |
| AASB 2018-7 | <i>Amendments to Australian Accounting Standards – Definition of Material</i> (December 2018) |
| AASB 2018-8 | <i>Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities</i> (December 2018) |
| AASB 2019-1 | <i>Amendments to Australian Accounting Standards - References to the Conceptual Framework</i> (May 2019) |
| Exposure Drafts | |
| ED 286 | <i>Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities</i> (November 2018) |
| ED 287 | <i>Onerous Contracts – Cost of Fulfilling a Contract</i> (January 2019) |
| ED 288 | <i>Interest Rate Benchmark Reform</i> (May 2019) |
| ED 289 | <i>Annual Improvements to Australian Accounting Standards 2018–2020</i> (May 2019) |
| ED 290 | <i>Reference to the Conceptual Framework</i> (June 2019) |
| ED 291 | <i>Not-for-Profit Entity Definition and Guidance</i> (June 2019) |
| Invitations to Comment | |
| ITC 40 | <i>Financial Instruments with Characteristics of Equity</i> (July 2018) |
| ITC 41 | <i>The AASB's Approach to International Public Sector Accounting Standards</i> (August 2018) |
| Research Reports | |
| No. 8 | <i>Literature Review: Remuneration Reporting</i> (February 2019) |
| No. 9 | <i>Perspectives on IAS 36: A Case for Standard Setting Activity: Summary of Outreach Results</i> (March 2019) |
| No. 10 | <i>Legislative and Regulatory Financial Reporting Requirements</i> (March 2018) |

AASB Authoritative Pronouncements can be accessed via
www.aasb.gov.au/Pronouncements.aspx.

The Standard-setting and Research Centre Work Programs can be accessed via
www.aasb.gov.au/Work-In-Progress/AASB-Work-Program.aspx.

AUASB CHAIR'S REVIEW

OUR 2018-19 PERFORMANCE



It is my pleasure to present the 2018-19 Auditing and Assurance Standards Board's (AUASB) Annual Report.

This year, my second full year as the Chair of the AUASB, has been a very busy and consistently challenging one. I am very pleased to report to you the actions and initiatives the AUASB and its Staff has put in place to respond to the wide range of issues faced across the auditing and assurance profession over the reporting period.

After revising and implementing the AUASB's updated strategy (in conjunction with the Australian Accounting Standards Board) and highlighting a number of new areas of focus for the

AUASB in 2017-18, this year our focus has been more on traditional standard setting activities, with a number of very important auditing standards and exposure drafts being issued. We have also developed and implemented an updated international strategy to increase our influence across the global standard setting community and have the AUASB recognised as one of the world's leading auditing and assurance standard setters.

Additionally, all of the strategic project areas and thought leadership topics we identified in the previous year have continued to progress. As highlighted later in a separate section of my AUASB Chair's Report, the work we have done and continue to do in collaboration with the Financial Reporting Council (FRC) and a broad range of auditing and assurance stakeholders on understanding and improving the levels of Audit Quality in Australia, is particularly pleasing and highly acknowledged. Indeed, in recognition of the role that the AUASB does in supporting the FRC's Audit Quality oversight mandate, we have been allocated additional funding for the next 3 years to continue and expand our work in this area.

There is still work necessary to improve some of our internal and external processes and systems. For example, there has been a big push to enhance our information technology tools and arrangements to increase collaboration internally and with our key stakeholders, which is still a work in progress. Finally, we continue to work collaboratively with the AASB to achieve the best results for financial reporting outcomes and associated assurance outcomes for Australia.

I am very pleased to present my summary below of the AUASB's achievements for 2018-19, which demonstrates our commitment and progress to deliver on our strategic objectives. A more complete summary of how we have achieved each of our high-level priorities designed to address the AUASB's strategy & outcomes is contained in the table that summarises the AUASB's 2018-19 activities and related key performance indicators on page 49.

DELIVERING ON OUR STANDARD-SETTING AGENDA

As noted above, there has been a greater focus on our standard setting activities in the 2018-19 year, with a number of key auditing standards released and exposure drafts out for comment over the reporting period. The new and revised auditing standards we have recently released, or are currently reviewing, represent significant changes from their predecessor versions and also are standards very much at the heart of an audit. There were also two Australian specific pronouncements that the AUASB updated or issued exposure drafts for in 2018-19.

Revised ASA 540 on Auditing Accounting Estimates

The international financial reporting framework has evolved to be more forward looking, leading to an increase in the volume and complexity of accounting judgements and related disclosures. The approval of ASA 540 *Auditing Accounting Estimates and Related Disclosures* in December 2018, ensures that the quality of auditing of management estimates and disclosures in Australia keeps pace with these developments in financial reporting and the regulation of entities with complex financial arrangements.

Responding to IAASB Exposure Drafts

There were a number of major exposure drafts issued by the International Auditing and Assurance Standards Board (IAASB) in 2018-19 and the AUASB conducted extensive outreach with its stakeholders to seek feedback and develop its response to these proposed standards.

The AUASB issued its exposure draft relating to ISA 315 *Identifying and Assessing the Risks of Material Misstatement* in August 2018. This proposed standard sets out the risk assessment procedures that form the foundation for an audit of financial statements and contains essential enhancements to the auditor's risk assessment process, with the objective of establishing more robust requirements and appropriately detailed guidance to drive auditors to perform consistent and effective identification and assessment of the risks of material misstatement.

AUASB exposure drafts relating to revisions of the IAASB's quality control standards that address the management of quality both at the firm level and the engagement level were approved and issued in March 2019. The proposed Quality Management standards (as they are now known) include a proactive risk-based approach to effective quality management systems within firms that establish the foundation for consistent engagement quality. This approach is intended to improve the scalability of the standards because it promotes a system tailored to the nature and circumstances of the firm and its engagements. Our outreach on these exposure drafts - ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2 *Engagement Quality Reviews*; and ISA 220 *Quality Management at the Engagement Level* highlighted broad support for the concepts in each of the proposed standards, but major concerns about how they were drafted. In its responses to the IAASB on these exposure drafts the AUASB noted with concern that they all contain greater complexity and detail than the extant standards they are replacing. This makes the proposed standards more challenging for auditors to apply, and may result in increased costs with arguably no commensurate increase in the level of audit quality for auditors of all types of entities.

The AUASB issued a consultation paper in December 2018 on the IAASB's exposure draft for ISRS 4400 *Agreed-Upon Procedures Engagements* which largely aligned with its Australian equivalent standard ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*. Whilst the AUASB considered that the proposed Agreed-Upon Procedures (AUP) standard had been clarified to respond to the needs of stakeholders and address public interest issues, there were a number of matters which we considered needed review by the IAASB to improve consistency in implementation of the standard to ensure that the needs of intended users are met.

Other AUASB Pronouncements

After last being updated in 2009 the AUASB has now issued a revised AUASB Glossary which sets out the terms defined, or used in, the suite of AUASB Standards. And finally, in May 2019 the AUASB issued an exposure draft to update ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* that proposes amendments to the format and content of the auditor's review report to align it with the enhanced auditor reporting requirements that became effective for periods ending on or after December 2016. The update of this review standard is being carried out in collaboration with the New Zealand Auditing and Assurance Standards Board (NZAuASB) to ensure the requirements are consistent across both sides of the Tasman, and responses will be considered at the AUASB next meeting in September 2019.

Strategic Projects and Thought Leadership

Following on from our commencement of a number of AUASB strategic projects in 2017-18, in the current period we have continued our focus on seven strategic projects which are intended to:

- Address emerging issues impacting the development of auditing and assurance standards and guidance, and
- Respond to challenges in each strategic project area both locally and globally, as well as produce updated implementation guidance in these areas where appropriate.

There are two AUASB strategic projects we have progressed in 2018-19 that I would highlight:

(a) Working with the AASB on Financial Reporting and Assurance Frameworks

The AUASB continues to support the Australian Financial Reporting Framework Project being progressed by the AASB by evaluating whether the auditing and assurance standards are fit for purpose for reporting framework proposals, and that the related nature and extent of assurance required on financial reports is clearly communicated and appropriate. We look forward to continuing our collaboration with the AASB on this critical project, in particular where there is an impact on auditors arising from the AASB's proposed changes that needs to be communicated.

(b) Preliminary work on the Use of Technology in the Audit, including Data Analytics.

The AUASB's project on the Use of Technology in the Audit, including Data Analytics has firstly seen our AUASB technical staff analysing current auditing standards to assess what barriers or challenges exist that may impede or reduce the efficiency of practitioners applying new technologies as part of their audit program. We have then engaged with a range of stakeholders, in particular audit software providers and technology experts from a number of major Australian

audit firms and Auditor-Generals offices, to identify the benefits and challenges encountered when using technology on their audit engagements. Finally we have summarised the findings from these activities and shared them with the IAASB's Technology Working Group (whose objective is to explore emerging developments in the effective and appropriate use of technology, including data analytics, to enhance audit quality), as well begun considering whether local guidance is required in some of these areas.

The other strategic projects and thought leadership topic areas which the AUASB and staff have addressed in 2018-19 are:

- Auditor Reporting Implementation
- Coordination and Cooperation with Regulators
- Assurance over Emerging Forms of External Reporting (EER)
- Public Sector Auditing and Assurance Issues
- Consideration of matters related to small and medium practices (SMPs) and audits of small- and medium-sized entities (SMEs)

Details of the actions we have undertaken in 2018-19 on these strategic projects and areas of thought leadership are discussed elsewhere in the annual report.

Undertaking evidence informed standards setting

In April 2019 the AUASB released its inaugural Evidence Informed Standard Setting (EISS) Strategy. The EISS strategy directs the AUASB activities to ensure that standard-setting deliberations and decisions are informed by relevant and reliable evidence. Included in the EISS strategy are the guiding principles on how the AUASB evaluates formalised and structured research activities that support AUASB's work program. This enhances Australia's reputation as a leader in auditing and assurance thought leadership, and contributes to the global standard setting agenda. Operationalising the EISS Strategy will be a key priority in 2019-20.

As part of this strategy the AUASB has created a new position to assist with our evidence informing activities. The 'AUASB Academic Scholar' is an honorary position that provides an opportunity for highly respected auditing and assurance academics to work with the AUASB Chair and the Technical Group on research topics that are mutually agreed and relevant to the outcomes of the AUASB. Our first two AUASB Academic Scholars - Prof. Elizabeth Carson from UNSW Sydney and Dr. Amanda White from the University of Technology Sydney – have begun working with the AUASB in July 2019.

INCREASING OUR INTERNATIONAL INFLUENCE

The AUASB's Strategy includes a commitment to the development of a single set of auditing and assurance standards and guidance for world-wide use. Additionally, our direction from the FRC requires the AUASB to use standards issued by the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop the Australian standards. Therefore, it is through increased international influence that we can ensure that Australia continues to benefit from high quality auditing and assurance standards.

International Strategy and Appointment of AUASB Chair to the IAASB

In 2017-18, the AUASB developed a specific international strategy aimed at “actively influencing international auditing and assurance standards by demonstrating thought leadership and enhancing key international relationships”. The strategy ensures that we are well placed to engage with the IAASB and, where required, consider other international standard-setting initiatives. We reviewed and updated this international strategy again in April 2019, with our ability to increase our level of international influence being my appointment to the IAASB as a Public Interest member for a three-year term that commenced on 1 January 2019.

This is my second term as an IAASB member, having previously been appointed from 2002 to 2005. As an IAASB member I not only ensure that the views of the Australian stakeholders are represented, but I also am better placed to ensure the activities of the AUASB are better aligned with international auditing and assurance developments.

IAASB Developments

In February the IAASB issued its Proposed IAASB Strategy for 2020-2023 and Work Plan for 2020-2021. In our submission, the AUASB noted the strong alignment with many aspects of our current AUASB Strategy and Work Plan., and made recommendations for changes in their final Strategy, such as an increased focus on reducing the complexity of IAASB Standards; addressing opportunities and challenges when it comes to use of technology on audits; a greater focus on thought leadership and the value of audit; and further consideration of the impact the increasing complexity of accounting requirements has on IAASB standards. We look forward to seeing the final IAASB Strategy for 2020-2023 and Work Plan for 2020-2021 when it is released later in 2019 and incorporating, where relevant, elements into our own AUASB Strategy.

Collaboration with the NZAuASB and other National Standards Setters

Finally, our level of international influence is enhanced by the activities we undertake in association with the IAASB and other National Standards Setters (NSS). We can only meet our objective to have the AUASB recognised as one of the world's leading auditing and assurance standard setters by working closely and collaboratively with the IAASB and NSS's. It is pleasing to see the IAASB acknowledge the important role NSS's have to play in supporting its proposed 2020-23 Strategy, and I intend that the AUASB continue to take a prominent role assisting the IAASB and working with other NSS's to address our common goals and challenges. We are continuing to identify areas where we can collaborate with like-minded NSS representatives, especially the NZAuASB and Canadian Auditing and Assurance Standards Board.

Nowhere is our positive relationship with a like-minded standard setter more evident than the work we do with the board and staff at the NZAuASB. Our relationship in 2018-19 has not only been driven by our common objectives and similar environmental factors, but also an increased acknowledgement of the benefits of collaborating on a wider range of technical issues and thought leadership areas. This year, for the first time, we held a joint planning day for the AUASB and NZAuASB Chairs and technical staff, which was highly beneficial to both teams.

AUDIT QUALITY

The AUASB supports all activities which promote continuous improvement in audit quality. The AUASB's due processes and ongoing collaboration with other regulatory, standard-setting and disciplinary bodies, support our activities to undertake standard setting activities in the public interest. We also monitor audit quality matters and initiatives in other jurisdictions in order to identify best practices which should be considered for adoption in Australia.

Surveys on the Perspectives on Audit Quality in Australia

In order to better understand and assess the issues surrounding audit quality the AUASB has supported the FRC Audit Quality Action Plan by conducting the following surveys of key stakeholders:

Audit Committee Chairs (ACCs) of the ASX Top 300 companies

- There were 91 responses, and in responding to the question asking for an overall view of the external auditor, 38 per cent responded 'excellent' and 54 per cent responded 'above average'. This indicates that the ACCs are very satisfied with the quality of their auditors. The responses also gave valuable insights into the features ACCs are looking for and best practice examples of how auditors and audit committees are working together.

Professional Investors

- There were 47 responses and in response to the question asking for an overall view of the auditor, 60 per cent responded 'above average' and 33 per cent responded 'average'. This survey indicates that professional investors do not consider audit quality as a matter of concern.

The FRC and the AUASB also intends to conduct a comparable survey with Chief Financial Officers in 2019, as well as repeating the ACC survey in order to monitor views over time.

Reviewing and responding to Inspection Findings

As a further part of the FRC Audit Quality Action Plan, the AUASB and ASIC have met and are working through areas where requirements in the standards or their application may be contributing to adverse inspection findings or could otherwise be improved. The AUASB Technical Group has also met individually with representatives from the Big 6 accounting firms to better understand their views on these matters.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION

The development of our work program and its successful achievement is only possible with the input of our various stakeholders. Our key stakeholders cover assurance firms and practitioners, regulators, the accounting professional bodies, academics who specialise in auditing and assurance and other standard setters both in Australia and Internationally. But additionally our mandate is to produce high quality auditing and assurance standards in the public interest, so we also consider the needs of preparers and users of audit and assurance reports in everything we do.

| AFAANZ Conference | Publications | Outreach |
|---|--|---|
| <ul style="list-style-type: none"> • ANU ANCAAR Audit Research Forum • World Congress of Accountants (National Auditing Standards Setters Forum) • CAANZ Audit Conference • American Accounting Association | <ul style="list-style-type: none"> • Climate-related and other emerging risks disclosures (in conjunction with AASB) • Articles in publications, including Acuity (CAANZ) and In The Black (CPA Australia) | <ul style="list-style-type: none"> • Audit Quality Perception surveys in conjunction with FRC • AUASB Stakeholder Survey • 12+ roundtables nation-wide • 4 Webinars |

Stakeholder engagement survey

In 2018-19 we continued to build on a number of the stakeholder engagement and communications initiatives the AUASB and its staff implement last year, but it is fair to say more work needs to be done to optimise the way we engage and communicate our activities, especially with those not directly involved in the regular cut and thrust of standard setting. With this in mind we have, with the AASB, commissioned an **AUASB Stakeholder Survey** for the first time in June 2019. I look forward to reporting on the results of this survey and how we have responded to its key message in next year's AUASB Chair Report.

Roundtables, webinars and discussion forums

We hosted or participated in a large number of events in 2018-19 to promote and inform stakeholders about all our major pronouncements that are open for comment. As noted in an earlier section of my report covering how we have delivered on our standard-setting agenda, we have held over a dozen public roundtables in major capital cities to capture feedback from stakeholders on proposed IAASB and AUASB standards. We use these to guide our submissions and inform the AUASB members about each topic. In addition we have used these sessions to promote and obtain stakeholder views on the AUASB's Strategy and Work Program.

AUASB technical staff and I have also attended and presented at a number of regular industry and professional forums in 2018-19, such as the ASIC Standing Committee on Accounting and Assurance, the ASIC Audit Committee Chairs Forum, the Business Reporting Leaders Forum and the emerging accounting and auditing issues group. These forums are an excellent way we communicate and get feedback from our key stakeholders on AUASB matters.

LOOKING FORWARD

We are in the midst of quite a challenging period for the auditing and assurance profession. Numerous developments both here and overseas are questioning the value and purpose of current audit and assurance requirements, and whether they are fit for purpose in today's environment. There are ongoing concerns about audit quality, with a number of well-documented cases around the globe where audit quality has fallen short of expectations. As a leading

national auditing and assurance standard setter we need to support initiatives which not only improve current levels of audit quality, but also those which may assist audit and assurance engagements evolve to meet the needs of stakeholders in the future.

As I finalise this report, the Parliamentary Joint Committee on Corporations and Financial Services has just announced an inquiry into the regulation of auditing in Australia. This inquiry has very broad Terms of Reference which capture the scope of the AUASB's activities across many areas. The AUASB supports all activities that promote continuous improvement in audit quality, transparency and professional conduct across the auditing profession, so we welcome and look forward to making a valuable contribution to this inquiry in 2019-20.

At our next AUASB meeting in September 2019 I will work with AUASB members to review and update the AUASB Strategy to ensure we are well placed to engage with our stakeholders to appropriately respond to the issues I've described above and that are likely to be addressed as part of the inquiry into auditing by the Parliamentary Joint Committee.

Building on the great work we have done in 2018-19 we will continue to partner with the FRC as it updates its FRC Audit Quality Action Plan. We received additional funding from Treasury to consolidate and expand on the initiatives we have done in the Audit Quality space and we will continue to work with the FRC Chair to ensure the activities of the FRC and AUASB are strongly aligned. For example, we will once again conduct surveys and report publicly on the perceptions on audit quality by audit committee chairs, extending this to all ASX 500 companies. In addition, we'll be conducting an additional survey covering similar questions but targeted at CFOs to get their perceptions on audit quality.

And the very busy period of standard setting activity we had in the 2018-19 doesn't abate, with ISA 315 and the Quality Management Standards still to be approved by the IAASB. Once these key standards are finalized the AUASB will develop and make available relevant implementation support materials. Our implementation support activities for ASA 540 which becomes effective in 2020 are progressing well, with additional materials to be released in the first half of 2019-20.

Internationally we look forward to working with the new IAASB Chair and receiving the final IAASB 2020 – 2023 Strategy, which will not only chart the direction for international standard setting going forward but also assist in identifying how we can best align the AUASB's activities with the IAASB and other like-minded NSS's. Already we are working closely with our NSS colleagues in New Zealand and Canada on initiatives which make best use of our resources; and increase our ability to share and collaborate on common issues.

And internally I am working with the AUASB technical and corporate services staff to improve a number of systems and process which I plan will increase the quality of communication and collaboration with our stakeholders. Priorities in this area are clearer and more targeted AUASB communications, greater accessibility of our research and evidence gathering information, better planning of our AUASB outreach activities and a long overdue update to our AUASB website.

FINANCIAL RESULTS

The AUASB has recognised a Total Comprehensive loss of \$76,424 (2018: Surplus of \$78,515) primarily as a result of the AASB's management charge reflecting additional costs for the current

Information, Communication and Technology project and the outgoing National Director severance pay.

The Management fee paid to the AASB was \$767,761 (2018: \$777,072) (refer to Notes 2A and 2B to the Financial Statements). The Management fee relates to common costs incurred by AASB which have been apportioned between the two entities as agreed in the MOU.

Board expenses have increased \$36,343 (2018: \$26,087) as a result of additional travel costs for attendance at the Board meetings. Conference and Professional development costs have increased to \$32,837 (2018: \$14,585) due to staff attendance at conferences and increased stakeholder engagement activities. HR costs have increased to \$24,945 (2018 \$270) due to the recruitment of new staff members and an executive coaching program.

Note 12 to the Financial Statements provides further details of variances from the reported budget numbers.

ACKNOWLEDGEMENTS

It's impossible for me to perform my role as the AUASB Chair without the assistance and hard work of many people.

I am very fortunate to have a highly dedicated and knowledgeable group of AUASB Board Members whose expertise and commitment are critical to us achieving the AUASB's objectives.

This year we bid farewell to two AUASB members in December 2018 – Chris George and Ashley Wood. Their technical and practical input to the AUASB's activities were highly valued. Fortunately, their replacements, Rodney Piltz from EY and Klynton Hankin from PwC, have both been able to provide the AUASB with the same great level of insight since they started in January 2019.

The Technical staff of the Office of the AUASB and the AASB Business services staff provide me and all the AUASB members with terrific support and have done a superb job implementing our work program and engaging with the AUASB stakeholders throughout the 2018-19 year.

Internationally I want to express my appreciation to the many IAASB staff members who have supported me, my fellow IAASB Task Force members and the other NSS representatives we work closely with particularly my colleagues - Chair of NZAuASB, Robert Buchanan, and Chair of the Canadian Auditing and Assurance Standards Board, Ken Charbonneau.

Finally, I would like to express my gratitude to Kris Peach (AASB Chair and CEO) and Bill Edge (Chair of the FRC), both of whom I work very closely with on the overall direction and operations of the AUASB. Their ongoing support has been instrumental in the AUASB having such a successful year.



Roger Simnett
Chair

11 September 2019

AUASB ANNUAL PERFORMANCE STATEMENT 2018-19

I, Roger Simnett, as the accountable authority of the Auditing and Assurance Standards Board, present the 2018-19 annual performance statement of the Auditing and Assurance Standards Board, (AUASB) as required under paragraph 39(1)(a) of the *Public Governance Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement is based on properly maintained records, accurately reflects the performance of the entity, and complies with subsection 39(2) of the PGPA Act.



ENTITY PURPOSE

The functions of the AUASB are to:

- make auditing standards under section 336 of the Corporations Act 2001 for the purposes of the Corporations' Legislation,
- formulate auditing and assurance standards for other purposes,
- formulate guidance on auditing and assurance matters,
- participate in and contribute to the development of a single set of auditing standards for world-wide use,
- advance and promote the main objectives of part 12 of the Australian Securities and Investments Commission Act 2001.

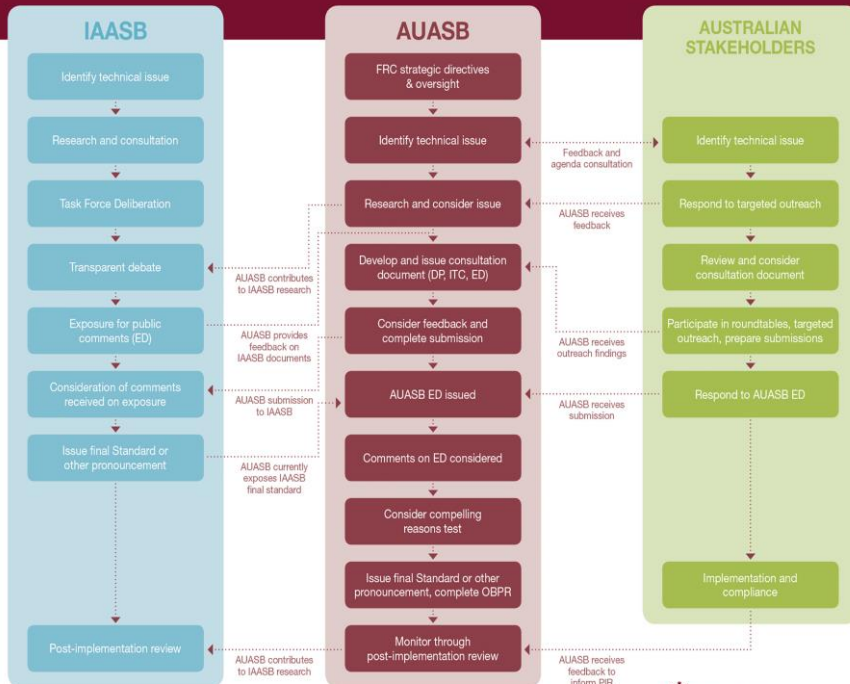
Revising the AUASB Standard Setting Process

The diagram below outlines the interactions between the International Auditing and Assurance Standards Board (IAASB), the AUASB and our stakeholders. We align our processes with the IAASB in order to engage with and inform them at early stages of standards development.

In order to increase our influence during the formative stages of standards development, the AUASB has trialed a new process for issuing IAASB ED's in Australia in 2018-19, where the ED's are issued concurrently with their release internationally. This approach is consistent with the way the Australian Accounting Standards Board (AASB) and many other auditing and assurance standards setters seek to inform and influence international standards setting.

Having now adopted this new approach for four IAASB exposure drafts in 2018-19 we will be evaluating the process formally with the AUASB and key stakeholders during the forthcoming 2019-20 year and updating our standard setting process documentation as required.

AUASB Standard-Setting Process



DP Discussion Paper | ITC Invitation to Comment | ED Exposure Draft | OBPR Office of Best Practice Regulation | PIR Post-Implementation Reviews

AUASB'S STRATEGIES FOR ACHIEVING ITS PURPOSE

| Strategy 1: Standard setting | Strategy 2: Australian external reporting framework | Strategy 3: International thought leadership | Strategy 4: Stakeholder engagement | Strategy 5: Influencing beyond financial reporting | Strategy 6: Emerging Issues | Strategy 7: Enhancing Consistency |
|--|---|---|---|---|---|---|
| Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users. Use IAASB Standards – where they exist, modified as necessary – or develop Australian-specific standards and guidance. | With the AASB, play a leading role in reshaping the Australian external reporting framework by working with regulators to develop objective criteria on: <ul style="list-style-type: none"> • who prepares external reports (including financial reports), and • the nature and extent of assurance required on external reports. | Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships. | Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach. | Influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial reporting. | Monitor and respond to emerging issues impacting the development of auditing and assurance standards and guidance, including changing technologies. | Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance. |

2018-19 AUASB ACTIVITIES AND RELATED KEY PERFORMANCE INDICATORS

The tables below identify the activities the AUASB outlined in its Corporate Plan and Parliamentary Budget Statement (PBS) as contributing to its strategies above, for the 2018-19 reporting period. The tables also indicate, for each priority, whether or not the activities were achieved and if not, why not.

Priority 1 - Issue Australian Auditing and Assurance Standards (ASAs, ASREs, ASAEs & ASRSs) based on IAASB equivalent standards in accordance with AUASB legislative drafting and registration requirements. *(Links to AUASB Strategic Objectives & 2018-19*

Portfolio Budget Statements (PBS): Strategic Objective 1; PBS Outcome 1; PBS Programs 1, 2, 3; PBS Deliverables 1, 2, 3; PBS Performance Criteria 1, 2, 5, 6)

| Current Priorities & KPIs | Achieved/ Not Achieved | Comments |
|--|-------------------------------|--|
| <p>Issue all IAASB related Australian equivalent Exposure Drafts on a timely basis (within three months of PIOB clearance or within 1 month of AUASB approval, as appropriate).</p> <p>Develop and issue Australian Auditing and Assurance Standards following the release of their equivalent ISA, ensuring all Australian legislative and regulatory requirements are considered, including changes required via application of the 'compelling reason' test.</p> <p>Coordinate and develop the AUASB's response to existing and planned IAASB exposure drafts.</p> <p>Develop high quality responses to other IAASB pronouncements or invitations to comment by the due date as they are released.</p> <p>Conduct post-implementation reviews of IAASB equivalent issued AUASB Standards, as required.</p> <p>Implement revised AUASB Process for exposing and issuing International Exposure Drafts concurrently with the IAASB.</p> | <p>Achieved</p> | <ul style="list-style-type: none"> Exposure Drafts for ISA 315 and ASA 540 both released and subject to extensive consultation. Submission on ISA 315 deliberated at October 2018 AUASB meeting and sent to the IAASB on 2 November 2018. Final version of updated ASA 540 Auditing Accounting Estimates and Related Disclosures approved in December 2018 and nine compilation standards, incorporating conforming amendments arising from the update to ASA 540, finalised and issued in January 2019. Submission on revised International Standard on Agreed-Upon Procedures Engagements completed in March 2019. Roundtables held and submissions developed on the IAASB Quality Management Standards (ISQM 1, ISQM 2 and ISA 220) in May and June 2019. Final submissions sent to IAASB on 1 July 2019. LCE Discussion Paper released and outreach commenced, including an Australian LCE survey. AUASB to report to the IAASB in September 2019. |
| | <p>Partly Achieved</p> | <ul style="list-style-type: none"> IAASB Post Implementation of Auditor Reporting Standards yet to formally commence, however all agreed AUASB initiated post implementation activities related to these standards (e.g. research, outreach) are either completed or ongoing. |

Priority 2 - Develop, update and maintain Australian specific Standards and/or Guidance Statements for topics not specifically addressed by IAASB Standards as required. (Links to AUASB Strategic Objectives & 2018-19 Portfolio Budget Statements (PBS): Strategic Objective 1; PBS Outcome 1; PBS Programs 1, 2; PBS Deliverables 1, 2; PBS Performance Criteria 1, 2, 3, 4.)

| Current Priorities & KPIs | Achieved/ Not Achieved | Comments |
|--|---------------------------|---|
| Review and update of AUASB Framework Pronouncements, including the AUASB Glossary. | Achieved | <ul style="list-style-type: none"> Updated AUASB Glossary approved in September 2018. Project Advisory Group (PAG) on the revision of GS 005 Using the Work of a Management's Expert now in place. Focus is on responding to issues raised regarding the use of experts arising from ASIC's inspection report. ASRE 2410 ED issued in May 2019, with further addendum based on differences between AUASB and NZAuASB under development at year end (NB: Released in July 2019). |
| Develop and issue Australian specific Standards within one month of AUASB approval, in accordance with AUASB legislative drafting and registration requirements. | | |
| Review full suite of AUASB pronouncements, including revising out of date Guidance Statements to determine necessity and timing of updates required. | Partly Achieved | <ul style="list-style-type: none"> Project plan to update GS 012 Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions approved at December 2018 AUASB Meeting. A new AUASB Technical staff member commences in August 2019 to work on this task. Initial discussions held with ATO and professional bodies on the need to update GS 009 Auditing Self-Managed Superannuation Funds. Draft project plan prepared and presented to AUASB in March 2019. A contractor with SMSF expertise is currently being confirmed to assist the AUASB Technical Group with this project in late 2019. Update of ASAE 3450 deferred - awaiting decision by NZAuASB to potentially develop an equivalent standard in 2019-20. Proposal to review the full suite of AUASB Guidance Statements presented to the AUASB in June 2019 to determine the priority and validity of updates required. Further information requested by the AUASB and a revised Guidance Statement update plan currently in progress, for discussion at the September 2019 AUASB meeting. |
| Conduct post-implementation reviews of Australian specific AUASB Standards, as required. | | |
| | Not Achieved | <ul style="list-style-type: none"> Post Implementation Reviews of ASAE 3100 and ASAE 3500 originally scheduled for 2018-19 were not undertaken due to other AUASB priorities. These projects have been deferred to the 2019-20 reporting period. |

Priority 3 - Monitor the Assurance Environment, considering the implications for Australian auditing and assurance standards and guidance and responding as appropriate. *(Links to AUASB Strategic Objectives & 2018-19 Portfolio Budget Statements (PBS): All Strategic Objectives; PBS Outcome 1; PBS Programs 1, 2, 3; PBS Deliverables 1, 2, 3; PBS Performance Criteria 4)*

| Current Priorities & KPIs | Achieved/ Not Achieved | Comments |
|---|------------------------------|--|
| <p>Conduct regular AUASB Agenda Consultation Forums in various locations, either face to face or electronically, and update AUASB Workplan as required based on relevant feedback.</p> <p>Hold quarterly meetings with the professional accounting bodies to discuss trends in assurance environment and identify impact for AUASB Agenda and Workplan.</p> <p>Ensure AUASB attendance and presentations at a number of research events (e.g. AFAANZ Conference and AFAANZ Auditing and Assurance Special Interest Group, the UNSW Audit Research Roundtable, and the ANU ANZCAR Conference).</p> <p>Develop and implement an AUASB Research Strategy.</p> <p>Work with the FRC to implement the elements of the FRC Audit Quality Plan that are the responsibility of the AUASB.</p> <p>Monitor key international regulator developments (including IOSCO, PCAOB and IFIAR Monitoring Group) and consider impact for the local auditing and assurance environment.</p> | Achieved | <ul style="list-style-type: none"> AUASB Work Program update provided to stakeholders at ISA 315 and ASA 540 Roundtable events held in September and October 2018. Regular engagement held with CA ANZ and CPA Australia in respect of the current AUASB exposure drafts and regular meetings held with technical representatives from both professional bodies. AUASB Chair keynote speaker at ANU ANCAAR Conference and presenter at World Congress of Accountants in Nov/Dec 2018. Ongoing collaboration with the FRC on Audit Quality activities as outlined in the FRC Audit Quality Action Plan, including the Audit Committee Chairs and Investor Surveys on perceptions of Audit Quality. Working with University of Adelaide on resolving variations in Australian legislation requiring audit and assurance. Plan to develop AUASB Bulletin addressing the different types of assurance engagements that may be performed under the AUASB Assurance Framework developed and presented to the AUASB in December 2018. No explicit audit or assurance implications arising from the Royal Commission into Misconduct in the Financial Services Industry noted. New AUASB Evidence Informed Standard Setting (EISS) Strategy released in June 2019 and promoted to Auditing and Assurance Academics at July 2019 AFAANZ Conference. Appointment of two inaugural 'AUASB Scholars' has been completed. They commence in July 2019 for 6 months. |
| <p>Develop updated guidance to encourage the increased application and understanding of review engagements.</p> <p>Consider audit quality and implementation issues associated with the audit and assurance issues specific to the financial services sector, including any matters arising from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.</p> | Partly Achieved | <ul style="list-style-type: none"> Proposal to develop 3 new AUASB publications covering Assurance Basics and Expectation Gaps; a Guide for Government requirements for Independent Assurance and different types of assurance engagements that can be performed under the AUASB Framework in progress. Updated proposal to be tabled with AUASB at its September 2019 meeting. White paper from Monitoring Group addressing next steps in global standard setting arrangements has been delayed. |

Priority 4 - Build, maintain and enhance key international relationships around key focus areas with both global (eg IAASB, IFAC, IIRC) and national standard setters and professional bodies (eg FRC, PCAOB, CPAC, IRBA). *(Links to AUASB Strategic*

Objectives & 2018-19 Portfolio Budget Statements (PBS): Strategic Objectives 3, 4; PBS Outcome 1; PBS Program 3; PBS Deliverable 3; PBS Performance Criteria 5, 6)

| Current Priorities & KPIs | Achieved/ Not Achieved | Comments |
|---|---------------------------|---|
| <p>AUASB to be represented at all IAASB meetings.</p> <p>Arrange for AUASB review of relevant IAASB board papers on a timely basis and share feedback on key matters with regional IAASB members before each IAASB meeting.</p> <p>Attend and present relevant topics at regional and global IAASB NSS meetings.</p> <p>With the IAASB and NZAuASB, identify and implement initiatives to drive increased sharing and collaboration across the National Standards Setting network.</p> <p>Attend and contribute to other IAASB or International Standard Setting forums as appropriate.</p> <p>Review and contribute as appropriate to other global initiatives, such as IIRC, GRI and WBCSD, on assurance issues.</p> <p>Engage with the Global EER Project Advisory Panel and support associated regional activities and local panel members.</p> | Achieved | <ul style="list-style-type: none"> AUASB represented at all IAASB meetings in 2018-2019, both face to face and teleconference. AUASB Chair appointed to IAASB and has attended all IAASB Meetings in first half of 2019. AUASB deliberated on all major IAASB projects at each of its 2018-19 Board Meetings held prior to each IAASB meeting. Feedback from AUASB used to inform AUASB Chair position and shared with Australasian IAASB members. NSS Meeting jointly hosted with the NZAuASB held in Sydney at the same time as the World Congress of Accountants in November 2019. Excellent feedback from IAASB and other participants received and way forward for collaborative NSS initiatives determined. Collaboration with NZAuASB technical staff on common projects held at joint staff planning day in February 2019. Ongoing National Standard Setters (NSS) initiatives being coordinated by AUASB/NZAuASB Chairs and Technical Directors with IAASB and other NSS following Paris NSS meeting in May 2019. AUASB Chair appointed Chair of IAASB Less Complex Entities Working group and led development of IAASB LCE Discussion Paper to chart the way forward. AUASB submission on 2020-23 IAASB Strategy developed and submitted in June 2019. AUASB Chair attended various teleconference meetings of IIRC working group & WBCSD assurance task force. EER specialist AUASB member appointed to the IAASB EER Advisory group and participated in all conference calls, as well as attended local IAASB EER Roundtables, supported by AUASB technical staff. Roundtables held and submission developed and sent to IAASB on Phase One of EER Assurance Guidance in May and June 2019. |

Priority 5 - Maintain harmonisation of auditing and assurance standards in Australia and New Zealand in accordance with relevant agreements and protocols. (Links to AUASB Strategic Objectives & 2018-19 Portfolio Budget Statements (PBS): Strategic Objectives 1; 3 PBS Outcome 1; PBS Programs 1, 2, 3; PBS Deliverables 1, 2, 3; All PBS Performance Criteria)

| Current Priorities & KPIs | Achieved/ Not Achieved | Comments |
|---|---------------------------|---|
| <p>AUASB Chair and/or Technical Director to attend all NZAuASB meetings.</p> <p>Ensure standards and guidance are issued in accordance with AU/NZ harmonisation requirements.</p> <p>Contribute to and work in parallel on a number of NZAuASB projects, such as Auditor Reporting FAQs, and the Audit of Service Performance Information standard.</p> <p>Work collaboratively with NZAuASB Technical Staff to ensure co-operation and co-ordination between the AUASB and NZAuASB's activities (e.g. joint research programs and joint contributions on key focus areas, such as Assurance requirements for NFP's and Charities).</p> | Achieved | <ul style="list-style-type: none"> • AUASB Chair attended all NZAuASB Meetings throughout 2018-19. • AUASB responses on ISA 315 and ASA 540 developed with regard to AU/NZ harmonisation requirements. • AUASB and NZAuASB Chairs and Technical Directors collaborated on the planning and conduct of the NSS Meeting held in Sydney at the World Congress of Accountants in November 2018. • AUASB and NZAuASB staff reviewed corresponding work programs to look for greater opportunities for collaboration and joint resourcing of projects at Joint AUASB and NZAuASB Technical team meeting in February 2019. Outputs to be incorporated into 2019-20 AUASB Technical Work Program. • AUASB staff jointly working with NZAuASB staff on the update of Review Standard ASRE 2410. • AUASB staff collaborating on an ongoing basis with NZAuASB staff on Assurance of Charities, EER assurance and Service Performance Reporting initiatives. |

Priority 6 - Complete a number of strategic projects addressing current areas of auditing and assurance thought leadership and emerging issues, in particular the areas of external reporting beyond financial reporting (eg EER) and the impact of changing technologies (eg Data Analytics). (Links to AUASB Strategic Objectives & 2018-19 Portfolio Budget Statements (PBS): Strategic Objectives 2, 5, 6; PBS Outcome 1; PBS Programs 1, 2, 3 PBS Deliverables 1, 2, 3; PBS Performance Criteria 3, 4, 6)

| Current Priorities & KPIs | Achieved/ Not Achieved | Comments |
|--|-------------------------------|--|
| <p>Scope and implement strategic thought leadership projects in the following areas:</p> <ul style="list-style-type: none"> - Auditor Reporting Implementation - Audit Quality / Coordination and cooperation with Regulators - Assurance over Emerging Forms of External Reporting (EER) - Financial Reporting and Assurance Frameworks - Public Sector Auditing and Assurance Issues - Consideration of matters related to small and medium practices (SMPs) and audits of small- and medium-sized entities (SMEs) - Use of Technology in the Audit including Data Analytics <p>Work with relevant local and international stakeholders to influence and support emerging forms of assurance (eg IIRC).</p> <p>Develop and maintain contact with other key national standard setters and identify opportunities to collaborate on key international auditing and assurance focus areas.</p> | <p>Achieved</p> | <ul style="list-style-type: none"> • Additional AUASB Auditor Reporting Frequently Asked Questions made available on AUASB Website. • AUASB assisting on academic projects in relation to Assurance Frameworks and Auditor Reporting. • Meetings held with ASIC and audit firms to review issues associated with inspections findings. • Plan to update of the AUASB guidance statement on the Use of Managements Experts approved in December 2018. This is now in development, with a Project Advisory Group (PAG) on the revision of GS 005 addressing ASIC's Inspection findings in place. • Proposed changes to GS 005 shared with ASIC for review. • AASB and AUASB joint publication on insights and research findings on climate-related disclosures for Australian listed entities and the application of APS 2 to financial reporting and assurance on climate-related risks released in December 2018 (and updated in April 2019). • Ongoing support provided by AUASB staff to Australian IAASB EER Project Advisory Panel member. • Attended IAASB EER Roundtable in November 2018. • Consultations held with ACNC & input into AASB paper on Audit requirements under revised NFP reporting framework. • Support/review of relevant Assurance matters provided to AASB as requested on their Framework publications. • PAG comprising ACAG representatives set up in February 2019 to advise on AUASB public sector audit issues project. • Ongoing outreach to gather feedback for Use of Technology in the Audit including Data Analytics project (Phase 2) with firms and ACAG. • Initial scoping of impact/barriers arising from audit technology performed and shared with IAASB Technology Working Group. • LCE survey and AUASB response to IAASB Discussion Paper released in late April 2019 currently in progress. |
| | <p>Partly Achieved</p> | <ul style="list-style-type: none"> • Initial planning for AUASB Project to develop guidance in response to audit inspection finding relating to the audit of Revenue has commenced. • Initial scoping commenced for joint National Standard Setters (NSS) initiatives covering AUASB strategic project areas and other thought leadership topics in progress with the IAASB, other like-minded NSS and directly with Canada and NZ. |

Priority 7 - Achieve a high level of stakeholder satisfaction through increased engagement (i.e. events and publications) that demonstrate the AUASB has a thorough awareness of ideas and concerns of Australian stakeholders. (Links to AUASB Strategic Objectives & 2018-19 Portfolio Budget Statements (PBS): Strategic Objective 4; PBS Outcome 1; PBS Programs 1, 2; PBS Deliverables 1, 2; PBS Performance Criteria 3, 4)

| Current Priorities & KPIs | Achieved/ Not Achieved | Comments |
|---|---------------------------|---|
| <p>Hold quarterly meetings with key stakeholders (CPA, CA ANZ, APESB, ASIC) and ensure regular contact with other stakeholders (ACAG, ACNC, CER, APRA, AICD & IPA) as required to:</p> <ul style="list-style-type: none"> - gather timely and relevant feedback on AUASB activities; and - ensure the AUASB Workplan is responsive to user needs. <p>Attend and present at regular professional and regulatory forums (e.g. ASIC Standing Committee, Emerging Accounting and Auditing, Issues Discussion Group, BLRF etc).</p> <p>AUASB Board members or staff to present at a number of auditing or assurance related events/conferences.</p> <p>Author or contribute to multiple articles on major auditing and assurance developments for CPA Australia and CA ANZ professional bulletins and other publication outlets.</p> <p>Complete quarterly reports for the FRC and obtain positive feedback from FRC members on AUASB activities.</p> <p>Develop and distribute a quarterly AUASB update.</p> <p>Ensure all AUASB meeting highlights/podcast available within two working days after each meeting.</p> | Achieved | <ul style="list-style-type: none"> • AUASB Meeting Register developed to ensure communication with major stakeholders. Discussed and reviewed at all AUASB meetings. • AUASB Chair attended and presented on Audit Quality Matters and other Assurance issues at all ASIC Standing Committee meetings. • AUASB Staff have attended and presented at a number of Audit and Accounting industry forums. • Communications from 2018/19 AUASB meetings (Highlights, Podcasts) all issued as required and on time via AUASB Website. • Regular meetings held with key audit and assurance related personnel at CPA Australia and CA ANZ. • Provided quarterly reports for the FRC on AUASB activities on a timely and in a concise matter and acted on feedback received. • Quarterly AUASB Update Newsletters issued throughout the 2018-19 year, with new format released in May 2019. • AUASB stakeholder satisfaction survey sent in June 2019, with results to be available in August 2019. |
| | Partly Achieved | <ul style="list-style-type: none"> • Minor progress made on AUASB Stakeholder Database and other AUASB communications tools with new AASB-AUASB Communications Manager assisting. Project to update AUASB Website deferred, with less expensive proposal being explored. • Updates to AASB/AUASB communications strategy commenced but deferred due to departure of AASB-AUASB National Director. • All AUASB Board papers for 2018-19 available on the website before AUASB Meetings, but not always a week in advance as per AUASB guidelines. The AUASB staff are currently reviewing their procedures to address this issue. |

| Current Priorities & KPIs | Achieved/ Not Achieved | Comments |
|--|---------------------------|----------|
| <p>In conjunction with the AASB, conduct regular AUASB Stakeholder satisfaction surveys.</p> <p>Create and maintain details of AUASB stakeholders in the new AASB/AUASB Stakeholder Database.</p> <p>Contribute to the planning of the new AASB/AUASB website.</p> <p>In conjunction with the AASB/AUASB Communications Manager, implement initiatives to monitor and grow stakeholder engagement, measured via increased media mentions, social media activity and level of participation at AUASB events.</p> <p>Ensure all AUASB meeting board papers are available on the AUASB website a week in advance.</p> | | |

Priority 8 - Conduct awareness initiatives, such as webinars and presentations for new major Standards issued, and promote the development of education initiatives by others (for example professional bodies, regulators, accounting firms and tertiary institutions) by providing, technical input to their initiatives and co-presenting at their education sessions. *(Links to AUASB Strategic Objectives & 2018-19 Portfolio Budget Statements (PBS): Strategic Objectives 4 & 7; PBS Outcome 1; PBS Programs 1 & 2; PBS Deliverables 1 & 2; PBS Performance Criteria 3, 4)*

| Current Priorities & KPIs | Achieved/ Not Achieved | Comments |
|---|---------------------------|--|
| <p>Record and release AUASB podcasts and/or webcasts for all AUASB meetings on all major audit and assurance pronouncements.</p> <p>AUASB Board members or staff to present at a number of auditing or assurance related events/conferences (e.g. CA ANZ Audit Conference; CPA Congress).</p> <p>Author or contribute to multiple articles on major auditing and assurance developments for CPA Australia and CA ANZ professional bulletins.</p> <p>Partner with respected auditing and assurance academics on AUASB strategic projects and research activities, for example on Auditor Reporting implementation.</p> <p>Engage with the CA ANZ and CPA Australia to support the currency and appropriateness of auditing and assurance professional program course materials.</p> <p>Identify opportunities to present guest lectures or be represented on advisory panels for auditing and assurance topics at major tertiary institutions.</p> | <p>Achieved</p> | <ul style="list-style-type: none"> Podcast with highlights from each AUASB meeting recorded and released following each AUASB meeting. AUASB Chair keynote speaker at ANU ANCAAR Conference and presenter at World Congress of Accountants. AUASB assisting on academic projects in relation to Assurance Frameworks and Auditor Reporting. LCE articles published in CA ANZ and CPA Professional Practice Journals in May and June 2019. AUASB Chair and/or staff presented at 5 Australian CA ANZ Audit Conferences on current AUASB topics. Appointment of two 'AUASB Scholars' for 2019 has been completed, with work to commence in July 2019. AUASB Chair presented keynote address on current audit issues at AFAANZ Conference in early July 2019. AUASB Technical staff member is on the Deakin University School of Accounting Advisory Board. |
| | Partly Achieved | <ul style="list-style-type: none"> No actions identified by professional bodies in 2018-19 in relation to auditing and assurance professional program course materials or contributions to external articles or bulletins. |

Priority 9 - Analyse regulator inspection findings to identify AUASB actions that help improve audit quality and the consistency of audit execution, predominately through the development of new publications (such as AUASB Bulletins and frequently asked questions ('FAQs')) that facilitate the consistent application of auditing and assurance standards.

(Links to AUASB Strategic Objectives & 2018-19 Portfolio Budget Statements (PBS): Strategic Objective 7; PBS Outcome 1; PBS Programs 1, 2; PBS Deliverables 1, 2; PBS Performance Criteria 3, 4)

| Current Priorities & KPIs | Achieved/ Not Achieved | Comments |
|---|-------------------------------|---|
| <p>Increased and timelier engagement with ASIC and other regulators responsible for audit and assurance inspections.</p> <p>Assess and respond to implementation issues and identify opportunities to create additional AUASB guidance to address inspection findings.</p> <p>Hold quarterly meetings with ASIC and meet at least annually with other regulators (APRA, CER) to discuss audit inspection developments and identify opportunities for AUASB staff involvement.</p> <p>In conjunction with the NZAuASB, issue new and revised Auditor Reporting FAQs based on stakeholder feedback and issues noted by AUASB staff.</p> <p>Develop and issue AUASB Bulletins to provide guidance to Stakeholders as required on AUASB Pronouncements and topical/emerging auditing and assurance issues and in conjunction with the release of all major AUASB standards and guidance statements.</p> <p>Monitor global audit inspection developments and trends and consider impact for Australian auditing and assurance environment.</p> | <p>Achieved</p> | <ul style="list-style-type: none"> Meetings held with ASIC and large audit firms to review common issues associated with inspections findings, resulting in updated AUASB guidance on the use of experts currently in development. Ongoing collaboration with the FRC on Audit Quality activities in FRC Audit Quality Action Plan, including the ACC and Investor Surveys on perceptions of Audit Quality. Additional AUASB Auditor Reporting Frequently Asked Questions made available on AUASB Website. Ongoing discussions with ASIC on issues arising from January 2019 Report on audit inspection findings. AASB and AUASB joint publication developed on insights and research findings on climate-related disclosures for Australian listed entities and the application of APS 2 to financial reporting and assurance on climate-related risks. AUASB published media release in response to the latest ASIC Inspection Findings in late January 2019. Joint AUASB/FRC Report on survey to gather professional investors' perspectives on audit quality, the value of audit, and the factors that influence these released in May 2019. AUASB staff jointly working with NZAuASB staff on the update of Review Standard ASRE 2410. |
| | <p>Partly Achieved</p> | <ul style="list-style-type: none"> Proposal to develop 3 new AUASB publications covering Assurance Basics and Expectation Gaps; a Guide for Government requirements for Independent Assurance and different types of assurance engagements that can be performed under the AUASB Framework in progress. Updated proposal to be tabled with Board at September 2019 Board meeting. |

OUTPUT STRUCTURE

The AUASB's standards, exposure drafts and consultation papers issued in 2018-19 are listed in the table below.

| Standards | |
|---|---|
| ASA 540 | <i>Auditing Accounting Estimates and Related Disclosures</i> (December 2018) |
| ASA 2018-1 | <i>Amendments to Australian Auditing Standards</i> (December 2018) |
| Exposure Drafts and Consultation Papers | |
| ED 01/18 | Proposed Auditing Standard ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i> (August 2018) |
| ED 02/18 | Proposed Auditing Standard ASA 2018-1 <i>Amendments to Australian Auditing Standards</i> (August 2018) |
| ED 03/18 | Proposed Auditing Standard ASA 540 <i>Auditing Accounting Estimates and Related Disclosures</i> (August 2018) |
| ED 04/18 | Proposed ASA 2018-2 <i>Amendments to Australian Auditing Standards</i> (August 2018) |
| ED ISQM 1 | Explanatory Memorandum <i>ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i> (March 2019) |
| ED ISQM 2 | Explanatory Memorandum <i>ISQM 2 Engagement Quality Reviews</i> (March 2019) |
| ED ISA 220 | Explanatory Memorandum <i>ISA 220 Quality Management at the Engagement Level</i> (March 2019) |
| ED 01/19 | Proposed Auditing Standard on Review Engagements ASRE 2410 <i>Review of a Financial Report Performed by the Auditor of the Entity</i> (May 2019) |
| AUASB Publications | |
| Audit Quality in Australia: The Perspective of Audit Committee Chairs (September 2018) | |
| Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/AIASB Practice Statement (December 2018, Updated April 2019) | |
| Audit Quality in Australia: The Perspectives of Professional Investors (May 2019) | |

AUASB Authoritative Pronouncements can be accessed via

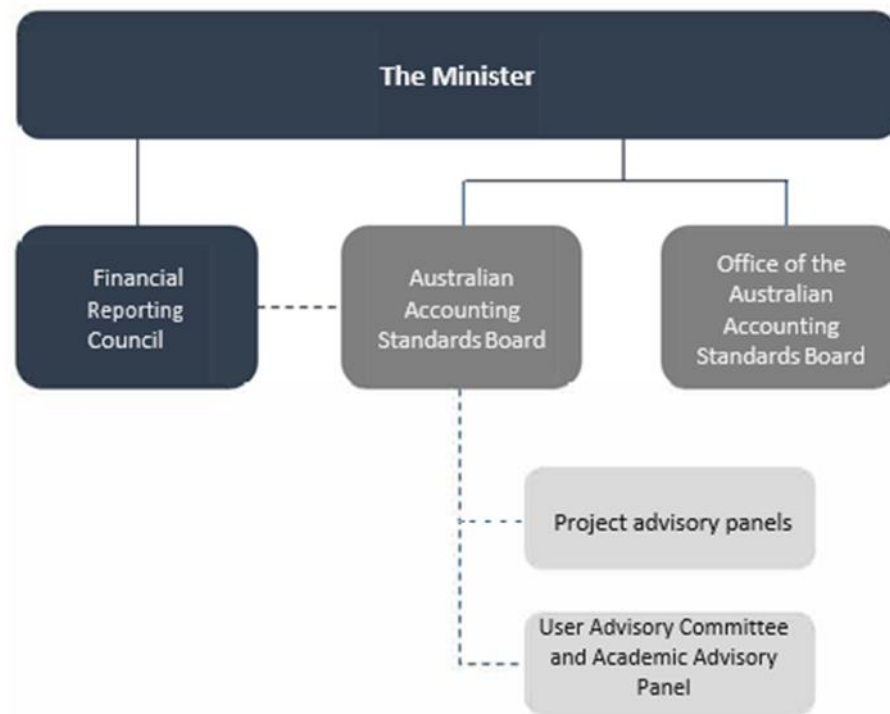
www.auasb.gov.au/Pronouncements.aspx.

The AUASB's Technical Work Programs can be accessed via

<https://www.auasb.gov.au/About-the-AUASB/AUASB-Strategy-and-Corporate-Plan.aspx>.

MANAGEMENT AND ACCOUNTABILITY

HOW THE AASB WORKS



The Minister

The Minister appoints the Chair of the AASB. The Chair of the AASB is accountable to the Minister regarding the operations of the AASB and the Office of the AASB.

Financial Reporting Council

Responsible to the Minister, the FRC provides broad strategic direction and advice to the AASB and has oversight of the process for setting accounting standards in Australia. The FRC appoints Board members to the AASB.

AASB

The AASB is an Australian non-corporate Government Entity responsible for developing, issuing and maintaining accounting standards under section 334 of the *Corporations Act 2001* for the purposes of the corporations legislation. The AASB also formulates accounting standards and or guidance for other purposes and participates in, and contributes to, the development of a single

set of international accounting standards for worldwide use. The AASB's vision and strategies are set out on page 7. Further detail on the AASB's functions are set out in Appendix A.

To be eligible for appointment as a member of the AASB, a person must have knowledge of, or experience in, business, accounting, law or government. Initial appointment is for a maximum of 3 years with possible extensions for a further 2 terms.

The members of the AASB during 2018-19 are listed below. The Board held 8 meetings for a total of 8 meeting days during the year. Attendance of members at these meetings is set out in Appendix B.

Office of the AASB

The Office of the AASB provides technical and administrative services, information and advice to the AASB. The Chair of the AASB is also the Chief Executive Officer of the Office of the AASB, however the CEO responsibilities have been delegated (to the maximum extent permitted) to the National Director.

Membership

Kris Peach, Chair

Kris Peach was appointed as Chair of the AASB and CEO of the Office of the AASB for a five-year term from 1 November 2014 to 31 October 2019, subsequently extended to 2 February, 2020. Australian Securities and Investments Commission (Australian Accounting Standards Board Chair) Variation of Appointment 2019 provided that the Chair position become a part time role from 1 May 2019.

The duties of the Chair and CEO of the AASB are outlined in sections 235D to 235J of the *Australian Securities and Investments Commission Act 2001*.

As Chair of the AASB, she is also a member of the FRC and a member of NZASB.

The members of the AASB holding office during the year ended 30 June 2019 were:

| Board Member | Qualification | Appointment end date |
|-----------------|---|--------------------------------------|
| Mike Blake | Auditor General Tasmania | December 2020 (2 nd term) |
| Kimberley Crook | Chair of the New Zealand Accounting Standards Board | Reciprocal member from 1 July 2014 |
| Peter Gibson | Commonwealth Department of Finance | December 2021 (3 rd term) |
| James Grant | Westpac | December 2021 |
| Ken Liow | Principal, Obsidian Capital | December 2020 |
| Carmen Ridley | Australian Financial Reporting Solutions | December 2020 (3 rd term) |
| Paul Rogers | KPMG | December 2021 |
| Taryn Rulton | Monash College | December 2019 (2 nd term) |

| Board Member | Qualification | Appointment end date |
|----------------|---------------------------------|----------------------|
| Stephen Taylor | University of Technology Sydney | December 2019 |
| Alison White | Deloitte | December 2020 |

Retirements

| | | |
|----------------|-------------------------|-----------------------|
| Regina Fikkers | PricewaterhouseCoopers | Retired December 2018 |
| Marc Smit | National Australia Bank | Retired December 2018 |

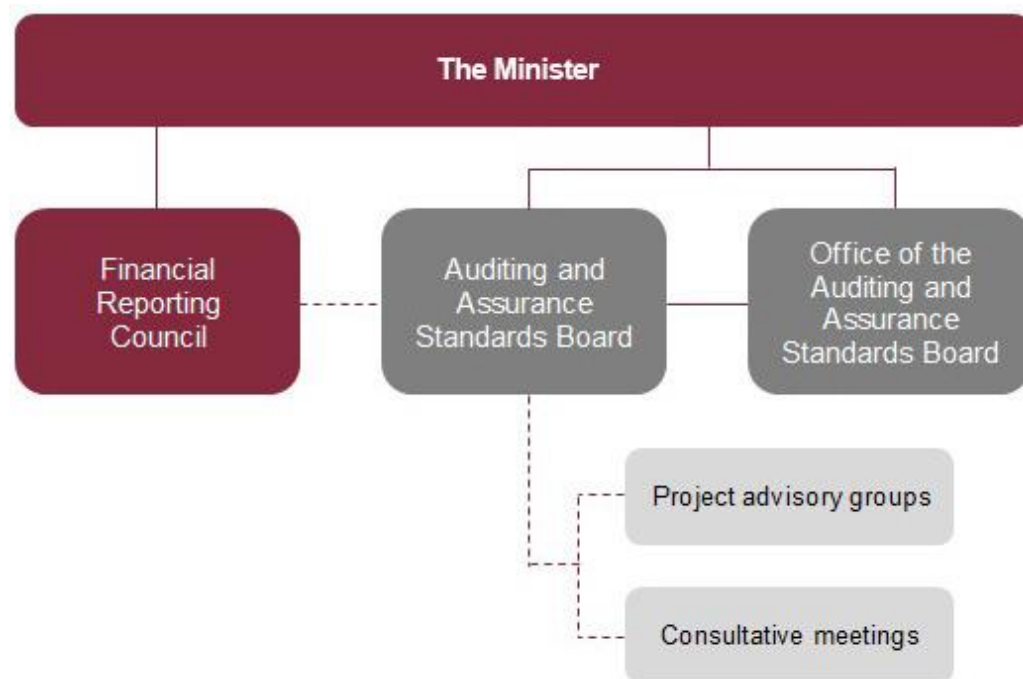
Observers

There was no one with observer status during the year.

AASB Board and Staff



HOW THE AUASB WORKS



The Minister

The Minister appoints the Chair of the AUASB. The Chair of the AUASB is accountable to the Minister regarding the operations of the AUASB and the Office of the AUASB.

Financial Reporting Council

Responsible to the Minister, the FRC provides broad strategic direction and advice to the AUASB and has oversight of the process for setting auditing and assurance standards in Australia. The FRC appoints Board members to the AUASB for various terms.

AUASB

The AUASB an Australian non-corporate Government Entity responsible for making auditing standards under section 336 of the *Corporations Act 2001* for the purposes of the corporations legislation. The AUASB also formulates auditing and assurance standards for other purposes and participates in and contributes to the development of a single set of international auditing standards for worldwide use. The AUASB's vision and strategies are set out on page 7. Further detail on the AUASB's functions are set out in Appendix A.

Board appointments may be made for a period of up to three years and retiring members are eligible for reappointment for a maximum of three terms.

The Board met Eleven times during the year. Attendance of members at these meetings is set out in Appendix B.

Office of the AUASB

The Office of the AUASB provides technical support and administrative services, information and advice to the AUASB. The Chair of the AUASB is also the Chief Executive Officer of the Office of the AUASB, however the CEO responsibilities have been delegated (to the maximum extent permitted) to the National Director.

Membership

Roger Simnett, Chair

Roger Simnett was appointed as Chair of the AUASB and CEO of the Office of the AUASB for a five-year term from 1 April 2017 until March 31, 2022.

The duties of the Chair and CEO of the AUASB are outlined in sections 235D to 235J of the *Australian Securities and Investments Commission Act 2001*.

As Chair of the AUASB, he is also a member of the FRC and a member of NZAuASB. In September 2018 Roger was appointed to the IAASB as a board member.

The AUASB comprised an independent part-time Chair (appointed by the Minister) and 10 part-time members (appointed by the FRC).

The members during 2018-19 were:

| Board Member | Qualification | Appointment end date |
|--------------------|---|--------------------------------------|
| Robin Low | Non-Executive Director | December 2019 (2 nd term) |
| Gareth Bird | Deloitte | December 2019 |
| Robert Buchanan | Chair, NZAuASB | Reciprocal member from 1 July 2016 |
| Jo Cain | Non-Executive Director | December 2021 (3 rd term) |
| Julie Crisp | Northern Territory Auditor-General's Office | December 2020 |
| Klynton Hankin | PwC | December 2021 |
| Noel Harding | UNSW Sydney | December 2020 |
| Rodney Piltz | EY | December 2021 |
| Carolyn Ralph | KPMG | December 2020 (2 nd term) |
| Justin Reid | J R Consulting | December 2019 |
| Retirements | | |
| Ashley Wood | PwC | Retired December 2018 |
| Chris George | EY | Retired December 2018 |

AUASB Chair and Staff



AASB AND AUASB'S CORPORATE GOVERNANCE

The corporate governance practices of the AASB, AUASB and the Offices of the AASB and the AUASB comply with statutory and other external requirements, and aim to achieve sound administrative and financial management practice. They are designed to ensure the efficient, effective and ethical use of resources.

As part of its ongoing focus on effective governance arrangements, the Offices of the AASB and AUASB periodically consider a range of issues, including:

- clear accountability mechanisms
- leadership, culture and communication
- appropriate governance and committee structures
- effectiveness of work with stakeholders
- comprehensive risk management, compliance and assurance systems
- strategic planning, performance monitoring and evaluation.

Audit Committee

The AASB and AUASB Audit Committee's role is to provide independent assurance and assistance to the Chairs on their financial and performance reporting responsibilities, risk oversight and management, and system of internal control. The Committee is not responsible for the executive management of these functions. The Committee engages with management in discharging its advisory responsibilities and formulating its advice to the Chairs.

The Audit Committee follows the recommended practice guidelines issued by the Department of Finance for non-corporate Commonwealth entities. The Audit Committee comprises an independent external Chair, and two external members. The Australian National Audit Office (ANAO) also attends Audit Committee meetings as an observer, as do other AASB and AUASB management representatives.

Fraud

Fraud control is regarded by the AASB and AUASB as a continuous process, and AASB and AUASB officers and employees maintain an awareness of fraud risk generally, and their responsibility to take any reasonable action to reduce the possibility and impact of losses through fraud.

The AASB and AUASB has in place a fraud risk assessment and fraud control plan. It has adequate fraud prevention, detection, investigation and reporting mechanisms that meet its specific needs.

Australian Accounting Standards Board and Auditing and Assurance Standards Board Annual Reports 2018-19

I, Kris Peach, as the AASB accountable authority, certify that the AASB meets the obligations arising from section 10 of the *Public Governance, Performance and Accountability Rule 2014*. This legislation requires appropriate fraud risk, fraud assessment, fraud detection and subsequent reporting mechanisms to be in place.

I, Roger Simnett, as the AUASB accountable authority, certify that the AUASB meets the obligations arising from section 10 of the *Public Governance, Performance and Accountability Rule 2014*. This legislation requires appropriate fraud risk, fraud assessment, fraud detection and subsequent reporting mechanisms to be in place.

Ethics

The Offices of the AASB and AUASB employees are required to adhere to the Australian Public Service values and code of conduct under the *Public Service Act 1999*.

Australian Public Service values include performing functions impartially and professionally, the highest ethical standards, open accountability, providing frank, honest, comprehensive, accurate and timely advice to government and promoting communication, consultation, cooperation and input from employees.

The requirements of the code of conduct include honesty, care and diligence, courtesy, compliance with the law, avoiding conflicts of interest and proper use of Commonwealth resources and information.

AASB PERSONNEL MANAGEMENT

Table 1a: AASB Employees at 30 June 2019

| Classification | Persons | Ongoing | Non-ongoing | F/T | P/T | F/T Equivalents | | | |
|------------------------|-----------|-----------|-------------|-----------|----------|-----------------|------------|---------------|-------------|
| | | | | | | Female | Male | Indeterminate | Total |
| Senior executive | 2 | 2 | 0 | 1 | 1 | 1.8 | 0 | 0 | 1.8 |
| Technical | 13 | 12 | 1 | 9 | 4 | 6.8 | 4.3 | 0 | 11.1 |
| Non-Technical | 6 | 6 | 0 | 5 | 1 | 4.6 | 1.0 | 0 | 5.6 |
| Total employees | 21 | 20 | 1 | 15 | 6 | 13.4 | 5.3 | 0 | 18.5 |

Table 1b: AASB Employees at 30 June 2018

| Classification | Persons | Ongoing | Non-ongoing | F/T | P/T | F/T Equivalents | | | |
|------------------------|-----------|-----------|-------------|-----------|----------|-----------------|------------|---------------|-------------|
| | | | | | | Female | Male | Indeterminate | Total |
| Senior executive | 3 | 3 | 0 | 3 | 0 | 2.0 | 1.0 | 0 | 3.0 |
| Technical | 8 | 8 | 0 | 6 | 2 | 3.6 | 3.3 | 0 | 7.9 |
| Non-Technical | 4 | 4 | 0 | 3 | 1 | 3.8 | 0.0 | 0 | 3.8 |
| Total employees | 15 | 15 | 0 | 12 | 3 | 9.4 | 4.3 | 0 | 13.7 |

As at 30 June 2019 no employees identified as Indigenous.

AASB employees are located in Melbourne and Sydney.

Table 2: AASB Salary ranges as at 30 June 2019

| Salary Bands | Senior executive full time | Senior executive part time | Technical & non-technical full time | Technical & non-technical part time |
|------------------------|----------------------------|----------------------------|-------------------------------------|-------------------------------------|
| \$ 15,000 to \$104,999 | - | - | 6 | 4 |
| \$105,000 to \$194,999 | 0 | - | 8 | 2 |
| \$195,000 to \$284,999 | 1 | - | - | - |
| \$285,000 to \$374,999 | 0 | 1 | - | - |
| \$375,000 to \$464,999 | 0 | - | - | - |

As at 1st May the AASB Chair commenced part time employment.

AUASB PERSONNEL MANAGEMENT

Table 3a: AUASB Employees at 30 June 2019

| Classification | Persons | F/T | P/T | F/T Equivalents | | | |
|---------------------------------|----------|----------|----------|-----------------|------------|---------------|------------|
| | | | | Female | Male | Indeterminate | Total |
| Senior executives | 2 | 1 | 1 | 0 | 1.6 | 0 | 1.6 |
| Technical and support employees | 6 | 3 | 3 | 4.2 | 1 | 0 | 5.2 |
| Total employees | 8 | 4 | 4 | 4.2 | 2.6 | 0 | 6.8 |

Table 3b: AUASB Employees at 30 June 2018

| Classification | Persons | F/T | P/T | F/T Equivalents | | | |
|---------------------------------|----------|----------|----------|-----------------|------------|---------------|------------|
| | | | | Female | Male | Indeterminate | Total |
| Senior executives | 2 | 1 | 1 | 0 | 1.6 | 0 | 1.6 |
| Technical and support employees | 5 | 1 | 4 | 2.6 | 1 | 0 | 3.6 |
| Total employees | 7 | 2 | 5 | 2.6 | 2.6 | 0 | 5.2 |

As at 30 June 2019, no employees identified as Indigenous.

AUASB employees are located in offices in Melbourne and Sydney.

Table 4: AUASB Salary ranges as at 30 June 2019

| Salary Bands | Senior executive full time | Senior executive part time | Technical & non-technical full time | Technical & non-technical part time |
|------------------------|----------------------------|----------------------------|-------------------------------------|-------------------------------------|
| \$ 15,000 to \$104,999 | - | - | 2 | 1 |
| \$105,000 to \$194,999 | - | - | 1 | 2 |
| \$195,000 to \$284,999 | 1 | 1 | - | - |

Non-salary benefits

The AASB and AUASB offers employees a number of non-salary benefits which include:

- annual influenza immunisation;
- mentoring and coaching programs;
- in-house capability development programs;
- confidential employee assistance program for employees and their immediate families;
- study assistance to eligible employees;
- access to flexible working arrangements; and
- contributions to relevant professional memberships.

The AASB and AUASB provides the Senior Executive Service (SES) employees and where there is a business need some employees with a mobile phone, tablet, laptop and/or airline lounge membership. Employees can also make use of a range of salary sacrifice benefits, including additional superannuation and leased motor vehicles.

BRINGING IT ALL TOGETHER

The AASB and AUASB are each supported by an Office providing technical and administrative services to the Boards. Each Office is a non-corporate Australian Government entity under the ASIC Act. The Offices are the financial entities governed by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The AASB and AUASB are effectively operating to the extent permitted by legislation, as a single Office supporting both Boards. The Chairs are Chief Executive Officers and the Accountable Authority under the PGPA and are responsible for the preparation of the financial reports for each entity, however, have delegated to the maximum extent permitted the CEO responsibilities to the National Director.

The National Director is responsible for the operation of both the Office of AASB and Office of AUASB. The Offices of the AASB and AUASB have implemented a shared service model,

Stakeholders
First

Building
international
influence

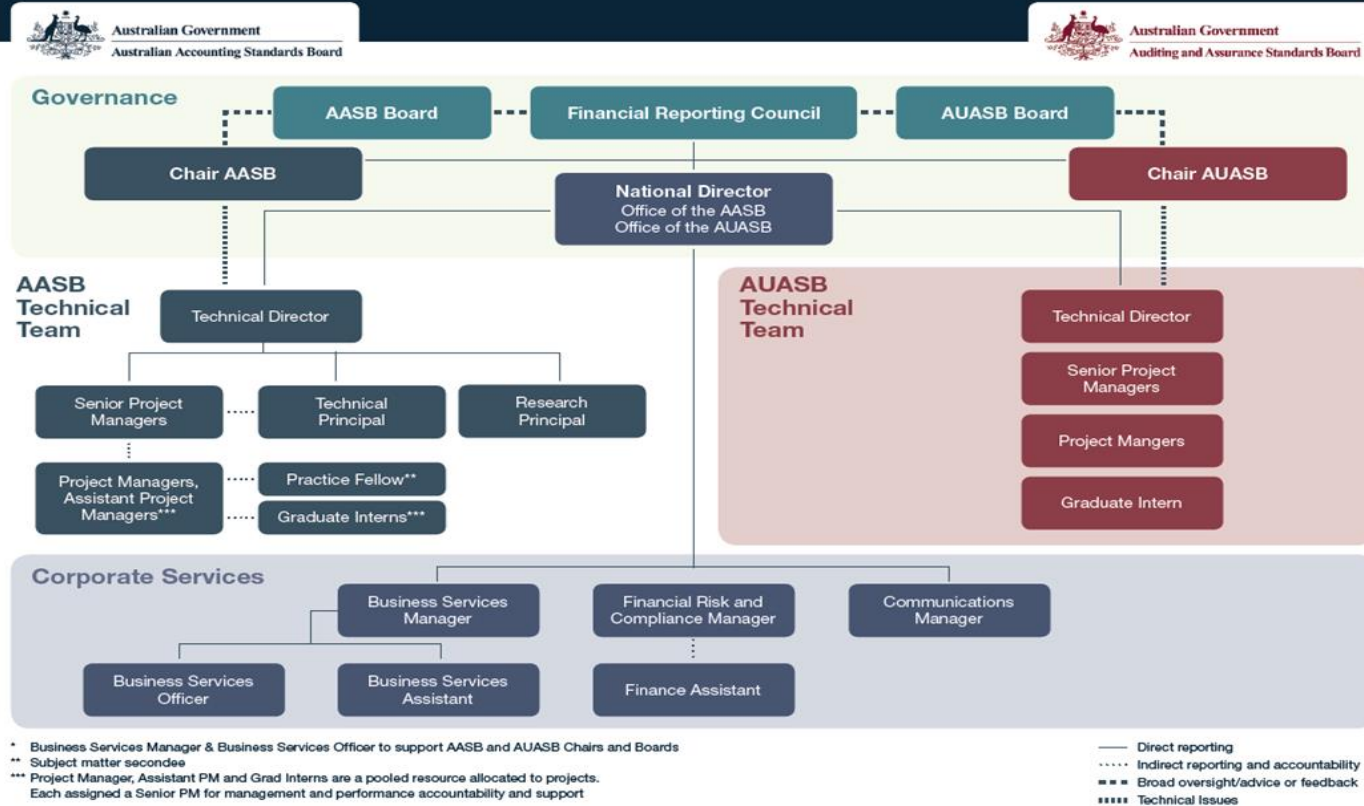
in that the AASB provides all administrative services for the AUASB and their respective Boards.

(The diagram on the following page outlines the operational structure of the AASB, AUASB and the Office of both AASB and AUASB.)

In order to ensure appropriate governance and accountability, the operating model is governed by a memorandum of understanding (MOU) which is signed by the Chairs.

To transparently reflect this operating model and organisation structure, the AASB and AUASB have provided additional disclosures (refer to Note 2A and Note 2B) that aims to provide some further understanding of the financial arrangements in relation to the costs of the services delivered in accordance with the MOU.

Organisational Structure - April 2019



Our People

Both Chairs are appointed by the Minister, pursuant to a contract for services with the respective Office of the Board. Salary and other entitlements of the Chairs are determined by the Commonwealth Remuneration Tribunal.

Members of the respective Boards are appointed for three-year terms. The FRC, via the Nominations Committee, is responsible for the selection process of AASB and AUASB Board members. Recommendations are tabled with the FRC for confirmation of appointment. Entitlements are determined by the Commonwealth Remuneration Tribunal.

The AASB and AUASB have the capacity to employ under the ASIC Act, as well as the *Public Service Act 1999* (PSA). As at 30 June 2019, all employees were employed under the *ASIC Act*.

Salaries and other entitlements of the technical and non-technical employees are linked to comparable industry and market levels of remuneration.

This year was the second year of a new performance management process which is based on informal frequent performance discussions that build to formal meetings for review and forward planning.

We have conducted a review of the first 12 months which has identified that our employees found the process beneficial and engaging and we expect to continue the program into the next year.

Our employees undertake a range of training and professional development experiences which include attendance at seminars, conferences and training programs as appropriate on topics related to technical and personal development, policy and the administrative work of the AASB and AUASB.

It is a policy of the AASB and AUASB that employees do not receive performance bonuses. The AASB and the AUASB comply with the Workplace Bargaining Policy 2018 of the Australian Public Service Commission, as it applies to non-government entities.

Recruitment and retention of employees will always prove to be challenging – particularly in the specialist fields associated with standards setting. These challenges are being overcome by working to establish a core group of experienced technical people and complementing their skills through secondments from other government departments, the accounting and auditing firms, our graduate intern program and short-term appointments from academia and corporates for specialist skills.

Using these strategies, the Chairs are confident that they have well qualified employees and are continuously developing appropriate policies and procedures to enable them to achieve the AASB's and AUASB's strategies.

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INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

Opinion

In my opinion, the financial statements of the Office of the Australian Accounting Standards Board for the year ended 30 June 2019:

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Office of the Australian Accounting Standards Board as at 30 June 2019 and its financial performance and cash flows for the year then ended.

The financial statements of the Office of the Australian Accounting Standards Board, which I have audited, comprise the following statements as at 30 June 2019 and for the year then ended:

- Statement by the Chair;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to and forming part of the financial report, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Office of the Australian Accounting Standards Board in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Office of the Australian Accounting Standards Board, the Chair is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Chair is also responsible for such internal control as the Chair determines is necessary

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to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chair is responsible for assessing the Office of the Australian Accounting Standards Board's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Chair is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office



Sean Benfield
Executive Director

Delegate of the Auditor-General

Canberra
13 September 2019



INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

Opinion

In my opinion, the financial statements of the Office of the Auditing and Assurance Standards Board for the year ended 30 June 2019:

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Office of the Auditing and Assurance Standards Board as at 30 June 2019 and its financial performance and cash flows for the year then ended.

The financial statements of the Office of the Auditing and Assurance Standards Board, which I have audited, comprise the following statements as at 30 June 2019 and for the year then ended:

- Statement by the Chair;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to and forming part of the financial report, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Office of the Auditing and Assurance Standards Board in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Office of the Auditing and Assurance Standards Board, the Chair is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Chair is also responsible for such internal control as the Chair determines is necessary

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to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chair is responsible for assessing the Office of the Auditing and Assurance Standards Board's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Chair is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office



Sean Benfield
Executive Director

Delegate of the Auditor-General

Canberra
13 September 2019

STATEMENTS BY THE CHAIRS

AASB

In my opinion, the attached Financial Statements for the Office of the Australian Accounting Standards Board for the year ended 30 June 2019 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In my opinion, at the date of this statement, there are reasonable grounds to believe that the Office of the Australian Accounting Standards Board will be able to pay its debts as and when they fall due.



Kris Peach
Chair, CEO and Acting CFO – AASB

11 September 2019

AUASB

In my opinion, the attached Financial Statements for the Office of the Auditing and Assurance Standards Board for the year ended 30 June 2019 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In my opinion, at the date of this statement, there are reasonable grounds to believe that the Office of the Auditing and Assurance Standards Board will be able to pay its debts as and when they fall due.



Roger Simnett
Chair, CEO and Acting CFO – AUASB

11 September 2019

Statements of Comprehensive Income

for the period ended 30 June 2019

| | Notes | AASB | | AUASB | |
|--|-------|------------------|------------------|------------------|------------------|
| | | 2019 | 2018 | 2019 | 2018 |
| | | \$ | | \$ | \$ |
| EXPENSES | | | | | |
| Employee and contractor costs | 2, 3A | 3,087,380 | 2,957,815 | 1,154,131 | 1,007,950 |
| Supplier expenses | 3B | 1,598,748 | 1,380,244 | 362,261 | 307,301 |
| Occupancy expenses | 2,10 | 308,324 | 294,426 | - | - |
| Depreciation and amortisation | 2 | 54,563 | 47,874 | - | - |
| Finance costs | | 34 | 403 | - | - |
| Management fee paid to AASB | 2 | - | - | 767,761 | 777,072 |
| Write-down and impairment of assets & losses on sale | | 35,787 | 10,055 | - | - |
| Total expenses | | 5,084,836 | 4,690,817 | 2,284,153 | 2,092,323 |
| LESS: | | | | | |
| OWN-SOURCE INCOME | | | | | |
| Own-source revenue | | | | | |
| Sale of goods and rendering of services | | 5,250 | 5,250 | - | - |
| Management fee received from AUASB | 2 | 767,761 | 777,072 | - | - |
| Resources received free of charge | | 193,493 | 116,073 | 91,729 | 85,838 |
| Contributions from state and territories | | 500,000 | 500,000 | - | - |
| Total own-source revenue | | 1,466,504 | 1,398,395 | 91,729 | 85,838 |
| Net cost of services & cost of outcome delivery | | | | | |
| | | (3,618,332) | (3,292,422) | (2,192,424) | (2,006,485) |
| Revenue from Government | 4 | 3,595,000 | 3,533,000 | 2,116,000 | 2,085,000 |
| Surplus/(Deficit) attributable to the Australian Government | | (23,332) | 240,578 | (76,424) | 78,515 |
| Total comprehensive surplus/(deficit) attributable to the Australian Government | | (23,332) | 240,578 | (76,424) | 78,515 |

The above statements should be read in conjunction with the accompanying notes.

Statements of Financial Position
as at 30 June 2019

| | Notes | AASB | | AUASB | |
|-----------------------------------|-------|------------------|------------------|----------------|----------------|
| | | 2019 | 2018 | 2019 | 2018 |
| | | \$ | \$ | \$ | \$ |
| ASSETS | | | | | |
| Financial Assets | | | | | |
| Cash and cash equivalents | | 464,561 | 7,597 | 188,885 | 332,408 |
| Trade and other receivables | 8c | 334,850 | 261,218 | 166 | - |
| Appropriation receivables | 4 | 1,656,000 | 2,041,000 | 686,700 | 517,000 |
| Total financial assets | | 2,455,411 | 2,309,815 | 875,751 | 849,408 |
| Non-Financial Assets | | | | | |
| Plant & equipment - fair value | | 130,533 | 173,323 | - | - |
| Prepaid expenses | | 96,779 | 52,463 | - | - |
| Total non-financial assets | | 227,312 | 225,786 | - | - |
| Total assets | | 2,682,723 | 2,535,601 | 875,751 | 849,408 |
| LIABILITIES | | | | | |
| Payables | | | | | |
| Suppliers | | 239,612 | 174,357 | - | - |
| Management fee payable to AASB | 8c | - | - | 240,771 | 172,481 |
| Other payables | 5 | 356,788 | 249,308 | 11,170 | 28,248 |
| Total payables | | 596,400 | 423,665 | 251,941 | 200,729 |
| Provisions | | | | | |
| Employee provisions | 2, 6 | 293,361 | 295,642 | 180,888 | 129,333 |
| Total provisions | | 293,361 | 295,642 | 180,888 | 129,333 |
| Total liabilities | | 889,761 | 719,307 | 432,829 | 330,062 |
| Net assets | | 1,792,962 | 1,816,294 | 442,922 | 519,346 |
| EQUITY | | | | | |
| Contributed equity | | 681,000 | 681,000 | 312,000 | 312,000 |
| Retained earnings | | 1,111,962 | 1,135,294 | 130,922 | 207,346 |
| Total equity | | 1,792,962 | 1,816,294 | 442,922 | 519,346 |

The above statements should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

for the period ended 30 June 2019

Australian Accounting Standards Board

| | Retained earnings | | Contributed equity/capital | | Total equity | |
|---|-------------------|------------------|----------------------------|----------------|------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening balance as at 1 July | 1,135,294 | 894,716 | 681,000 | 602,000 | 1,816,294 | 1,496,716 |
| Comprehensive income | | | | | | |
| Surplus/(Deficit) for the period | (23,332) | 240,578 | - | - | (23,332) | 240,578 |
| Comprehensive income attributable to the Australian Government | (23,332) | 240,578 | - | - | (23,332) | 240,578 |
| Transactions with owners | | | | | | |
| Departmental capital budget | - | - | 79,000 | 79,000 | 79,000 | 79,000 |
| Distribution to Australian Government | - | - | (79,000) | - | (79,000) | - |
| Closing balance as at 30 June | 1,111,962 | 1,135,294 | 681,000 | 681,000 | 1,792,962 | 1,816,294 |

The above statement should be read in conjunction with the accompanying notes.

Auditing and Assurance Standards Board

| | Retained earnings | | Contributed equity/capital | | Total equity | |
|---|-------------------|----------------|----------------------------|----------------|-----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening balance as at 1 July | 207,346 | 128,831 | 312,000 | 274,000 | 519,346 | 402,831 |
| Comprehensive income | | | | | | |
| Surplus/(Deficit) for the period | (76,424) | 78,515 | - | - | (76,424) | 78,515 |
| Comprehensive income attributable to the Australian Government | (76,424) | 78,515 | - | - | (76,424) | 78,515 |
| Transactions with owners | | | | | | |
| Departmental capital budget | - | - | 38,000 | 38,000 | 38,000 | 38,000 |
| Distribution to Australian Government | | | (38,000) | | (38,000) | |
| Closing balance as at 30 June | 130,922 | 207,346 | 312,000 | 312,000 | 442,922 | 519,346 |

The above statement should be read in conjunction with the accompanying notes.

Cash Flow Statements

for the period ended 30 June 2019

| | Notes | AASB 2019 \$ | 2018 \$ | 2019 \$ | AUASB 2018 \$ |
|---|-------|--------------------|------------------|------------------|---------------------|
| OPERATING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Appropriations | | 3,933,000 | 2,929,000 | 1,941,000 | 2,335,000 |
| Goods and services | | 707,253 | 1,045,193 | - | - |
| Net GST received | | 156,888 | 182,962 | - | - |
| Contributions received | | 492,125 | 481,900 | - | - |
| Total cash received | | 5,289,266 | 4,639,055 | 1,941,000 | 2,335,000 |
| Cash used | | | | | |
| Employees and contractors | | 2,839,774 | 2,798,962 | 1,043,012 | 907,703 |
| Suppliers | | 1,991,970 | 2,034,355 | 1,046,811 | 1,161,940 |
| Net GST paid | | - | 603 | - | - |
| Total cash used | | 4,831,744 | 4,833,920 | 2,089,823 | 2,069,643 |
| Net cash from / (used by) operating activities | 7 | 457,522 | (194,865) | (148,823) | 265,357 |
| INVESTING ACTIVITIES | | | | | |
| Cash received / (used) | | | | | |
| Purchase of infrastructure, plant and equipment | | (49,720) | (124,064) | - | - |
| Cash received from disposal of infrastructure, plant and equipment | | 2,162 | - | - | - |
| Net cash used by investing activities | | (47,558) | (124,064) | - | - |
| FINANCING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Contributed equity | | 47,000 | 42,000 | 5,300 | 37,000 |
| Net cash from financing activities | | 47,000 | 42,000 | 5,300 | 37,000 |
| Net increase / (decrease) in cash held | | 456,964 | (276,929) | (143,523) | 302,357 |
| Cash and cash equivalents at the beginning of the reporting period | | 7,597 | 284,526 | 332,408 | 30,051 |
| Cash and cash equivalents at the end of the reporting period | | 464,561 | 7,597 | 188,885 | 332,408 |

The above statements should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORTS

Objectives of AASB and AUASB

The Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) are each supported by an Office providing technical and administrative services to the Boards. Each Office is a non-corporate Australian Government entity under the ASIC Act. The Offices are the financial entities governed by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The Office of the AASB is structured to meet one outcome: the formulation and making of external reporting standards that are used by Australian entities to prepare financial reports and enable users of the reports to make informed decisions.

The Office of the AUASB is structured to meet one outcome: the formulation and making of auditing and assurance standards and guidance that are used by auditors of Australian entity financial reports or for other auditing and assurance engagements.

Financial Reporting and Organisation Structure

The AASB and AUASB are effectively operating to the extent permitted by legislation, as a single Office supporting both Boards. The Chairs are Chief Executive Officers and the Accountable Authority under the PGPA and are responsible for the preparation of the financial reports for each entity, however, have delegated to the maximum extent permitted the CEO responsibilities to the National Director. The National Director supports the Chairs of the respective Boards and manages the technical employees of both Boards and the professional employees. The AASB and AUASB have implemented a shared service model, in that the AASB provides all administrative services for the AUASB.

Given the common objectives of the AASB and AUASB and the interlinked financial relationships, their individual financial reports are presented jointly with a column for each entity, supplemented with a detailed note outlining the appropriations received, and the direct costs incurred by each of the AASB and AUASB, together with the common expenses.

The accounting policies applied by each Office are the same.

Events After the Statement of Financial Position Date

There are no major events post 30 June 2019 to report for the AASB or AUASB.

Note 1: Summary of Significant Accounting Policies

1.1 Basis of Preparation of the Financial Statements

The financial statements of the Offices of the AASB and the AUASB are required by Section 42 of the PGPA Act and are general purpose financial reports.

The financial reports have been prepared in accordance with:

- *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) for reporting periods ending on or after 1 July 2015, and
- Australian Accounting Standards and Interpretations issued by the AASB that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars.

1.2 Significant Accounting Judgements and Estimates

There are no accounting assumptions or estimates at reporting date that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next reporting period.

1.3 Changes in Australian Accounting Standards

(a) Adoption of New Australian Accounting Standard Requirements

New standards, amendments to standards and interpretations that are applicable to future periods have been issued by the AASB. With the exception of the standards outlined below, it is estimated that other pronouncements, when effective, will have no material impact on future reporting periods, either because the AASB and AUASB do not conduct the types of transactions addressed by the pronouncements or because the extent to which they may impact the AASB and AUASB is not expected to be material.

AASB 1058 *Income of Not-For-Profit Entities* and AASB 15 *Revenue from Contracts with Customers* will be effective for the annual reporting period ending 30 June 2020 and sets out new income recognition requirements. The AASB and AUASB do not consider these standards will have a material impact, except for the receipt of funding from the States and Territories by the AASB. The current agreement ended 30 June 2019 and the terms of the new contract are still being negotiated so the impact of AASB 1058 and AASB 15 is not yet known.

AASB 116 *Leases* replaces AASB 117 *Leases* and is effective for the annual reporting period ending 30 June 2020. A lessee recognises an asset (the right to use the leased item) and a financial liability to pay rentals. The only exceptions are short-term leases (i.e. lease term of 12 months or less) and low-value leases. Interest expense is recognised on the lease liability and depreciation expense on the right-of-use asset. The AASB and AUASB will elect to use the exemptions to not recognise leases expiring within 12 months.

As at 1 July 2019 the present value of the contractual lease payments of the Melbourne office premises will be recognised by the AASB as a right of use asset of \$324,907 and a financial liability to pay rentals of the same amount.

1.4 Taxation

The Offices of the AASB and AUASB are exempt from all forms of taxation, except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

1.5 Plant and Equipment Revaluation

Fair values for each class of assets are determined as shown below:

2019 and 2018

Plant and Equipment Depreciated replacement cost or market selling price.

Following initial recognition at cost, items of plant and equipment are carried at fair value less accumulated depreciation. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets. An independent valuation was carried out in February 2019.

Any accumulated depreciation as at the revaluation date is eliminated against the carrying amount of the asset and the asset restated to the revalued amount. Revaluation increments are recognised in the Asset Revaluation Reserve on a class of assets basis, unless they reverse a prior year revaluation decrement previously recognised as an expense. Revaluation decrements are recognised as an expense, unless they reverse a prior year revaluation increment.

Note 2: Analysis of Shared Operational Activities

Note 2A: Operational activities for AASB and AUASB

To transparently reflect the shared support model and organisation structure, the AASB and AUASB provide additional disclosure on a combined basis for their operational activities.

The AASB and AUASB shared support model effectively enables, to the extent permitted by legislation, the Offices of the AASB and AUASB to operate as a single Office supporting both Boards. Under the Memorandum of Understanding (MoU) between the AASB and the AUASB, the AASB incurs all costs of the AUASB.

The AASB recoups AUASB direct costs with no mark-up and accordingly does not recognise the reimbursement of these direct costs paid for by the AASB. The AASB recognises a receivable from the AUASB at the time the AASB pays for these expenses on behalf of the AUASB. AUASB direct costs are recognised as expenses of the AUASB. The AUASB recognises a payable to the AASB when charged by the AASB.

In addition, the AASB charges the AUASB a management fee to recover an appropriate portion of the total professional services expenses ('common expenses'). As the AASB solely bears legal obligations arising from the contracts for common employees, leases and other expenses, the AASB recognises the full amount of common expenses as incurred and recognises the management fee charged to the AUASB as revenue. The AUASB recognises the management fee as an expense. The common expense management fee for 2019 amounted to \$767,761 (2018: \$777,072).

| | AASB 2019 \$ | AUASB 2019 \$ | Shared 2019 \$ | Total 2019 \$ | Total 2018 |
|--|--------------------|---------------------|--------------------------------|---------------------|---------------|
| Note 2B: Operational activities | | | | | |
| Appropriations | 3,595,000 | 2,116,000 | - | 5,711,000 | 5,618,000 |
| Other income | 698,743 | 91,729 | - | 790,472 | 697,106 |
| Total income before common expense recharge | 4,293,743 | 2,207,729 | - | 6,501,472 | 6,315,106 |
| Common expense recharge ¹ | 767,761 | - | - | 767,761 | 777,072 |
| Total income | 5,061,504 | 2,207,729 | - | 7,269,233 | 7,092,178 |
| Employee and contractor costs (excluding redundancies) | 2,073,646 | 1,154,131 | 854,566 | 4,082,343 | 3,965,766 |
| Separation and redundancy costs | - | - | 159,168 | 159,168 | - |
| Direct supplier expenses (refer to Note 3B) | 903,140 | 362,261 | - | 1,265,401 | 1,013,789 |
| Common occupancy expenses | - | - | 308,324 | 308,324 | 294,426 |
| Common depreciation and amortisation expense | - | - | 54,563 | 54,563 | 47,874 |
| Common finance costs | 35,786 | - | 34 | 35,820 | 403 |
| Common supplier expenses (refer to Note 3B) | - | - | 695,609 | 695,609 | 673,755 |
| | 3,012,572 | 1,516,392 | 2,072,264 | 6,601,228 | 5,996,013 |
| Common expense recharge ¹ | - | 767,761 | - | 767,761 | 777,072 |
| | 3,012,572 | 2,284,153 | 2,072,264 | 7,368,989 | 6,773,085 |
| Combined Surplus/(Deficit) | | | | (99,756) | 319,092 |
| Made up of: Surplus/(Deficit) | | | AASB | (23,332) | 240,577 |
| | | | AUASB Surplus/(Deficit) | (76,424) | 78,515 |

¹ The common expense recharge includes recharges for common employee costs (refer to Note 3A), operating lease expenses, depreciation and amortisation expenses, finance costs and common supplier expenses (refer to Note 3B).

Note 3: Expenses

Note 3A: Employee and contractor costs

| | AASB | | AUASB | |
|--|------------------|-----------|------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Employee wages and salaries | 2,083,999 | 1,816,097 | 957,113 | 848,383 |
| Defined contribution superannuation plans | 191,362 | 142,367 | 93,213 | 65,928 |
| Leave and other entitlements | 168,689 | 167,231 | 103,805 | 93,639 |
| Separation and redundancies | 159,168 | - | - | - |
| Total employee benefits | 2,603,218 | 2,125,695 | 1,154,131 | 1,007,950 |
| Contractor costs | 484,162 | 832,121 | - | - |
| Total employee and contractor costs | 3,087,380 | 2,957,815 | 1,154,131 | 1,007,950 |

Contingent liabilities

A contingent liability for the AASB and AUASB exists as for an employee from each entity as they have been granted contractual commitments that, should they leave with 7-10 years of service, they will receive a compensation payment as if they were entitled to Long Service Leave under the Victorian Long Service Leave Legislation, provided a Deed of Release is given to the AASB and AUASB, preventing further claims against the AASB and AUASB. In addition, should payments be required, FBT will be payable.

A further AUASB liability is set out in Note 6 footnote 1.

Note 3B: Suppliers

| | AASB | | AUASB | |
|---|------------------|------------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Direct expenses | | | | |
| Board members' services | 24,963 | 25,380 | 36,343 | 26,087 |
| Travel | 342,278 | 284,077 | 183,445 | 179,865 |
| Publications/Subscriptions | 123,025 | 98,128 | 39,897 | 41,210 |
| Conference & Professional Development | 82,532 | 17,758 | 32,837 | 14,585 |
| Audit fees (received free of charge) | 46,150 | 46,150 | 33,000 | 33,000 |
| Compensation and related FBT expenses | 29,456 | 78,892 | 2,490 | 4,318 |
| Legal Expenses | 19,566 | 12,634 | - | - |
| HR – Employee recruitment, training and support | 131,836 | 131,501 | 24,945 | 270 |
| Research & Data Expenses | 88,500 | - | - | - |
| Other | 14,834 | 11,968 | 9,304 | 7,966 |
| Total direct expenses | 903,140 | 706,488 | 362,261 | 307,301 |
| Common expenses | | | | |
| Consultant costs – Other | 58,840 | 80,941 | | |
| Consultant costs – IT | 194,336 | 35,160 | | |
| Consultant costs – HR | 79,159 | 80,247 | | |
| HR – Employee recruitment, training and support | 54,494 | 81,235 | | |
| Administration costs | 235,386 | 268,025 | | |
| Legal Expenses | 18,837 | 51,475 | | |
| Other | 54,556 | 76,673 | | |
| Total common expenses | 695,608 | 673,756 | - | - |
| Total supplier expenses | 1,598,748 | 1,380,244 | 362,261 | 307,301 |

Refer to Note 2 for further details on all Direct and Common expenses.

Note 4: Appropriations

(i) Revenue from Government

Amounts appropriated for departmental output for the year (adjusted for any formal additions and reductions) are recognised as revenue when the Offices of the AASB and AUASB gain control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

(ii) Equity Injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets are recognised directly in contributed equity in that year.

Table A: Annual appropriations ('Recoverable GST exclusive')

| | AASB | | AUASB | |
|--|-------------|-------------|--------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Unspent annual appropriations ('Recoverable GST exclusive') – Opening balance (Table B) | | | | |
| Cash | 7,597 | 284,526 | 332,408 | 30,051 |
| Receivables | 2,041,000 | 1,400,000 | 517,000 | 766,000 |
| | 2,048,597 | 1,684,526 | 849,408 | 796,051 |
| Ordinary annual services | | | | |
| Annual appropriation - Revenue from Government | | | | |
| Departmental appropriations <i>Appropriation Act (No. 1)</i> ¹ | 3,516,000 | 3,533,000 | 2,078,000 | 2,085,000 |
| Departmental appropriations - <i>Appropriation Act (No. 3)</i> | 79,000 | - | 38,000 | - |
| Total Appropriation Act (No. 1) | 3,595,000 | 3,612,000 | 2,116,000 | 2,123,000 |
| Departmental capital budget ² | 79,000 | 79,000 | 38,000 | 38,000 |
| Total appropriations | 3,674,000 | 3,612,000 | 2,154,000 | 2,123,000 |
| PGPA Act – Section 74 ³ | | | | |
| Own source income - not transferred to the Official Public Account | 1,199,378 | 1,526,490 | - | - |
| Total appropriation | 4,873,378 | 5,138,490 | 2,154,000 | 2,123,000 |
| Appropriation applied (current and prior years) ³ | | | | |
| Employees and contractors | 2,839,774 | 2,798,962 | 1,403,012 | 907,703 |
| Suppliers | 1,991,970 | 2,034,355 | 1,046,811 | 1,161,940 |
| Purchase of plant and equipment | 49,720 | 124,064 | - | - |
| Cash received from disposal of plant and equipment | (2,162) | - | - | - |
| Less net GST received | (156,888) | (182,962) | - | - |
| Distribution to Australian Government | 79,000 | - | 38,000 | - |
| Total appropriation applied (current and prior years) | 4,801,414 | 4,774,419 | 2,127,823 | 2,069,643 |

Note 4: Appropriations continued**Appropriation allocated to:**

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Prior year capital 2015/216 | | 42,000 | | 37,000 |
| Prior year ordinary 2016/17 | | 1,281,000 | | 692,000 |
| Prior year capital 2016/17 | 47,000 | | 5,300 | |
| Prior year ordinary 2017/18 | 1,885,000 | | 442,000 | |
| Total Prior years | 1,932,000 | <u>1,323,000</u> | 447,300 | <u>729,000</u> |
| Current year – Ordinary | 2,790,414 | 3,451,419 | 1,642,523 | 1,340,643 |
| Current year – Distributions | 79,000 | | 38,000 | |
| Total appropriation applied (current and prior years) | 4,801,414 | <u>4,774,419</u> | 2,127,823 | <u>2,069,643</u> |
| Excess of appropriations received over applied | 71,964 | 364,071 | 26,177 | 53,357 |
| Cash | 464,561 | 7,597 | 188,885 | 332,408 |
| Receivables | 1,656,000 | <u>2,041,000</u> | 686,700 | <u>517,000</u> |
| | 2,120,561 | <u>2,048,597</u> | 875,585 | <u>849,408</u> |

1. Statement of Comprehensive Income
2. Statement of Changes in Equity
3. Cash flow statement (exclusive appropriation and net GST)
4. Departmental Capital Budgets are appropriated through Appropriation Acts (No.1, 3, 5). They form part of ordinary annual services and are not separately identified in the Appropriation Acts.

Table B: Unspent Annual Appropriations ('Recoverable GST exclusive') ¹

| | AASB | | AUASB | |
|--|------------------|------------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Authority | \$ | \$ | \$ | \$ |
| Appropriation Act 1 - 2016/17 - capital budget | - | 47,000 | 16,700 | 22,000 |
| Supply Act 1 - 2016/17 – capital budget | 30,000 | 30,000 | 15,000 | 15,000 |
| Appropriation Act 1 - 2017/18 - capital budget | 79,000 | 79,000 | 38,000 | 38,000 |
| Appropriation Act 1 - 2017/18 | - | 1,885,000 | - | 442,000 |
| Appropriation Act 1 - 2018/19 | 1,468,000 | - | 579,000 | - |
| Appropriation Act 3 - 2018/19 | 79,000 | - | 38,000 | - |
| Cash | 464,561 | 7,597 | 188,885 | 332,408 |
| Total | 2,120,561 | <u>2,048,597</u> | 875,585 | <u>849,408</u> |

¹ All unspent appropriations are considered 'Current' as it is expected that unspent prior period appropriations will be drawdown first and will be utilised within the next twelve months.

Note 5: Payables

| | AASB | | AUASB | |
|---|----------------|----------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Other payables | | | | |
| PAYG salary withholding tax | 135,175 | 54,087 | - | - |
| Compensation & related FBT costs ¹ | 97,458 | 52,061 | 3,334 | 1,818 |
| Lease payable | 103,575 | 120,650 | - | - |
| Other | 20,580 | 22,510 | 7,836 | 26,430 |
| Total other payables | 356,788 | 249,308 | 11,170 | 28,248 |
| Other payables are expected to be settled within: | | | | |
| No more than 12 months | 356,788 | 249,308 | 11,170 | 28,248 |
| More than 12 months | - | - | - | - |
| Total other payables | 356,788 | 249,308 | 11,170 | 28,248 |

1 The Instrument of Appointment for the AASB Chair waives the qualifying period for long service leave, effectively creating a present obligation for the 5-year appointment. On the basis of legal advice received, the AASB Chair is not entitled to long service leave under the Commonwealth Long Service Leave Act in the event that a term of less than 10 years is served. As the term of the AASB Chair is not within the AASB's control, the AASB will seek a deed of release from the Chair in exchange for appropriate damages for breach of contract should the Chair's term be less than 10 years. Accordingly, a compensation provision for breach of contract has been recognised, to reflect the AASB's contractual obligations including the associated fringe benefits tax of \$101,378 (2018 \$78,021).

All invoices are paid within 30 days.

Note 6: Employee Provisions

| | AASB | | AUASB | |
|--|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Employee provisions are expected to be settled in: | | | | |
| No more than 12 months | 249,173 | 260,122 | 130,645 | 103,279 |
| More than 12 months | 44,188 | 35,520 | 50,243 | 26,054 |
| Total employee provisions¹ | 293,361 | 295,642 | 180,888 | 129,333 |

1 AUASB:

Legal advice received indicated a liability due to an unintended consequence arising when State and Commonwealth Long Service leave legislation operate concurrently for the AUASB Chair. As payment of the liability, in the form of "prior service", is deemed to be remote, due to the nature of the arrangements between the various parties, no provision has been raised at this time.

Note 7: Cash Flow Reconciliation

| | AASB | | AUASB | |
|--|----------------|------------------|------------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Reconciliation of net cost of services to net cash from operating activities: | | | | |
| Net cost of services | (3,618,332) | (3,292,422) | (2,192,424) | (2,006,485) |
| Add revenue from Government | 3,595,000 | 3,533,000 | 2,116,000 | 2,085,000 |
| Adjust for proceeds of disposal of assets (Investing Activity) | (2,162) | - | - | - |
| Adjustments for non-cash items | | | | |
| Depreciation / amortisation | 54,563 | 47,874 | - | - |
| Lease incentive - (530 Collins St) | (16,627) | (16,627) | - | - |
| Net write down of non-financial assets | 35,787 | 10,055 | - | - |
| Movements in assets / liabilities | | | | |
| Assets | | | | |
| (Increase) / decrease in net receivables | 266,528 | (434,499) | (175,166) | 250,000 |
| (Increase) / decrease in prepayments | (44,316) | (27,649) | - | - |
| Liabilities | | | | |
| Increase / (decrease) in employee provisions | (2,281) | 8,980 | 51,555 | 49,409 |
| Increase / (decrease) in supplier payables | 81,882 | (80,013) | 68,290 | (88,724) |
| Increase / (decrease) in other payables | 107,480 | 56,436 | (17,078) | (21,843) |
| Net cash from / (used by) operating activities | 457,522 | (194,865) | (148,823) | 267,357 |

Note 8: Related parties

The AASB and AUASB are Australian Government controlled non-corporate entities. Related parties are:

- Key Management Personnel of the AASB and AUASB, their close family members, and entities controlled or jointly controlled by either: (8A)
- Cabinet Ministers – key management personnel for the consolidated whole of Government accounts, and (8B)
- all other Australian government entities (8B).

Key management personnel are determined as persons having authority and responsibility for planning, directing and controlling the activities of the entity. Based on a review of employee titles, analysis of the roles and job descriptions, the PGPA requirements for accountable authorities, the delegations made under the PGPA, the composition of the leadership meetings and communications to employees regarding the leadership team, the following positions have been included within key management personnel: the Chair and CEOs of each Board, the National Director and the Technical Directors of each Board.

Note 8: Related Parties continued

Note 8A: Transactions with key management personnel

| | AASB | | AUASB | |
|--|------------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Short-term employee benefits: | | | | |
| Salary ¹ | 843,011 | 680,030 | 409,323 | 391,656 |
| Post-employment benefits: | | | | |
| Superannuation | 60,150 | 48,237 | 38,886 | 37,207 |
| Other short term benefits | | | | |
| Termination benefits - Separation and redundancies | 159,168 | - | - | - |
| Other long-term benefits: | | | | |
| Annual Leave accrued | 47,226 | 59,791 | 34,478 | 32,990 |
| Long Service Leave ² | 5,500 | 19,432 | 11,205 | 10,722 |
| Total other long-term benefits | 52,726 | 79,223 | 45,683 | 43,712 |
| Total² | 1,115,055 | 807,490 | 493,892 | 472,575 |

1 See Note 4 (1) and 6 (1).

2 The Instrument of Appointment for the AASB Chair waives the qualifying period for long service leave, effectively creating a present obligation for the 5-year appointment. On the basis of legal advice received, the AASB Chair is not entitled to long service leave under the Commonwealth Long Service Leave Act in the event that a term of less than 10 years is served. As the term of the AASB Chair is not within the AASB's control, the AASB will seek a deed of release from the Chair in exchange for appropriate damages for breach of contract should the Chair's term be less than 10 years. Accordingly, a compensation provision for breach of contract has been recognised, to reflect the AASB's contractual obligations including the associated fringe benefits tax of \$101,378 (2018 \$78,021).

During the reporting period ended 30 June 2019, AASB had three executives who met the definition of key management personnel.

| Name | Position | Term as KMP |
|-------------------|--------------------|---|
| Kris Peach | Chair | Full year (4 days a week from 1st May 2019) |
| Damian Paull | National Director | Until 3rd June 2019 |
| Kalaselvi Kandiah | Technical Director | Full year |

During the reporting period ended 30 June 2019, AUASB had two executives who met the definition of key management personnel.

| Name | Position | Term as KMP |
|------------------|--------------------|---------------------------|
| Roger Simnett | Chair | Full year (3 days a week) |
| Matthew Zappulla | Technical Director | Full year |

Note 8: Related Parties continued

Governance Arrangements

The remuneration of the AASB and AUASB Chair is set by the Commonwealth Remuneration Tribunal Determination (Remuneration and Allowances for Holders of Full-time Public Office) Determination 2018. The remuneration of other KMP is set by the Chair's benchmarking against relevant published external remuneration publications and other sources. The individual's performance during the year in assisting to achieve the AASB or AUASB strategy is taken into account in determining the level of increase in base salary each year.

Other non-salary benefits provided to KMP include annual influenza immunisation, mentoring and coaching programs, confidential employee assistance program, provision of mobile phone, tablet, laptop and airline lounge membership.

| AASB | | Short-term benefits | Post-employment benefits | Other long-term benefits | | Termination Benefits | Total remuneration |
|-------------------------|--------------------|---------------------|------------------------------|--------------------------|--------------------|----------------------|--------------------|
| Name | Position | Base Salary | Superannuation contributions | Annual leave | Long service leave | | |
| Kris Peach ³ | Chair | 373,412 | 20,531 | 30,303 | - | - | 424,246 |
| Damian Paull | National Director | 268,686 | 20,531 | | - | 159,168 | 448,385 |
| Kalaselvi Kandiah | Technical Director | 200,913 | 19,088 | 16,923 | 5,500 | - | 242,424 |
| Total | | 843,011 | 60,149 | 47,226 | 5,500 | 159,168 | 1,115,055 |

| AUASB | | Short-term benefits | Post-employment benefits | Other long-term benefits | | Termination Benefits | Total remuneration |
|------------------|--------------------|---------------------|------------------------------|--------------------------|--------------------|----------------------|--------------------|
| Name | Position | Base Salary | Superannuation contributions | Annual leave | Long service leave | | |
| Roger Simnett | Chair | 208,410 | 19,799 | 17,555 | 5,705 | - | 251,469 |
| Matthew Zappulla | Technical Director | 200,913 | 19,087 | 16,923 | 5,500 | - | 242,423 |
| Total | | 409,323 | 38,886 | 34,478 | 11,205 | - | 493,892 |

Note 8: Related Parties continued

Other Related Parties

For both AASB and AUASB all outstanding balances with related parties other than the AASB and AUASB are priced on an arm's length basis. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties. For details of the arrangements between the AASB and AUASB refer Note 2.

The parent entity of both the AASB and the AUASB is the Department of Treasury and ultimate parent is the Australian Government.

The AASB and AUASB pay for the following services from other Commonwealth controlled entities: Employee Assistance Program from Treasury, Core Desktop Licenses from Department of Finance, insurance premiums from Comcover, legal advice from Australian Government Solicitors (AGS), and registration fees from Treasury for the Federal Register of Legislative instruments cost recovery.

Additionally, the AASB had a secondee from the Australian Taxation Office from 1 July 2018 to 30 June 2019 on a free of charge basis.

None of these services are individually or collectively significant to the AASB or AUASB, therefore only the nature of these transactions are disclosed.

Note 8B: Other related party transactions - Transaction values

| | AASB | | AUASB | |
|--|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Sales of goods and services to other Commonwealth entities: | | | | |
| Management fee recharge received from AUASB | 767,761 | 777,072 | - | - |
| Total Goods and services | 767,761 | 777,072 | - | - |
| Purchase of goods from other Commonwealth entities: | | | | |
| Management fee recharge paid to AASB | - | - | 767,761 | 777,072 |
| Productivity Commission - IT expenses | 145,000 | 135,744 | - | - |
| TEQSA – lessor | 308,324 | 294,426 | - | - |
| Total purchase of goods | 453,324 | 430,170 | 767,761 | 777,072 |

Note 8C: Other related party transactions - Balance outstanding

| | 2019 | 2018 | 2019 | 2018 |
|---|----------------|----------------|----------------|----------------|
| | \$ | \$ | \$ | \$ |
| Sales of goods and services to other Commonwealth controlled entities: | | | | |
| Management fee recharge receivable from AUASB | 240,771 | 172,481 | - | - |
| Total sales of goods and services | 240,771 | 172,481 | - | - |
| Purchase of goods from other Commonwealth controlled entities: | | | | |
| Management fee recharge payable to AASB | - | - | 240,771 | 172,481 |
| Productivity Commission - IT expenses | - | 63,887 | - | - |
| Total purchase of goods | - | 63,887 | 240,771 | 172,481 |

Financial Instruments

The AASB and AUASB have adopted AASB 9 *Financial Instruments* effective from 1 July 2018 which has not resulted in any significant change.

The Entities have elected to apply the limited exemption in AASB 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly have not restated comparative periods in the year of initial application.

Note 9: Fair value of financial instruments

Financial instrument assets

AASB and AUASB have the following financial assets: cash and cash equivalents, management fee receivable and trade receivables. Management fee receivable and trade receivables are measured at amortised cost. The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment.

The net fair values of cash and cash equivalents, management fee receivable and trade receivables of the AASB and AUASB approximates their carrying amounts.

Financial assets are assessed for impairment at the end of each reporting period based on the simplified Expected Credit Losses (ECL) approach. The ECL are calculated using the provision matrix that is based on historical credit loss experience adjusted for forward looking factors specific to the debtors and the economic environment. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Offices of the AASB and AUASB are exposed to minimal credit risk due to the nature of the trade receivables, as they represent funding from State and Territories or Commonwealth Government. As there is no history of credit losses in the past and no forward-looking factors indicated differently, no allowance for ECL has been recognised.

The majority of trade receivables relates to a funding agreement between the Office of the AASB and the States and Territories. The current agreement runs from 1 July 2016 to 30 June 2019. Income is received in equal quarterly instalments and is recognised when controlled. All receivables are due in the next 12 months.

Financial instrument liabilities

The net fair value of trade creditors and management fee payable of the AASB and AUASB approximate their carrying amount.

Note 9B: Liquidity risk

The exposure to liquidity risk is based on the probability that the Offices of the AASB and AUASB will encounter difficulty in meeting their obligations associated with financial liabilities.

This is highly unlikely due to government funding and mechanisms available to the Offices of the AASB and AUASB and internal policies and procedures put in place to ensure there are appropriate resources to meet our financial obligations.

All financial liabilities are expected to be settled within 30 days.

Note 9C: Market risk

The Offices of the AASB and AUASB hold basic financial instruments that do not expose them to material market risks. The AASB and AUASB are not exposed to material 'currency risk', 'other price risk' or 'interest rate risk'.

Note 10: Operating Leases

Note 10A: Significant accounting policies

(i) Leases

Operating lease payments are expensed on a straight-line basis, which is representative of the pattern of benefits derived from the leased assets, including lease incentives for rent free periods. The minimum lease payments within the operating lease expenses on the AASB's statement of comprehensive income is \$199,532 (2018: \$192,785).

Note 10B: Operating lease commitments

| | AASB | |
|-------------------------------|----------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Operating leases ¹ | 566,450 | 766,229 |
| Total operating leases | 566,450 | 766,229 |
| BY MATURITY | | |
| One year or less | 206,340 | 199,779 |
| From one to five years | 360,110 | 566,450 |
| Over five years | - | - |
| Total operating leases | 566,450 | 766,229 |

¹ In September 2015, the AASB entered into a shared occupancy agreement at 530 Collins Street with the Tertiary Education Quality and Standards Agency. The lease runs from the 21st September 2015 to the 22nd February 2022. There was a rent-free period from 21st September 2015 to 31st July 2016. The lease costs including the rent-free period incentive have been straight lined as per AASB 117. The operating lease payments are subject to an increase on the 1st August every year of 3.5% per annum and from 1 August 2019 will be \$201,068 per annum. The lease amount includes the lease of the premises and furniture and fittings.

Note 11: Other Information

Aggregate Assets and Liabilities

| | AASB | | AUASB | |
|---|------------------|------------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Assets expected to be recovered in: | | | | |
| No more than 12 months | 2,552,190 | 2,362,278 | 875,751 | 849,408 |
| More than 12 months | 130,533 | 173,323 | - | - |
| Total assets | 2,682,723 | 2,535,601 | 875,751 | 849,408 |
| Liabilities expected to be recovered in: | | | | |
| No more than 12 months | 485,463 | 117,337 | 432,829 | 279,819 |
| More than 12 months | 404,298 | 601,970 | - | 50,243 |
| Total liabilities | 889,761 | 719,307 | 432,829 | 330,062 |

Note 12: Budgetary Reports and Explanations of Major Variances

The following tables provide a comparison of the original budget as presented in the 2018-19 Portfolio Budget Statements (PBS) to the 2018-19 final outcome as presented in accordance with Australian Accounting Standards. The Budget is not audited and where applicable, the original budget numbers have been reclassified to align with the financial statement.

Explanations are provided for major variances between actual results and the original budget. Variances are considered to be 'major' based on the following criteria:

- the variance between budget and actual is greater than 10%; and
- an item below this threshold but is considered important for the readers' understanding or is relevant to an assessment of the discharge of accountability and to an analysis of performance of AASB.'

Note 12A: Major Budget Variances for 2019

| Australian Accounting Standards Board | |
|--|--|
| Explanations of major variances | Footnote reference and affected statement |
| Employee related salaries and provisions lower due to delays in recruiting of 1.5 FTEs. | 1 (SoCI, SoFP and CFS) |
| Non-employee costs have increased due to consulting costs for the ICT project \$50K, departure of the National Director \$160K, stakeholder survey costs \$30K, and as these are common costs on charged to the AUASB, have also resulted in an increase in the Management charge to the AUASB over budget. In addition, direct costs increased due to World Congress of Accounts Conference fees \$80K, and impairment and revaluation losses on equipment \$35K. Offset by reduced travel costs and Board Sitting fees compared to budget. | 2 (SoCI, SoFP and CFS) |
| Australian Tax Office (ATO) secondee to AASB received free of charge extended for full year, whilst budget was for part of the year. | 3 (SoCI) |
| Capital Appropriations for 2018/19 received and then distributed back to Government and then increase in Operating Appropriation for same amount to fund ICT project, less efficiency dividend. | 4 (SoCI, SoFP & SoCE) |
| Supplier payment run completed end June, reducing liability compared to budget. | 5 (SoFP) |
| Includes prepaid expenses for licences not normally paid until July | 6 (SoFP) |
| Budget anticipated a larger impact of the asset valuation undertaken this financial year. | 7 (SoFP) |
| GST is not budgeted for in the Cash Flow Statement. | 8 (CFS) |
| Delay in purchasing the planned assets to utilise the capital appropriation from prior years. | 9 (CFS) |
| Appropriation drawdown completed in June resulting in a high bank balance compared to budget. Receivables balance is higher due to increase in Management fee payable to AASB for the period as it includes AUASB share of the ETP payment to National Director and ICT project costs. | 10 (SoFP & CFS) |
| Other payables balance includes PAYG in relation to ETP payment and Compensation provision for Chair. | 11 (SoFP) |
| Intangible balance in budget related to software costs, type of licence arrangements are not operating expenses. | 12. (SoFP) |

Note 12A: Major Budget Variances for 2019 continued

| Auditing and Assurance Standards Board | |
|--|--|
| Explanations of major variances | Footnote reference and affected statement |
| Employee provisions higher than anticipated in the budget due to number of long-term employees. | 1 (SoFP) |
| Management charge from AASB higher than anticipated due to the share of the ICT project, departure of the National Director and stakeholder survey. | 2 (SoCI and CFS) |
| Board Members services and ANAO Audit received free of charge – Nil effect overall to net surplus because equal increase to expenses also recognised. | 3 (SoCI) |
| Capital Appropriations for 2018/19 received and then distributed back to Government and then increase in Operating Appropriation for same amount to fund management charge including the costs of the ICT project. | 4 (SoCI, SoFP & SoCE) |
| Supplier payables high due to increase in Management fee payable to AASB for the period as it includes AUASB share of the ETP payment to National Director and ICT project costs. | 5 (SoFP) |
| Plant and Equipment is held by AASB under the MOU agreement between the two entities. | 7 (SoFP) |
| GST is reported as a group. | 8 (CFS) |
| Decrease in appropriation's receivables due to normal operating expenses. | 10 (SoFP) |

Statements of Comprehensive Income
for the period ended 30 June 2019

| | AASB | | | AUASB | | |
|---|------------------|------------------------|-------------|------------------|------------------------|-------------|
| | Actual | Budget estimate | | Actual | Budget estimate | |
| | | Original | Variance | | Original | Variance |
| | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| EXPENSES | | | | | | |
| Employee and contractor costs ^{1,3} | 3,087,380 | 3,223,000 | (135,620) | 1,154,131 | 1,168,000 | (13,869) |
| Supplier expenses ² | 1,598,748 | 1,538,000 | 60,748 | 362,261 | 1,002,000 | (639,739) |
| Occupancy expenses ² | 308,324 | - | 308,324 | - | - | - |
| Depreciation and amortisation | 54,563 | 55,000 | (437) | - | 40,000 | (40,000) |
| Finance costs | 34 | - | 34 | - | - | - |
| Management fee expenses ² | - | - | - | 767,761 | - | 767,761 |
| Write-down and impairment of assets and losses on sale ² | 35,787 | - | 35,787 | - | - | - |
| Total expenses | 5,084,836 | 4,816,000 | 268,836 | 2,284,153 | 2,210,000 | 74,153 |
| LESS: | | | | | | |
| OWN SOURCE INCOME | | | | | | |
| Own-source revenue | | | | | | |
| Sale of goods and rendering of services | 5,250 | - | 5,250 | - | - | - |
| Resources received free of charge | 193,493 | 116,000 | 77,493 | 91,729 | 91,000 | 729 |
| Management fee recharge ² | 767,761 | 627,000 | 140,761 | - | - | - |
| Contributions from state and territories | 500,000 | 500,000 | - | - | - | - |
| Total own-source revenue | 1,466,504 | 1,243,000 | 223,504 | 91,729 | 91,000 | 729 |
| Net cost of services & cost of outcome delivery | 3,618,332 | 3,573,000 | 45,332 | 2,192,424 | 2,119,000 | 73,424 |
| Revenue from Government - departmental appropriations | 3,595,000 | 3,518,000 | (77,000) | 2,116,000 | 2,079,000 | 37,000 |
| Surplus/(Deficit) attributable to the Australian Government | (23,332) | (55,000) | (31,668) | (76,424) | (40,000) | (36,424) |
| OTHER COMPREHENSIVE INCOME | | | | | | |
| Total comprehensive income attributable to the Australian Government | (23,332) | (55,000) | (31,668) | (76,424) | (40,000) | (36,424) |

Statements of Financial Position
for the period ended 30 June 2019

| | AASB | | | AUASB | | |
|---|------------------|------------------|-----------------|----------------|-----------------|-----------------|
| | Actual | Budget estimate | | Actual | Budget estimate | |
| | | Original | Variance | | Original | Variance |
| | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| ASSETS | | | | | | |
| Financial assets | | | | | | |
| Cash and cash equivalents ¹⁰ | 464,561 | 251,000 | 213,561 | 188,885 | 194,000 | (5,115) |
| Trade and other receivables ¹⁰ | 1,990,850 | 1,858,000 | 132,850 | 686,866 | 468,000 | 218,866 |
| Total financial assets | 2,455,411 | 2,109,000 | 346,411 | 875,751 | 662,000 | 213,751 |
| Non-financial assets | | | | | | |
| Plant and equipment ⁷ | 130,533 | 83,000 | 47,533 | - | 23,000 | (23,000) |
| Intangibles | - | 71,000 | (71,000) | - | 24,000 | (24,000) |
| Prepaid expenses ⁶ | 96,779 | 21,000 | 75,779 | - | - | - |
| Total non-financial assets | 227,312 | 175,000 | 53,312 | - | 47,000 | (47,000) |
| Total assets | 2,682,723 | 2,284,000 | 398,723 | 875,751 | 709,000 | 166,751 |
| LIABILITIES | | | | | | |
| Payables | | | | | | |
| Suppliers ⁵ | 239,612 | 370,000 | (130,388) | 240,771 | 172,000 | 68,771 |
| Other payables ¹¹ | 356,788 | 14,000 | 342,788 | 11,170 | 21,000 | (9,830) |
| Total payables | 596,400 | 384,000 | 212,400 | 251,941 | 193,000 | 58,941 |
| Provisions | | | | | | |
| Employee provisions ¹ | 293,361 | 356,000 | (62,639) | 180,888 | 120,000 | 60,888 |
| Total provisions | 293,361 | 356,000 | (62,639) | 180,888 | 120,000 | 60,888 |
| Total liabilities | 889,761 | 740,000 | 149,761 | 432,829 | 313,000 | 119,829 |
| Net assets | 1,792,962 | 1,544,000 | 248,962 | 442,922 | 396,000 | 46,922 |
| EQUITY | | | | | | |
| Parent entity interest | | | | | | |
| Contributed equity | 681,000 | 760,000 | (79,000) | 312,000 | 349,000 | (37,000) |
| Retained earnings | 1,111,962 | 784,000 | 327,962 | 130,922 | 47,000 | 83,922 |
| Total parent entity interest | 1,792,962 | 1,544,000 | 248,962 | 442,922 | 396,000 | 46,922 |

Variances in equity are the net result of variances in the statements of comprehensive income and the statements of financial position.

Statements of Changes in Equity
for the period ended 30 June 2019
Australian Accounting Standards Board

| | Retained earnings | | | Contributed equity/capital | | | Total equity | | |
|---|-------------------|-----------------|----------------|----------------------------|-----------------|-----------------|------------------|------------------|----------------|
| | Actual | Budget Estimate | | Actual | Budget Estimate | | Actual | Budget Estimate | |
| | | Original | Variance | | Original | Variance | | Original | Variance |
| | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 |
| Opening balance | | | | | | | | | |
| Balance carried forward from previous period | 1,135,294 | 839,000 | 296,294 | 681,000 | 681,000 | - | 1,816,294 | 1,520,000 | 296,294 |
| Comprehensive income | | | | | | | | | |
| Surplus/ (Deficit) for the period | (23,332) | (55,000) | 31,669 | - | - | - | (23,332) | (55,000) | 31,668 |
| Total comprehensive income attributable to the Australian Government | (23,332) | (55,000) | 31,669 | - | - | - | (23,332) | (55,000) | 31,669 |
| Contribution by owners | | | | | | | | | |
| Departmental capital budget | - | - | - | 79,000 | 79,000 | - | 79,000 | 79,000 | - |
| Distribution to Australian Government(4) | - | - | - | (79,000) | - | (79,000)- | (79,000) | - | (79,000) |
| Total transactions with owners | - | - | - | - | 79,000 | (79,000) | - | 79,000 | (79,000) |
| Closing balance attributable to Australian Government | 1,111,962 | 784,000 | 327,962 | 681,000 | 760,000 | (79,000) | 1,792,962 | 1,544,000 | 248,962 |

Statements of Changes in Equity (continued)

for the period ended 30 June 2019

Auditing and Assurance Standards Board

| | Retained earnings | | | Contributed equity/capital | | | Total equity | | |
|---|-------------------|-----------------|-----------------|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Actual | Budget Estimate | | Actual | Budget Estimate | | Actual | Budget Estimate | |
| | | Original | Variance | | Original | Variance | | Original | Variance |
| | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 |
| Balance carried forward from previous period | 207,346 | 87,000 | 120,346 | 312,000 | 311,000 | 1,000 | 519,346 | 398,000 | 121,346 |
| Surplus/ (Deficit) for the period | (76,424) | (40,000) | (36,424) | - | - | - | (76,424) | (40,000) | (36,424) |
| Total comprehensive income attributable to the Australian Government | (76,424) | (40,000) | (36,424) | - | - | - | (76,424) | (40,000) | (36,424) |
| Departmental capital budget | - | - | - | 38,000 | 38,000 | - | 38,000 | 38,000 | - |
| Distribution to Australian Government(4) | - | - | - | (38,000) | - | (38,000) | (38,000) | - | (38,000) |
| Total transactions with owners | - | - | - | - | 38,000 | (38,000) | - | 38,000 | (38,000) |
| Closing balance attributable to Australian Government | 130,922 | 47,000 | 83,922 | 312,000 | 349,000 | (37,000) | 442,922 | 396,000 | 46,922 |

Variances in equity are the net result of variances in the statements of comprehensive income and the statements of financial position.

Cash Flow Statements

for the period ended 30 June 2019

| | AASB | | | AUASB | | |
|---|------------------|------------------------|-----------------|------------------|------------------------|-----------------|
| | Actual | Budget estimate | | Actual | Budget estimate | |
| | | Original | Variance | | Original | Variance |
| | 2019 | 2019 | 2019 | 2019 | 2019 | 2019 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| OPERATING ACTIVITIES | | | | | | |
| Cash received | | | | | | |
| Appropriations ¹⁰ | 3,933,000 | 3,545,000 | 388,000 | 1,941,000 | 1,970,000 | (29,000) |
| Goods and services ² | 707,253 | 627,000 | 161,341 | - | - | - |
| Net GST received ⁸ | 156,888 | - | 156,888 | - | - | - |
| Contributions received | 492,125 | 498,000 | (5,875) | - | - | - |
| Total cash received | 5,289,266 | 4,670,000 | 700,354 | 1,941,000 | 1,970,000 | (29,000) |
| Cash used | | | | | | |
| Employees and contractors ¹ | 2,839,774 | 3,231,000 | (391,226) | 1,043,012 | 1,139,000 | (95,988) |
| Suppliers ² | 1,991,970 | 1,400,000 | 591,970 | 1,046,811 | 934,000 | 112,811 |
| Other | - | - | - | - | - | - |
| Total cash used | 4,831,744 | 4,631,000 | 200,744 | 2,089,823 | 2,073,000 | 16,823 |
| Net cash from/ (used by) operating activities | 457,522 | 39,000 | 418,522 | (148,823) | (103,000) | (45,823) |
| INVESTING ACTIVITIES | | | | | | |
| Cash received / (used) | | | | | | |
| Purchase of property, plant and equipment and intangibles | (49,720) | (79,000) | 29,281 | - | (38,000) | 38,000 |
| Cash received from disposal of infrastructure, plant and equipment | 2,162 | | 2,162 | | | |
| Total cash used | (47,558) | (79,000) | 31,443 | - | (38,000) | 38,000 |
| Net cash from (used by) investing activities | (47,558) | (79,000) | 31,443 | - | (38,000) | 38,000 |
| FINANCING ACTIVITIES | | | | | | |
| Cash received | | | | | | |
| Contributed equity ⁹ | 47,000 | 79,000 | (32,000) | 5,300 | 38,000 | (32,700) |
| Net cash from/ (used by) financing activities | 47,000 | 79,000 | (32,000) | 5,300 | 38,000 | (32,700) |
| Net increase (decrease) in cash held | 456,964 | 39,000 | 417,964 | (143,523) | (103,000) | (40,523) |
| Cash and cash equivalents at the beginning of the reporting period | 7,597 | 212,000 | (204,403) | 332,408 | 297,000 | 35,408 |
| Cash and cash equivalents at the end of the reporting period | 464,561 | 251,000 | 213,561 | 188,885 | 194,000 | (5,115) |

Appendices

APPENDIX A

AASB AND AUASB LEGISLATIVE REQUIREMENTS

AASB

The AASB is required to advance and promote the main objects of Part 12, section 224, of the ASIC Act:

- (a) to facilitate the development of accounting standards that require the provision of financial information that:
 - (i) allows users to make and evaluate decisions about allocating scarce resource
 - (ii) assists directors to discharge their obligations in relation to financial reporting
 - (iii) is relevant to assessing performance, financial position, financing and investment
 - (iv) is relevant and reliable
 - (v) facilitates comparability
 - (vi) is readily understandable.
- (b) to facilitate the Australian economy by:
 - (i) reducing the cost of capital
 - (ii) enabling Australian entities to compete effectively overseas
 - (iii) having accounting standards that are clearly stated and easy to understand.
- (c) to maintain investor confidence in the Australian economy (including its capital markets).

Part 12, section 227, of the ASIC Act provides, among other things, that:

- (1) The functions of the AASB are:
 - (a) to develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards
 - (b) to make accounting standards under section 334 of the *Corporations Act 2001* for the purposes of the corporations legislation (other than the excluded provisions)
 - (c) to formulate accounting standards for other purposes
 - (d) to participate in and contribute to the development of a single set of accounting standards for world-wide use
 - (e) to advance and promote the main objects of this Part.
- (2) In carrying out its functions under paragraphs (1) (a) and (d) the AASB must have regard to the interests of Australian corporations which raise or propose to raise capital in major international financial centres.

AUASB

The AUASB is an Australian Government Agency under the *Australian Securities and Investments Commission Act 2001* (ASIC Act).

Under section 227B (1) of the ASIC Act, the functions of the AUASB are:

- (f) to make auditing standards under section 336 of the *Corporations Act 2001*, for the purposes of the corporations legislation
- (g) to formulate auditing and assurance standards for other purposes
- (h) to formulate guidance on auditing and assurance matters
- (i) to participate in and contribute to the development of a single set of auditing standards for worldwide use
- (j) to advance and promote the main objects of Part 12 of the ASIC Act. Section 224 (aa) of the *ASIC Act* states the objectives of Part 12, which include:

” To facilitate the development of auditing and assurance standards and related guidance materials that:

- (i) provide Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the *Corporations Act 2001*; and
- (ii) require the preparation of auditors’ reports that are reliable and readily understandable by the users of financial reports to which they relate.”

Other relevant objectives of Part 12 are summarised below:

- to facilitate the Australian economy by having (accounting and) auditing standards that are clearly stated and easy to understand; and
- to maintain investor confidence in the Australian economy (including its capital markets).

APPENDIX B

ATTENDANCE AT AASB AND AUAB MEETINGS

AASB MEMBER ATTENDANCE

The AASB met eight times during 2018-19 for a total of eight meeting days. In addition to preparation for these meetings, which requires consideration of detailed technical papers, members considered and voted on accounting standards and other pronouncements out of session and also attended or made presentations at seminars and other meetings related to their role as a Board member. Consequently, the time committed by members is substantially more than the meeting days attended.

AASB Member attendance is shown in the table below:

| Members | Number of days eligible to attend | Number of days attended | Apologies (days) |
|-------------------------|-----------------------------------|-------------------------|------------------|
| K Peach (Chair) | 8 | 8 | 0 |
| R Fikkers (Vice-Chair)* | 4 | 3 | 1 |
| M Blake (Vice-Chair) | 8 | 8 | 0 |
| K Crook | 8 | 8 | 0 |
| P Gibson | 8 | 7 | 1 |
| J Grant | 4 | 3 | 1 |
| K Liow | 8 | 8 | 0 |
| C Ridley | 8 | 7 | 1 |
| P Rogers | 4 | 3 | 1 |
| T Rulton | 8 | 7 | 1 |
| M Smit* | 4 | 3 | 1 |
| S Taylor | 8 | 7 | 1 |
| A White | 8 | 8 | 0 |

* Board retirements during 2018-19 period

For details of terms of appointments, please refer to the AASB Organisational Structure section of this Report commencing on page 58.

AUASB MEMBER ATTENDANCE

The AUASB held nine meetings during 2018-19 for a total of eleven meeting days. Member attendance is shown in the table below:

| Members | Number of days eligible to attend | Number of days attended | Apologies (days) |
|----------------------|--|--------------------------------|-------------------------|
| R Simnett (Chair) | 11 | 11 | 0 |
| R Low (Deputy Chair) | 11 | 8 | 3 |
| R Buchanan | 11 | 11 | 0 |
| G Bird | 11 | 10 | 1 |
| J Cain | 11 | 7 | 4 |
| J Crisp | 11 | 10 | 1 |
| C George* | 5 | 5 | 0 |
| K Hankin | 6 | 6 | 0 |
| N Harding | 11 | 11 | 0 |
| R Piltzl | 6 | 5 | 1 |
| C Ralph | 11 | 11 | 0 |
| J Reid | 11 | 10 | 1 |
| A Wood* | 5 | 5 | 0 |

* Board retirements during 2018-19 period

For details of terms of appointments, please refer to the AUASB Organisational Structure section of this Report commencing on page 61.

APPENDIX C

OTHER INFORMATION

EXTERNAL SCRUTINY

The AASB and AUASB's financial statements are audited each year by the ANAO.

AASB and AUASB annual reports are scrutinised by the Senate Economics Legislation Committee and the Parliamentary Joint Committee on Corporations and Financial Services.

https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/No1of46thParliament.

PURCHASING

The AASB and AUASB's general policy is that the purchase of any major capital items follows the Commonwealth Procurement Guidelines.

Information on expenditure on contracts and consultancies is also available on the AusTender website, www.tenders.gov.au.

PROCUREMENT INITIATIVES TO SUPPORT SMALL BUSINESS

The AASB and AUASB support small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website (www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts)

Officials of the AASB and AUASB apply procurement practices that do not unfairly discriminate against SMEs and provide appropriate opportunities for SMEs to compete. Officials consider the benefits of doing business with SMEs when scoping the requirements and evaluating value for money.

CONSULTANTS

AASB – During 2018-19, eight new consultancy contracts were entered into involving total actual expenditure of \$359,047 inclusive of \$28,027 GST. Ongoing consultancy contracts were active during the 2018-19 year, involving total actual expenditure of \$96,358 inclusive of \$5,460 GST.

AUASB – During 2018-19, one new consultancy contract was entered into involving total actual expenditure of \$198 inclusive of \$18. No ongoing consultancy contracts were active during the 2018-19 year, involving total actual expenditure of nil.

Consultants are only engaged where there are specific gaps in our capabilities. These include, HR, IT and Legal.

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website.

EXEMPT CONTRACTS

The AASB has a contract with the IFRS Foundation. The contract gives the AASB rights to IFRS copyright material.

This contract and value has been exempted by the Chair from being published in AusTender on the basis that it would disclose exempt matters under the *Freedom of Information Act 1982*.

ADVERTISING AND MARKET RESEARCH

The AASB and AUASB do not carry out any advertising or market research.

FREEDOM OF INFORMATION

Information Publication Scheme

The AASB and AUASB are subject to the *Freedom of Information Act 1982* (FOI Act) and publish information to the public as part of the Information Publications Scheme (IPS). The AASB and AUASB display on their websites a plan showing information in accordance with the IPS requirement (www.aasb.gov.au/FOI.aspx and www.auasb.gov.au/FOI.aspx).

DISABILITY REPORTING

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007-2008, reporting on the employer role was transferred to the Australian Public Service Commission's *State of the Service Report* and the *APS Statistical Bulletin*. Those reports are available at www.apsc.gov.au. From 2010-2011, departments and agencies are no longer required to report on those functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy 2010-2020 which sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high-level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. The first of these reports became available in 2014, and can be found at www.dss.gov.au.

OCCUPATIONAL HEALTH AND SAFETY

The AASB and AUASB have less than 50 employees and are therefore not required to establish an Occupational Health and Safety Committee (OHSC) under section 34 of the *Occupational Health and Safety Act 2001*.

All employees, and Board members, when attending meetings, are covered under Comcare and Comcover. No accidents or dangerous occurrences, or relevant investigations, took place during the 2018-19 financial year.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE REPORTING

The AASB and AUASB do not have specific responsibilities in relation to the administration of environmental sustainability legislation.

The nature of the AASB and AUASB's activities limits the impact of their operations on the environment, however, they are mindful of their responsibilities to minimise negative impacts. Accordingly, the AASB and AUASB have in place policies and procedures designed to minimise environmental impacts by complying with government policies relating to waste, energy and travel.

The principal environmental impact minimisation activities employed are:

- waste management, through a fully commingled and organic recycling program
- energy efficient practises in lighting, air-conditioning and computer use
- limited water use.

Travel restrictions limit meetings to only essential obligations. Teleconferencing and videoconferencing are used whenever possible.

APPENDIX D

AGENCY RESOURCE STATEMENT AND RESOURCES FOR OUTCOMES

The changes in financial results from the previous year are discussed in the Chair's Review. Explanations of variances from the budgeted financial statements for the financial year as set out in the Portfolio Budget Statement/Portfolio Additional Estimate Statement, and their implications are set out in note 12 and 12A to the financial statements.

Agency summary resource table by outcomes

Office of the AASB: Resources for outcomes 2018-19

| | Budget \$ | Actual Expenses \$ | Variation \$ |
|---|------------------|--------------------------|------------------|
| Outcome 1: | | | |
| The formulation and making of external reporting standards that are used by Australian entities to prepare financial reports and enable users of these reports to make informed decisions | | | |
| Output Group 1.1: | | | |
| AASB | | | |
| Departmental expenses | | | |
| Ordinary annual services (Appropriation Bill No. 1) | 3,518,000 | 3,518,000 | - |
| Ordinary annual services (Appropriation Bill No. 3) | 79,000 | 45,769 | 33,231 |
| Revenues from independent sources (section 31) | 1,127,000 | 1,273,011 | (146,011) |
| Expenses not requiring appropriation | 171,000 | 248,056 | (77,056) |
| Less revenue to be carried forward | - | - | - |
| Total for Outcome 1 | 4,895,000 | 5,084,836 | (189,836) |

Australian Accounting Standards Board and Auditing and Assurance Standards Board Annual Reports 2018-19

The changes in financial results from the previous year are discussed in the Chair's Review. Explanations of variances from the budgeted financial statements for the financial year as set out in the Portfolio Budget Statement/Portfolio Additional Estimate Statement, and their implications are set out in note 12 and 12a to the financial statements.

Agency summary resource table by outcomes

Office of the AUASB: Resources for outcomes 2018-19

| | Budget \$ | Actual Expenses \$ | Variation \$ |
|---|------------------|--------------------------|-----------------|
| Outcome 1: | | | |
| The formulation and making of auditing and assurance standards that are used by auditors of Australian entity financial reports or for other auditing and assurance engagements | | | |
| Output Group 1.1: | | | |
| AUASB | | | |
| Departmental expenses | | | |
| Ordinary annual services (Appropriation Bill No. 1) | 2,079,000 | 2,154,424 | (75,424) |
| Ordinary annual services (Appropriation Bill No. 3) | 38,000 | 38,000 | - |
| Revenues from independent sources (PGPA Act - section 74) | - | - | - |
| Expenses not requiring appropriation | 131,000 | 91,729 | 39,271 |
| Less revenue to be carried forward | - | - | - |
| Total for Outcome 1 | 2,248,000 | 2,284,153 | (36,153) |

APPENDIX E

LIST OF REQUIREMENTS

| Description | Requirement | AASB Page | AUASB Page |
|---|-------------|--------------|---------------|
| Letter of transmittal | | | |
| A copy of the letter of transmittal signed and dated by accountable authority on the date final text approved, with statement that the report has been prepared in accordance with section 46 of the Act and any enabling legislation that specifies additional requirements in relation to the annual report | Mandatory | iii | iii |
| Aids to access | | | |
| Table of contents | Mandatory | iv | iv |
| Alphabetical index | Mandatory | 120 | 120 |
| Glossary of abbreviations and acronyms | Mandatory | v | v |
| List of requirements | Mandatory | 113 | 113 |
| Details of contact officer | Mandatory | vi | vi |
| Entity's website address | Mandatory | vi | vi |
| Electronic address of report | Mandatory | vi | vi |
| Review by accountable authority | | | |
| A review by the accountable authority of the entity | Mandatory | 11 | 33 |
| Overview of the entity | | | |
| A description of the role and functions of the entity | Mandatory | 18 | 42 |
| A description of the organisational structure of the entity | Mandatory | 57 | 60 |
| A description of the outcomes and Programs administered by the entity | Mandatory | 20 | 45 |
| A description of the purposes of the entity as included in the corporate plan | Mandatory | 18 | 42 |

| Description | Requirement | AASB Page | AUASB Page |
|--|--------------------------|--------------|---------------|
| Where outcome and programs administered by the entity differ from any Portfolio Budget Statement, Portfolio Additional Estimates Statement or other portfolio estimates statement that was prepared for the entity for the period, include details of variation and reasons for change | If applicable, Mandatory | 96 | 96 |
| Report on the performance of the entity | | | |
| Annual performance statements | | | |
| Annual performance statement in accordance with program 39(1)(b) of the Act and section 16F of the Rule | Mandatory | 18 | 42 |
| Report on financial performance | | | |
| A discussion and analysis of the entity's financial performance | Mandatory | 16 | 40 |
| A table summarising the total resources and total payments of the entity | Mandatory | 111 | 112 |
| If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including: the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results | If applicable, Mandatory | 16 | 40 |
| Management and accountability | | | |
| Corporate governance | | | |
| Information on compliance with section 10 (fraud systems) | Mandatory | 63 | 63 |
| A certification by accountable authority that fraud risk assessments and fraud control plans have been prepared | Mandatory | 63 | 63 |
| A certification by accountable authority that appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place | Mandatory | 63 | 63 |

Appendix E: List of Requirements

| Description | Requirement | AASB Page | AUASB Page |
|--|-----------------------------|--------------|---------------|
| A certification by accountable authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity | Mandatory | 63 | 63 |
| An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance | Mandatory | 63 | 63 |
| A statement of significant issues reported to Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with Finance law and action taken to remedy non-compliance | If applicable, Mandatory | n/a | n/a |
| External scrutiny | | | |
| Information on the most significant developments in external scrutiny and the entity's response to the scrutiny | Mandatory | 108 | 108 |
| Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity | If applicable, Mandatory | n/a | n/a |
| Information on any reports on operations of the entity by the Auditor-General, (other than report under section 43 of the Act), a Parliamentary Committee or the Commonwealth Ombudsman | If applicable, Mandatory | n/a | n/a |
| Information on any capability reviews on the entity that were released during the period | If applicable, Mandatory | n/a | n/a |
| Management of human resources | | | |
| An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives | Mandatory | 65 | 66 |
| Statistics on the entity's APS employees on an ongoing and non-ongoing basis; including the following: <ul style="list-style-type: none"> • statistics on staffing classification level • statistics on full-time employees • statistics on part-time employees; • statistics on gender • statistics on staff location • statistics on employees who identify as Indigenous. | Mandatory | 65 | 66 |

Australian Accounting Standards Board and Auditing and Assurance Standards Board Annual Reports 2018-19

| Description | Requirement | AASB Page | AUASB Page |
|--|--------------------------|--------------|---------------|
| Information on any enterprise agreements, individual flexibility arrangements, Australian workplace agreements, common law contracts and determinations under subsection 24(1) of the <i>Public Service Act 1999</i> . | Mandatory | 65 | 66 |
| Information on the number of SES and non-SES employees covered by agreements etc. identified in paragraph 17AG(4)(c) | Mandatory | 65 | 66 |
| The salary ranges available for APS employees by classification level | Mandatory | 65 | 66 |
| A description of non-salary benefits provided to employees | Mandatory | 67 | 67 |
| Information on the number of employees at each classification level who received performance pay | If applicable, Mandatory | n/a | n/a |
| Information on aggregate amounts of performance pay at each classification level | If applicable, Mandatory | n/a | n/a |
| Information on the average amount of performance payment, and range of such payments, at each classification level | If applicable, Mandatory | n/a | n/a |
| Information on aggregate amount of performance payments | If applicable, Mandatory | n/a | n/a |
| Assets management | | | |
| An assessment of effectiveness of assets management where asset management is a significant part of the entity's activities | If applicable, mandatory | n/a | n/a |
| Purchasing | | | |
| An assessment of entity performance against the <i>Commonwealth Procurement Rules</i> | Mandatory | 108 | 108 |

Appendix E: List of Requirements

| Description | Requirement | AASB Page | AUASB Page |
|---|-----------------------------|--------------|---------------|
| Consultants | | | |
| A summary statement detailing the number of new contracts engaging consultants entered into during the period; the total actual expenditure on all new consultancy contracts entered into during the period (inclusive of GST); the number of ongoing consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST) | Mandatory | 108 | 108 |
| A statement that <i>“During 2018-19, [specified number] new consultancy contracts were entered into involving total actual expenditure of \$[specified million]. In addition, [specified number] ongoing consultancy contracts were active during the period, involving total actual expenditure of \$[specified million]”</i> . | Mandatory | 108 | 108 |
| A summary of the policies and procedures for selecting and engaging consultants and the main categories of purposes for which consultants were selected and engaged | Mandatory | 108 | 108 |
| A statement that <i>“Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website”</i> . | Mandatory | 108 | 108 |
| Australian National Audit Office Access Clauses | | | |
| If an entity entered into a contract with a value of more than \$100,000 (inclusive of GST) and the contract did not provide the Auditor-General with access to the contractor’s premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract. | If applicable, Mandatory | n/a | n/a |

| Description | Requirement | AASB Page | AUASB Page |
|--|-----------------------------|--------------|---------------|
| Exempt contracts | | | |
| If an entity entered into a contract or there is a standing offer with a value greater than \$10,000 (inclusive of GST) which has been exempted from being published in AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters. | If applicable, Mandatory | 109 | 109 |
| Small business | | | |
| A statement that <i>“AASB-AUSB supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance’s website”</i> | Mandatory | 108 | 108 |
| An outline of the ways in which the procurement practices of the entity support small and medium enterprises | Mandatory | 108 | 108 |
| If the entity is considered by the Department administered by the Finance Minister as material in nature – a statement that <i>AASB recognises the importance of ensuring that small businesses are paid on time. The results of the Survey of Australian Government Payments to Small Business are available on the Treasury’s website.”</i> | If applicable, Mandatory | n/a | n/a |
| Financial statements | | | |
| Inclusion of the annual financial statements in accordance with subsection 43(4) of the Act | Mandatory | 71 | 71 |
| Other mandatory information | | | |
| If the entity conducted advertising campaigns, a statement that <i>“During 2018-19, the AASB conducted the following advertising campaigns: [name of advertising campaigns undertaken]. Further information on those advertising campaigns is available on [entity’s website] and in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available on the Department of Finance’s website.”</i> | If applicable, Mandatory | n/a | n/a |

Appendix E: List of Requirements

| Description | Requirement | AASB Page | AUASB Page |
|--|-----------------------------|--------------|---------------|
| If the entity did not conduct advertising campaigns, a statement to that effect | If applicable, Mandatory | 109 | 109 |
| A statement that <i>"Information on grants awarded to AASB during 2018-19 is available at [entity's website]"</i> | If applicable, Mandatory | n/a | n/a |
| Outline of mechanisms of disability reporting including reference to website for further information | Mandatory | 109 | 109 |
| Website reference to where the entity's Information Publication Scheme statement pursuant to Part II of FOI Act can be found | Mandatory | 109 | 109 |
| Correction of material errors in previous annual report | If applicable, Mandatory | n/a | n/a |
| Information required by other legislation | Mandatory | 108 | 108 |

APPENDIX F

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Memorandum

Subject: Overview of September 2019 IAASB meeting
To: AUASB Members
From: Rene Herman
Date: 2 October 2019

This memo provides an overview of the International Auditing and Assurance Standards Board (IAASB) meeting held in New York, USA on 16-20 September 2019 for the AUASB.

ISA 315, Identifying and Assessing the Risks of Material Misstatement

The IAASB approved ISA 315, *Identifying and Assessing Risks of Material Misstatement* and related conforming and consequential amendments to other ISAs arising from the revisions to ISA 315. The standard will not be re-exposed. The effective date is for audits of financial statements for periods beginning on or after 15 December 2021.

Implications for the AUASB

Feedback provided by AUASB in its final evaluation of the draft standard was largely addressed by the ISA 315 Task Force and was supported by the IAASB. The summary of the AUASB feedback we provided to the ISA 315 Task force and the final deliberations the IAASB had in relation to each point was circulated to the AUASB on 24 September 2019.

There are editorials to still be processed and a clean 'scrub' of the standard is required. The next PIOB meeting is a while off (late November) - so at this stage we are unsure as to when the AUASB Technical Group (ATG) can expect a final document. Once a final document becomes available the ATG will prepare draft Australian standards for the AUASBs consideration.

ISA 600, Group Audits

The IAASB discussed the Task Force's proposals from its continued work on the group audits project. This was the first time that the Board considered substantial drafting in relation to proposed ISA 600 (Revised), which focused on certain identified requirements and application material.

Overall, there was support for the direction of the task force, including:

- Support for public interest issues identified in the agenda papers
- Support for many of the Task Force's proposals, including:
 - Structure of the standard. Specifically, the board supported having a separate section for the considerations of the use of the work of component auditors. It was suggested that, to be better in line with proposed ISA 220, that the title of this section be changed to something like "Direction, supervision, and review of the work of component auditors on the engagement team."
 - Removal definition "group-wide controls," although it was noted that guidance should be provided on dealing with group-wide controls, regardless of whether the term is defined.



The Board considered whether the engagement partner should be required to review the overall audit strategy and plan, but it was noted that there was not such a requirement in ISA 300, *Planning an Audit of Financial Statements*. The Board recommended that a consequential amendment to ISA 300 be proposed requiring the engagement partner to review the overall strategy and plan in an audit, and that ISA 600 have a related requirement for the group engagement partner.

The Board directed the task force to consider providing further guidance and clarity in the following areas:

- The scope of the standard. Specifically, the use of the consolidation process in defining “component,” and whether there might be group financial statements that are prepared through a process other than a consolidation process.
- How the group auditor accesses information or people in a group audit, particularly in jurisdictions where such access is limited by law or regulation, and what the group auditor should do if unable to gain access.
- The setting of materiality, and component materiality, and how the concept of aggregation risk affects materiality decisions.
- How the “traditional” three strategies for dealing with components are to be dealt with in the proposed group engagement led approach. That is:
 - a) An audit of all financial information of the component using component materiality.
 - b) An audit of one or more account balances or classes of transactions of the financial information of a component, or information relevant to disclosures, relating to risks of material misstatement of the group financial statements.
 - c) Specific further audit procedures relating to risks of material misstatement of the group financial statements.
- The role that the concept of financially significant component plays in the proposed group engagement led approach.
- Communications and reporting between the component auditor and the group engagement team

Implications for the AUASB

Continue to monitor developments leading up to the December 2019 IAASB Meeting.

The task force will bring a first draft of a full exposure draft to the Board for discussion at the December 2019 IAASB meeting. The AUASB will have an opportunity at the December 2019 AUASB meeting to provide commentary on the draft ISA 600. The IAASB plan to vote the document out for exposure at the March 2020 IAASB meeting. It is preliminarily thought that the standard will be finalised in September 2021 and be effective for 2023 audits.

Quality Management Standards

Each of the Quality Management task forces provided the Board with a high-level overview of respondents’ comments and preliminary proposals in response to comments received. There was not a detailed discussion of the effective date or implementation period; however, the three standards are likely to be effective either 18 or 24 months after finalisation.

The Quality Management projects are:

- ISQM 1, *Quality Management at Firm Level*
- ISQM 2, *Engagement Quality Reviews*
- ISA 220, *Quality Management at Engagement Level*



ISQM 1

The task force provided a high-level overview of respondents' comments and preliminary proposals in response to comments received. The summary of comments was as follows:

- The comment period closed July 1. Ninety-nine comment letters were received from a variety of stakeholders across many regions.
- There was support for the new Quality Management Approach (QMA); however, there were strong concerns about the scalability of the standard, particularly related to the perceived prescriptiveness of the standard and its overall length and complexity.
- There were also extensive concerns expressed about the time and resources needed to implement the standard in its current form, with respondents asking for further guidance and support materials to support implementation, especially in the application of the firm's risk assessment process.

The task force has spent time since the close of the comment period focusing on areas within the standard that are driving the concerns about the scalability, complexity and prescriptiveness of the standard. The Board supported the following proposals by the task force:

- Raising the required quality objectives to higher, more overarching type objectives
- Introducing quality risk considerations into the standard, which we heard calls for in the respondent letters.
- Revising the required responses to adjust them to be more high level, less detailed and less repetitive of the quality objectives.
- Simplifying the approach to the firm's risk assessment process. More than half the members expressed clear/some support for the Task Force proposal in the issues paper to condense the risk assessment process to a two-step process, although there is still some noise indicating uncertainty about this approach.
- Looking at the threshold for the identification of quality risks. The Board largely recognised that constituents do not equate "reasonable possibility" to "more than remote", with the latter being thought to be a lower threshold. It appears that Board is leaning towards retaining "reasonable possibility" (ED wording) and clarifying in the guidance. A noteworthy comment from the IFAIR representative (IRBA): in deciding the approach, need to focus on the effects of these changes on documentation and enforceability.

Comments on exposure questioned whether the implementation efforts in applying ISQM 1 for firms that only perform related services engagements, meaning engagements such as agreed upon procedures and compilation engagements, may not be proportionate to the benefits that may be gained from applying the new risk based approach being required by new ISQM 1. Therefore, the board also whether it would be appropriate to develop a separate standard to deal with quality management for related services engagements. The board was not in favour of removing related services engagements from the scope of ISQM 1 and developing a separate standard. The board instead encouraged the ISQM 1 Task Force to explore other options to address scalability and noted the need to wait and consider the responses to the consultation paper on Less Complex Entities.

A revised proposed ISQM 1 will be presented to the board in December 2019. June 2020 is the target date to finalise ISQM 1. There was not a detailed discussion of the effective date or implementation period; however, the three Quality Management standards are likely to be effective either 18 or 24 months after finalisation.



ISQM 2

The task force provided a high-level overview of respondents' comments and preliminary proposals in response to comments received. The Board also discussed the Task Force's indicative drafting to address two key issues:

- With respect to the scope of engagements subject to an EQ review, the Board generally supported the TF's proposal but sought further refinements about the recommendation to replace the requirement to perform an EQ review for audits of entities that the firm determines are of 'significant public interest' (SPI) with engagements for which the firm determines an EQ review is appropriate due to the 'nature of the entity.'
- With respect to objectivity, including a cooling-off period for individuals moving into the role of EQ reviewer after having served as the engagement partner:
 - The Board generally supported the TF's proposal to address matters of objectivity and cooling-off in ISQM 2.
 - Some Board members also supported a mandatory cooling-off period in ISQM 2.
 - While Board members noted a preference for objectivity and cooling-off period to be addressed in the IESBA Code and applauded the IESBA's willingness to address it, Board members, however, expressed views about the respective timelines of the two Boards (i.e., whether IESBA's due process would result in changes to the IESBA Code being finalised by the time the IAASB's quality management standards are expected to be finalised in June 2020).
 - Hence, Board members supported the IAASB moving forward based on the task force's initial recommendations, with a clear understanding of the need for close coordination and cooperation to make sure that the two Boards are not moving down separate paths on this issue (the hope is to keep the paths aligned as closely as possible to ensure that the IAASB standards and the IESBA Code are complementary and not inconsistent).
 - Board members also raised concerns regarding jurisdictions where the IESBA Code is not adopted, but the ISAs are, and why this may necessitate ISQM 2 to address cooling-off.
 - There was also support for the task force to further consider extending the cooling-off requirement to all engagements for which an EQ review is required (i.e., not just for listed entities or PIEs), and to consider whether a cooling-off period should also extend to other individuals in the engagement (e.g., key audit partners).

A revised proposed ISQM 2 will be presented to the board in December 2019. June 2020 is the target date to finalise ISQM 2. There was not a detailed discussion of the effective date or implementation period; however, the three Quality Management standards are likely to be effective either 18 or 24 months after finalisation.

ISA 220

The task force provided a high-level overview of respondents' comments and preliminary proposals in response to comments received. The Board discussed the three key interrelated issues from the ED responses:

- Overall responsibility of the engagement partner for managing and achieving quality and being sufficiently and adequately involved in the engagement. The Board supported this fundamental principle and AGREED to the proposed wording changes to clarify paragraph 13. Further thought is needed to address the engagement partner assigning tasks for larger, complex entities.



- The engagement team definition. The Board supported the proposal to retain the current definition in ED-220 including component auditors. The Board also supported the proposal to clarify the meaning of “performs audit procedures” and other matters in the definition
- Upward scalability. The Board agreed that the proposals to address the key issues would address “upward scalability” of the proposed standard for larger, more complex entities

The Board also heard some suggestions on how to address respondents’ comments on direction, supervision and review, and review of firm’s policies and procedures:

- The Board did not support having a specific requirement in ISA 220 documenting the planned level of direction, supervision and review, and asked the taskforce to consider a consequential amendment in ISA 300.
- The Board agreed that the proposed standard should clarify that the engagement partner can rely on the firm’s system of quality management and the factors they should be considered in making that decision.

A revised proposed ISA 220 will be presented to the board in December 2019. June 2020 is the target date to finalise ISA 220. There was not a detailed discussion of the effective date or implementation period; however, the three Quality Management standards are likely to be effective either 18 or 24 months after finalisation.

Implications for the AUASB (QM suite)

Continue to monitor developments and seek input on key issues from the AUASB leading into the December 2019 IAASB Meeting.

Other Matters

The board also discussed the following matters during the September 2019 meeting:

Strategy and Work Plan

There was general support for the strategy as presented, with some suggestions to:

- Add what the measures of success are.
- Include complexity, scalability more prominently
- Include reference to the public sector (no references now)

There was general support for the work plan, with some suggestions for additions and clarifications. The finalised Strategy and Work Plan is expected to be approved in December 2019.

Implications for the AUASB

For noting only.

The AUASB Technical Group will summarise the changes to the final IAASB Strategy and Work Plan at the December 2019 AUASB Meeting.

Joint IAASB-IESBA Session

The Board Members explored, in breakout sessions:



- A pathway to convergence on the concepts of Public Interest Entity (PIE) and Entity of Significant Public Interest (SPI), considering the nature of the core issue, where is commonality, and how might the two Boards' standards evolve
- Other focus areas in the Boards' strategies and work plans requiring joined-up thinking

The Board also discussed, and provided its views on, certain overlapping issues with the International Standards on Auditing (ISAs) resulting from proposed changes by IESBA's Fees Task Force to the IESBA Code (International Code of Ethics for Professional Accountants (including International Independence Standards)).

Implications for the AUASB

None. For noting only.

The AUASB Technical Group is meeting with APESB staff in early October 2019 to ensure collaboration on joint IAASB/IESBA projects at the local level.

Extended External Reporting (EER)

The Board received an overview of responses to the on the Extended External Reporting (EER) Assurance Phase 1 Consultation Paper.

The Board also discussed the work of the Task Force on the Phase 2 draft guidance developed to date on: determining the scope of an EER assurance engagement; obtaining evidence in respect of narrative and future-oriented information; exercising professional scepticism and professional judgment; obtaining the competence necessary to perform the engagement; and communicating effectively in the assurance report.

Implications for the AUASB

ATG and project sponsor to continue to monitor developments on Phase 2 of the EER Project through the EER Guidance Project Advisory Panel. The task force will bring a first draft of a full exposure draft to the Board for approval at the December 2019 IAASB meeting. The AUASB will have an opportunity at the December 2019 AUASB meeting to provide final considerations/thoughts into the final ED.

Updates on Audit Evidence and Technology Projects

The Board received an overview of the 'Audit Evidence Workstream Plan' (AEWP), developed by the Audit Evidence Working Group.

Based on further information-gathering and research on the audit evidence related matters previously identified, the Working Group intends to develop recommendations to the Board, on possible further actions to address the issues identified, which may include standard setting and to present those recommendations to the Board in the first half of 2020.

The Board also received an overview of the Technology Workstream Plan that emphasised that the Technology Working Group's objective is to identify matters for which there is an opportunity for a more immediate response through developing and issuing guidance to address the effect of technology when applying certain aspects of the ISAs.

It was noted that the TWG also was involved in developing the non-authoritative Frequently Asked Questions publication on the use of automated tools and techniques when identifying and assessing risks of material misstatement in accordance with proposed ISA 315 (Revised).



Implications for the AUASB

AUASB to continue to monitor IAASB developments in this area, while the ATG work with AUASB project sponsor on an AUASB plan going forward.

December 2019 IAASB meeting will include:

- Approval of the IAASB's Proposed Strategy for 2020-2023 and Work Plan for 2020-2021
- Final approval of ISRS 4400, *Agreed-Upon Procedures*
- First read of an exposure draft of ISA 600 (Revised), dealing with Group Audits
- Respondents' comments and the task forces' draft wording of the three proposed standards on Quality Management:
- Approval of an exposure draft on EER
- Feedback on the comments that have been received on the IAASB's DP relating to Audits of LCEs.