



**Subject:** Agenda for the 85th meeting of the AUASB  
**Venue:** Ken Spencer Room  
Auditing and Assurance Standards Board (AUASB) offices  
Podium Level 14, 530 Collins Street Melbourne  
**Time:** Teleconference: Tuesday, 25 October 2016 from 10.30 a.m. to 12.30 p.m.

Note: Agenda papers marked

P	Distributed Previously
E	Enclosed
F	To Follow
T	To be Tabled at Meeting
V	Verbal Report

Time	Agenda Item No.	Type	Resp.
10.30 a.m.	<b>1. Preliminary Session</b>		
	(a) Welcome	V	MK
	(b) AUASB Declarations of Interest	E	MK
	(c) Minutes of Previous AUASB Meeting	E	MK/All
	(d) Matters Arising from Previous Meetings and Action List	E	MK/All
10.45 a.m.	<b>2. ASAE 3500 Performance Engagements Project Update</b>	E	MM
10.50 a.m.	<b>3. ASAE 3100 Compliance Engagements Project Update</b>	E	MM
11.00 a.m.	<b>4. Auditor Reporting FAQs approval</b>	F	AW
11.30 a.m.	<b>5. ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report</b>	E	MD
11.55 a.m.	<b>6. Audit Committee Guide</b>	E	RH
12.20 p.m.	<b>7. Other Business</b>		
	(a) International update (for noting)	F	MD
	(b) AUASB response to IAASB Survey on Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives (for noting)	E	MD
12.30 p.m.	<b>Close</b>		

Observers are welcome to participate via teleconference. Please register your interest with Kathleen John at [kjohn@asb.gov.au](mailto:kjohn@asb.gov.au) and on receipt teleconference participant details will be provided.



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**            **2**

**Meeting Date:**                25 October 2016

**Subject:**                        Project Update on ASAE 3500 Performance Engagements

**Date Prepared:**                13 October 2016

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**Action Required**

**For Information Purposes Only**

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## Agenda Item Objectives

To give a status update on ED XX ASAE 3500 *Performance Engagements* project.

## Background

1. ASAE 3500 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified a number of matters to be addressed in any future revisions to ASAE 3500.
2. The AUASB approved a project plan to revise ASAE 3500 at the AUASB meeting 24 February 2015 and an updated timetable at the 9 June 2015 meeting. Following approval of the project, the AUASB Technical Group met with the Australasian Council of Auditors-General (ACAG) Heads of Performance Audit at their annual meeting in late March, in order to bring the project to the attention of the auditors-general and to obtain initial feedback on the scope of the revised standard and issues to be addressed in the redrafting.
3. A Project Advisory Group was formed in April, with representatives from each of the audit offices which conduct performance engagements and an academic. PAG discussions were held in mid-May, to discuss the proposed approach to addressing issues identified and to recommend the scope of the revised standard; mid-June, to discuss an initial draft standard; late July and late August to discuss further drafts.
4. The revised draft ASAE 3500 was discussed at the September 2015 meeting and since this time no further work has progressed on the project due to resource constraints at the AUASB.
5. A PAG Meeting was held on 15 September 2016 to discuss the outstanding comments on the revised draft ED XX ASAE 3500 that went to the September 2015 meeting.

## Matters to Consider

### *Part A – General*

1. At the 15 September 2016 PAG meeting a number of outstanding issues / comments were discussed the primary ones being:

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- Paras 3 – 9: Scope of a performance engagement and how this should be reflected at the front end of the standard
  - Para 16: Objectives of a performance engagement (this should be consistent with the scope paras)
  - Para 17: Definitions: Terminology used in the draft ED is currently too complex and needs to be simplified.
2. The above changes are quite fundamental and pervasive to the revised ED XX ASAE 3500 and as such have required a major re-write of the standard as it was previously drafted. All of the changes made have flow on effects to the rest of the standard and application material. The PAG were in agreement that the changes should be made to simplify the ED. The drafting of the changes is in progress however not yet completed due to resourcing constraints. The suggested changes to the terminology and objectives will bring ED XX ASAE 3500 closer in line with the current approach taken in ED 04/16 *Compliance Engagements*.
3. There are some unresolved technical issues that the AUASB technical Group are working through, where changes have been requested by the PAG that may not apply easily to a public sector performance engagement or to the current report prepared for Parliament. As the framework standard ASAE 3000 requires the assurance practitioner to undertake these requirements and ASAE 3500 is explicitly linked to ASAE 3000 then some of these areas will need to be retained to set the base requirements and maintain best practice. Some examples of these matters are:
- Retaining the requirement for Written Representations from the responsible party – AG's don't currently obtain written representations from the responsible party: Current wording in the draft ED - The assurance practitioner shall (may?) endeavour to obtain written representations, as appropriate for the engagement, from the responsible party.
  - Base elements in the report currently requires: a statement by the responsible party and the assurance practitioner as to their respective responsibilities – the AGs don't currently word their report accordingly to this requirement.

The PAG as a whole would be comfortable for these requirements to be removed from the current draft ED XX 3500 as they don't believe they apply in the current context of a performance engagement even though they are requirements under ASAE 3000 and the extant ASAE 3500.

4. Drafting of the ED XX 3500 will continue depending on resource constraints, the revised draft will then go back to the PAG so they can discuss it internally with their performance engagement teams. This version of the ED XX ASAE 3500 will also come to the Board for information at the 29 November 2016 meeting. A further PAG meeting will then be scheduled to discuss comments and resolve outstanding matters in the new year.

### ***Part B – NZAuASB***

1. This is not a joint project with NZAuASB, as currently NZAuASB does not plan to issue an equivalent of ASAE 3500, as this topic is not within its mandate.
2. The AUASB Technical Group is participating in the NZAuASB Working Group to support the NZ project to develop a standard on assurance of *Service Performance Information* and monitoring the joint AASB and NZ XRB project to develop an accounting standard on *Reporting Service Performance Information*. Engagements under ASAE 3500 are distinct from engagements on Service Performance Information, consequently ASAE 3500 will not include those engagements.

### **Material Presented**

Agenda Item 2

AUASB Board Meeting Summary Paper



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**           **3**

**Meeting Date:**               25 October 2016

**Subject:**                     Project update on ASAE 3100 *Compliance Engagements*

**Date Prepared:**             13 October 2016

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**Action Required**

**For Information Purposes Only**

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## Agenda Item Objectives

1. Update on project status and timing of responses to ED 04/16 ASAE 3100 *Compliance Engagements*.

## Background

1. ASAE 3100 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified some matters to be addressed in any future revisions to ASAE 3100.
2. The NZAuASB also completed a post-implementation survey for SAE 3100 in April 2015 and any matters raised will be addressed by the NZAuASB in their revision of SAE 3100 and considered by the AUASB in the revision of ASAE 3100 to ensure consistency.
3. The AUASB approved a project plan to revise ASAE 3100 at the AUASB meeting in February 2015.
4. A project advisory group (PAG) was formed in March 2015 to advise the AUASB TCG specifically on the subject matter and issues encountered in practice with compliance engagements. Four project advisory (PAG) meetings were held in the 2015 calendar year.
5. A PAG meeting was held on 22 March 2016 to discuss with the PAG suggested changes made by the Board to ED ASAE 3100 at the December 2015 and February 2016 meetings.
6. A PAG meeting was held on 14 July 2016 to discuss the outcomes of the June AUASB board meeting and to seek input on the final draft of the ED XX ASAE 3100. The feedback from this PAG meeting is reflected in the final draft ED.
7. ED 04/16 ASAE 3100 *Compliance Engagements* was issued for exposure on 22<sup>nd</sup> August 2016 with a 60 day comment period closing on 19<sup>th</sup> October 2017. To date no submissions have been received and CA ANZ have requested a 3 day extension period.

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## **Matters to Consider**

### ***Part A – General***

1. The OBPR process was completed on 15 August 2016 and clearance from OBPR that no RIS was required was received on 17 August 2016.
2. A verbal update will be given at the October teleconference on how many submissions were received and from whom and if there are any “fatal flaw” comments that may need to be addressed by the Board immediately, with a view to finalising the disposition of comments and approval of the final standard at the 29 November 2016 meeting.

### ***Part B – NZAuASB***

1. This is a joint project with NZAuASB, as they currently have SAE 3100 *Compliance Engagements* (August 2011) which is in clarity format however needs to be revised to remain consistent with ISAE 3000 (revised) and ASAE 3100 (revised).
2. The NZAuASB technical group provided a second draft of the ED (as provided to the AUASB at its 15 Sept meeting) to the NZAuASB for consideration at their 21 October meeting.
3. The NZAuASB also considered a draft of an ITC and ED SAE 3100 (Revised) *Compliance Engagements* for approval to expose at its December meeting on the 9<sup>th</sup> of December. This was subject to the approval of the AUASB’s exposure draft earlier in December. Draft ED SAE 3100 (Revised) is similar to draft AUASB ED, with amendments for New Zealand examples and ethical references. The New Zealand exposure draft will not include the equivalent of para 38 prohibiting direct assistance (this is consistent with harmonisation differences across the suite of New Zealand and Australian standards).
4. The AUASB has liaised with the NZAuASB who have completed the Quality Assurance process for ED XX ASAE 3100. No substantive technical points were raised. Points raised were primarily format and editorial in nature and these changes are now reflected in the final draft ED XX ASAE 3100.
5. NZAuASB have scheduled for the disposition of comments on ED SAE 3100 (Revised) *Compliance Engagements* to come back to their 8 December 2016 meeting. Depending on the outcomes of the AUASB 29 November 2016 meeting and the analysis of comments received by NZAuASB, approval of the standard will also be sort at the December meeting.

## **Material Presented**

Agenda Item 4

AUASB Board Meeting Summary Paper

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# AUASB Board Meeting Summary Paper

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AGENDA ITEM NO.      **4. Auditor Reporting FAQs**

Meeting Date:            25 October 2016  
Subject:                    Auditor Reporting Implementation  
Date Prepared:            13 October 2016

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Action Required

For Information Purposes Only

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## Agenda Item Objectives

To consider and approve for issue the Auditor Reporting Frequently Asked Questions (FAQs).

## Background

The new and revised Auditor Reporting standards were released in December 2015 and are applicable for engagements ending on or after 15 December 2016. There has been significant changes to the audit report as a result of the revisions of ASA 700, 705, 706 and 720, and the introduction of a new standard ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

At previous AUASB meetings, it was agreed to issue guidance to assist engagement teams with implementation and the practical application of the new standards. The overriding objective is to provide practical insights and guidance in the form of FAQs, and if considered necessary can be supplemented and updated as further questions are raised through the application period.

PAG meetings have been held on 12 July 2016, 17 August 2016 and 5 September 2016, where the draft FAQs have been discussed and reviewed.

The FAQs will be available on the AUASB website. They will be presented as a list of questions to enable users to “click” into the question to read the answer. The questions will also be available as one PDF document for users to print in their entirety.

The FAQs were presented and discussed at the AUASB meeting on 13 October 2016 and the AUASB provided detailed comments which have been addressed. The AUASB requested that the following questions be added to the FAQs:

- Are stapled securities and entities quoted on the ASX under the Aqua Rules listed entities and how do they report KAMs?
- Do listed group entities report KAMs for the group only?

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## Status

The FAQs are ready for the AUASB approval for issue, except for questions 8, 19, 20 and 21 which are still be finalised.

## AUASB Technical Group Recommendations

The FAQs excluding questions 8, 19, 20 and 21 be approved.

## Material Presented

Agenda Item 4	BMSP Auditor Reporting FAQs
Agenda Item 4.1	AUASB AR FAQs (Marked-up)
Agenda Item 4.2	AUASB AR FAQs Final (Clean)

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No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Approve the FAQs	Approval	AUASB	25 October 2016	o/s



## AUDITOR REPORTING FAQ

### Introduction

The enhanced auditor reporting requirements come into effect for the upcoming 31 December 2016 reporting season. All auditor's reports will look very different, and will report more information to provide greater transparency to users.

The changes impact all auditor's reports for audits conducted in accordance with the Australian Auditing Standards. Listed entity auditor reports have additional requirements.

These FAQs assist auditors, directors, audit committee members, CFOs and other stakeholders, in understanding the new reports.

This publication has been prepared by the AUASB to assist with interpreting the new requirements and does not create new, amend or override the requirements of the Australian Auditing Standards. Further this publication is not meant to be exhaustive.

**Confidential  
Draft**

### Changes to the Auditor's Report

#### 1. Why is the auditor's report changing?

Every auditor's ~~reports~~report will change in order to:

- Enhance the communicative value of the auditor's report.
- Give prominence to the most important matters by re-ordering the content.
- Enhance reporting on going concern matters (if applicable), and provide enhanced description of the respective responsibilities of directors / management and the auditor, in relation to going concern.
- Provide an affirmative statement on auditor's independence and fulfilment of relevant ethical responsibilities.
- Provide more information to users on the auditor's responsibilities, and the key features of an audit.
- Provide greater clarity about the auditor's responsibilities in respect of, and the status of their consideration of, the other information that is included in an entity's annual report.

There are further changes to the auditor's report for listed entities in order to:

- Communicate matters of most significance to the audit of the current period and how the auditor addressed these.
- Provide details of other information the auditor has, or has not received, at the date of the auditor's report.



2. Do the changes apply to all auditor's reports?

- All auditor's reports prepared in accordance with the Australian Auditing Standards (ASAs) will change. However some changes apply to listed entities only. Below is a summary of the changes and whether they are for auditor's reports of all entities or listed entities only. Question 3 provides details of the changes.

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**~~Draft~~**



<u>Changes</u> <u>Summary of changes</u>	Applicable to all entities	Applicable to listed entities
Order of paragraphs	√	√
Auditor's <u>IFRS compliance</u> opinion <u>no longer required</u>	√	√
Key Audit Matters (KAMs)	Optional	√
Other information	√	√(additional reporting for listed entities)
<u>Management's</u> <u>Increased description of management's responsibilities</u>	√	√
<u>Auditor's</u> <u>Increased description of the auditor's responsibilities</u>	√	√(additional reporting for listed entities)
<u>More detail on the key features of an audit</u>	√	√(additional reporting for listed entities)
<u>Certain components of the auditor's responsibilities may be presented as an appendix to the auditor's report or by reference to their location on the Australian Auditing and Assurance Standards Board website.</u>	√	√
Going concern	√	√

- The changes are also required for auditor's reports:
  - ◆ of financial reports prepared in accordance with special purpose frameworks<sup>1</sup>;
  - ◆ of single financial statements and specific elements, accounts or items of a financial statement<sup>2</sup>;
  - ◆ of summary financial Statements<sup>3</sup>; and
  - ◆ to regulators if the audits are conducted in accordance with the Australian Auditing Standards.
- The changes do not relate to auditor's review reports, or auditor's reports on assurance engagements other than audits or reviews of historical financial information.

### 3. How is the auditor's report changing?

#### Order of paragraphs

- The order of the auditor's report has changed.
- The auditor's opinion and basis for opinion are now given prominence and must be presented first in the auditor's report.
- There is flexibility in the order of the remaining sections of the auditor's report. The Australian Auditing Standards provide guidance on the order with the overall principle being to give prominence to the matters of most importance. The requirements in ASA 700

<sup>1</sup> ASA 800  
<sup>2</sup> ASA 805  
<sup>3</sup> ASA 810



achieves this principle and it is advisable that this order is followed. Refer to question 65 for further details.

#### *Auditor's opinion*

- The auditor's opinion no longer includes an opinion on compliance with International Financial Reporting Standards. ~~The opinion that has been provided for Corporations Act (and other) entities will change and will no longer refer to~~ This requirement was considered redundant in view of changes to the Corporations Act which now requires the director's declaration to include a statement of compliance with IFRS.

#### *Key Audit Matters (KAMs)*

- Auditors of listed entities now include information in respect of those matters which in their judgement, were of most significance in the audit of the financial report in the current year.
- ~~Auditors of non-listed entities can elect to include~~ KAMs but are not required to do so.
- Refer to questions ~~8 – 179 - 21~~ for further details.

#### *Other information*

- More detail is provided on the director's and auditor's responsibilities in respect of other information, and on the status of the auditor's consideration of other information, at the date of the auditor's report. Other information is financial and non-financial information included in the Annual Report (excluding the financial report and auditor's report thereon). This is included in the auditor's report under a heading "Other Information" or other appropriate heading.
- For listed entities, the auditor's report now details the other information ~~that the auditor has received and has not yet received at the date of the auditor's report.~~
- For non-listed entities, the auditor's report details the other information that they have received at the date of the auditor's report. There is no requirement to detail other information not received at the date of the auditor's report.
- For non-listed entities, if at the date of the auditor's report no other information has been received the auditor's report does not include an ~~"other information"~~ "Other Information" section. As the other information includes the Director's report ~~this~~ it is unlikely to be common that other information has not been received at the date of the auditor's report.
- Refer to questions ~~18 – 2022 - 24~~ for further details.

#### *Management's responsibilities*

- This is reported using the heading "Responsibilities of Management<sup>4</sup> for the Financial report" (or for Corporations Act entities this would refer to "Directors").
- There are additional details on the responsibility of management / the directors for assessing whether the use of the going concern basis of accounting is appropriate, and whether any relevant disclosures are adequate. These responsibilities are not new, however are now described in the auditor's report.

#### *Auditor's responsibilities*

<sup>4</sup> ASA 700, paragraphs 33 – 35 Modify the heading to reflect who is responsible for the preparation of the financial report, and the oversight of the financial reporting process. This may be management, those charged with governance and / or directors. If the individuals responsible for the oversight of the financial reporting process are different to the preparation of the financial report the heading includes both parties.



- The auditor's responsibilities section has been expanded to provide more information about the key features of an audit.
- This section is no longer "boiler plate" across all audits. ~~It needs to be~~ and is amended depending on whether or not:
  - ◆ the entity is a single entity or a group;
  - ◆ the entity is a listed entity or non-listed entity;
  - ◆ the entity uses a fair presentation or compliance framework in the financial report;
  - ◆ the auditor applied a group approach to the audit;
  - ◆ the auditor is issuing a ~~disclaimer of qualified opinion.~~
- New options are now available to present parts of the auditor's responsibility section<sup>5</sup>:
  - ◆ within the auditor's report (as is current practice); ~~or~~
  - ◆ within an appendix to the auditor's report with a reference from the auditor's report to the appendix; or
  - ◆ by including a reference within the auditor's report to the relevant page on the Australian Auditing and Assurance Standards Board website (~~<http://www.aasb.gov.au/Home.aspx>~~)<http://www.aasb.gov.au/Home.aspx>.)
- ASA 700 stipulates that the Australian Auditing and Assurance Standards Board website is the only website that can be referred to<sup>6</sup>.

#### Going concern

- There is an expanded description of the responsibilities of directors / management and the auditor in relation to going concern. These responsibilities are not new, just ~~reported~~included for the first time in the auditor's report.
- If there are events or conditions that cast significant doubt on an entity's ability to continue as a going concern, there are changes to the way this is reported.
  - ◆ If the auditor concludes that a material uncertainty exists and disclosure is adequate, this is now reported in a section headed "Material Uncertainty Related to Going Concern" instead of the previous Emphasis of Matter paragraph. In this scenario it is not reported as a KAM if a listed entity.
  - ◆ If the auditor concludes a material uncertainty does not exist, and there is adequate disclosure in the financial report, in the case of a listed entity this is likely to be reported as a KAM, as it is likely that it was a ~~significant~~ matter of most significance in the audit. This is often referred to as a "close call" situation. If the entity is not listed the matter is not reported in the auditor's report.
- Refer to question 2425 for further details on going concern.

#### 4. When are the changes effective?

<sup>5</sup> ASA 700, paragraph 41

<sup>6</sup> [ASA 700, Aus A57.1](#)



- The changes are effective for financial reporting periods ending on or after 15 December 2016. For example, auditor's reports for entities with a 31 December 2016 year end are required to comply with the new requirements.
- A number of auditors have elected to report under the new requirements early.

**~~Confidential~~**  
**~~Draft~~**



5. ~~What is the definition of a listed entity?~~

- ~~A listed entity is defined in the Australian Auditing Standards<sup>7</sup> as an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulation of a recognised stock exchange or other equivalent body.~~
- ~~A recognised stock exchange includes those in Australia (including ASX/NSX/CHI-X) or in another jurisdiction.~~

6. Is there any flexibility in the presentation of the auditor's report?

- The auditor's opinion and the basis for opinion paragraphs must be presented first<sup>8</sup>.
- There is flexibility in the order of the remaining sections of the auditor's report however the intention is that sections are presented in order of importance to the users of the financial report. The order in ASA 700 is structured to achieve this. Other Australian Auditing Standards provide guidance ~~as to~~ the order of the sections as follows:
  - ◆ ~~A material uncertainty related to going concern should be reported straight after the Basis for Opinion.~~
  - ◆ If an Emphasis of Matter paragraph on an alternative basis of accounting is required, ~~this should~~ it may be placed appropriate to include immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion<sup>9</sup>.
  - ◆ ~~KAMs should be reported as~~ Placing the KAM section close to the auditor's opinion ~~as possible~~ may give prominence to such information<sup>10</sup>.
- The order of the presentation of individual KAMs is a matter of professional judgement. However it is advisable that the KAMs are ordered in a logical manner, for example in order of importance, or that KAMs which are interrelated are placed close together.
- The following paragraph headings are stipulated by the Australian Auditing Standards:
  - ◆ The auditor's opinion paragraph heading must have the heading "Opinion"<sup>11</sup>;
  - ◆ Basis for Opinion<sup>12</sup>;
  - ◆ Material ~~Uncertainty~~ Uncertainty Related to Going Concern<sup>13</sup>;
  - ◆ Key Audit Matters<sup>14</sup>;
  - ◆ Responsibilities of Management (or those charged with governance) for the Financial Report<sup>15</sup>;
  - ◆ Auditor's Responsibilities for the Audit of the Financial Report<sup>16</sup>;
- ~~Matters not mandated by the~~ The Australian Auditing Standards can be included do not prohibit the auditor reporting additional information in the auditor's report. Emphasis of Matter paragraphs may be used to communicate matters which the auditor determines are

<sup>7</sup> ASQC 1 and ASA 220, paragraph 7

<sup>8</sup> ASA 700, paragraphs 23 and 28

<sup>9</sup> ASA 706, paragraph A16

<sup>10</sup> ASA 701, paragraph A31

<sup>11</sup> ASA 700, paragraph 23

<sup>12</sup> ASA 700, paragraph 28

<sup>13</sup> ASA 570, paragraph 22

<sup>14</sup> ASA 701, paragraph 11

<sup>15</sup> ASA 700, paragraph 33

<sup>16</sup> ASA 700, paragraph 37



important to users' understanding of the financial report, and Other Matter paragraphs may be used to communicate matters which the auditor determines are important to users understanding of the audit. These may still be used and provide flexibility to the auditor to report any relevant matters.

- ~~Other jurisdictions such as the The United Kingdom include a requirement require the auditor to report on materiality in all auditor's reports,~~ and group scoping where applicable. These matters are not required by the International or the Australian Auditing Standards however some auditors in Australia and other countries have voluntarily reported these.
- Auditors of non-listed entities may voluntarily communicate KAMs but must fully comply with ASA 701.

**7. Is the name of the engagement partner required to be included in the auditor's report?**

- ~~This is a requirement of the International Auditing Standards but the The Australian Auditing Standards requires the engagement partner's name of to be included in the partner on auditor's report where required by law and regulation<sup>17</sup>.~~
- ~~For all audits conducted in compliance with the Corporations Act<sup>18</sup> the engagement partner signs the auditor's report by his or her own name and the name of the firm.~~
- ~~In Australia, for audits not conducted in compliance with the Corporations Act the engagement partner signs the auditor's report in the his or her own name and the name of the firm, unless other law or regulation require<sup>19</sup> or the name of the engagement partner audit company as applicable<sup>20</sup>.~~
- ~~For audits conducted in compliance with laws or regulations other than the Corporations Act, the engagement partner can sign the auditor's report in the name of the firm or the name of the audit company, unless the applicable law or regulation requires the engagement partner to sign in his or her own name.~~
- ~~The International Auditing Standards require the auditor's name to be included in the auditor's report of listed entities<sup>21</sup> only.~~

**8. What is the definition of a listed entity?**

- A listed entity is defined in the Australian Auditing Standards<sup>22</sup> as an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulation of a recognised stock exchange or other equivalent body.
- A recognised stock exchange includes those in Australia (including ASX/NSX/CHI-X) or in another jurisdiction.
- ~~If an entity is delisted during the year, the entity is not considered a listed entity for the purposes of the auditor reporting requirements.~~

**9. Are stapled securities and entities quoted on the ASX under the AQUA Rules listed entities under the Australian Auditing Standards?**

<sup>17</sup> ASA 700, paragraph 46  
<sup>18</sup> Corporations Act 2001 section 324AB(3) and ASA 700 A64.1  
<sup>19</sup> Corporations Act 2001 section 324AB (3) and ASA 700 A64.1  
<sup>20</sup> Corporations Act 2001 section 324AD (1)  
<sup>21</sup> ISA 700, paragraph 45  
<sup>22</sup> ASQC 1 and ASA 220, paragraph 7



## Key Audit Matters

### 9.10. What are Key Audit Matters (KAMs) and how are they identified?

- KAMs are those matters which in the auditor's professional judgement were of most significance in the audit of the financial report of the current period<sup>23</sup>.
- ~~Auditors of listed entities are required to communicate KAMs.~~
- ~~Auditors of non-listed entities can voluntarily elect to communicate KAMs.~~
- The overall objective of communicating KAMs is to provide insight to the users of the financial report as to the most significant and /or challenging aspects of the audit for the current period.

### 10. How are KAMs identified<sup>24</sup>?

- ~~KAMs are selected from matters communicated with those charged with governance.~~
- ~~The auditor uses professional judgement to identify KAMs<sup>25</sup>.~~
- KAMs are likely to be the matters which;
  - ◆ ~~required significant auditor attention<sup>26</sup>.~~
  - ◆ ~~are of higher risk of material misstatement or have been identified as significant risks<sup>27</sup>.~~
  - ◆ ~~are complex and and / or require significant management and auditor judgement eg. relating to areas that involved significant management judgement, including critical accounting estimates that have been identified as having high estimation uncertainty, and related disclosures<sup>28</sup>.~~
  - ◆ ~~are of higher risk of material misstatement.~~
  - ◆ ~~are the effect of significant events or transactions.~~
  - ◆ ~~required significant audit effort.~~
  - ◆ ~~<sup>29</sup> may have involveinvolved specialists or external-experts (management's or the auditor's)-<sup>30</sup>.~~
  - ◆ ~~are challengingposed challenges to obtain sufficient appropriate audit evidence.~~
  - ◆ ~~are assessed as important to intended users' understanding of the financial report as a whole<sup>31</sup>.~~
- The final identification of KAMs occurs at the end of the audit. It is advisable to make an initial determination during the planning stages of the audit and to start discussions with those charged with governance early to avoid surprises. Refer to question ~~4516~~.

<sup>23</sup> ASA 701, paragraph 8

<sup>24</sup> ~~ASA 701, paragraph 9~~

<sup>25</sup> ASA 701, paragraph 9

<sup>26</sup> ASA 701, paragraph A12

<sup>27</sup> ASA 701, paragraph 9 (a)

<sup>28</sup> ASA 701, paragraph 9 (b)

<sup>29</sup> ASA 701, paragraph 9 (c)

<sup>30</sup> ASA 701, paragraph A14

<sup>31</sup> ASA 701, paragraph A13



- It is not intended that all significant risks or matters communicated to those charged with governance will be KAMs. For example the Australian Auditing Standards stipulate that the risk of management override of controls and the risk of fraud in the recognition of revenue are significant risks. However it is not intended that these are KAMs unless the auditor determines that they were of most significance to the audit.
- A KAM may be a matter relevant to the audit which is not required to be disclosed in the financial report- under accounting standards or the applicable regulatory or legal framework. For example, the implementation of a new IT system may have required significant audit attention and the auditor may identify this as a KAM. If a matter giving rise to a KAM has not been disclosed in the financial report but is publicly available information, the auditor may make reference to the publicly available information if it is considered appropriate and helpful to users.
- There is no specific guidance on how many KAMs could be communicated. In the reports issued to date there have been between 1 and 7 KAMs with an average of around 3 – 4 KAMs. For audits of more complex entities it may be appropriate to have more KAMs than for a non-complex entity. Other matters which may impact the number of KAMs communicated are the nature of an entity's business and environment. However the intention is to communicate the areas ~~that were of~~ most ~~significant to~~ significance in the audit and a long list of matters may detract from this.

**11. Will all auditor's reports include Key Audit Matters (KAMs)?**

- Auditors of listed entities are required to communicate KAMs.
- Auditors of non-listed entities can voluntarily elect to communicate KAMs.

**11.12. In what scenarios is it acceptable to determine there are no Key Audit Matters (KAMs)?**

- It is expected to be extremely rare for an auditor of a listed entity not to have a matter which was of most significance.
- KAMs are specific to each audit, and it is expected that there will be at least one matter which required more focus and effort than other matters.
- The auditor usually will communicate some matters to those charged with governance and should select the matters of most importance from this.
- However, if the auditor has determined that there are no KAMs to communicate, the auditor's report details this as follows<sup>32</sup>:

**Key Audit Matters**

We have determined that that there are no key audit matters to communicate in our report.

- In the rare scenario where there are no KAMs identified, the audit documentation must detail the matters considered and the rationale for the conclusions made.

<sup>32</sup> ASA 701, paragraph 16



**12.13. If there is a modified opinion, (qualified, adverse or disclaimer), or a Material Uncertainty Related to Going Concern, do I also report these as a Key Audit Matter (KAM?)?**

- Matters giving rise to a modified opinion, or a Material Uncertainty Related to Going Concern, are by definition KAMs<sup>33</sup>, however these are reported in accordance with the requirements of the relevant standards ASA 705 and ASA 570. The auditor's report details this as follows:

**Key Audit Matters**

"In addition to the matter described in the Basis for Adverse / Qualified opinion section or the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report".

- ~~Note that the description of, and why the matter was considered to be a KAM, and how it was addressed in the audit, is not required to be included in the Basis for Adverse/ Qualified opinion section<sup>34</sup>.~~
- ~~A KAM section is not included in the auditor's report when a disclaimer of opinion is issued due to concerns that communicating KAMs would suggest that the auditor was able to conclude on that topic.~~
- ~~Also if a disclaimer of opinion is issued there is no Other Information section<sup>35</sup>.~~
- ~~If there is a disclaimer of opinion no KAM section is included<sup>36</sup>.~~

**13.14. In what scenarios is it acceptable not to communicate a matter which is identified as a Key Audit Matter?**

- Whilst it is expected to be very rare, there may be scenarios where it is not appropriate to communicate a matter which is identified as a KAM in the auditor's report. These are<sup>37</sup>:
  - ◆ If there is a law or regulation precluding the public communication of a matter.
- ~~These are<sup>38</sup>:~~
  - ◆ ~~If there is a law or regulation precluding the public communication of a matter.~~
  - ◆ ~~If there are adverse consequences which would reasonably be expected to outweigh the public interest benefits of communicating a matter.~~
- ◆ ~~It will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report, as it is presumed to be a public interest benefit of communicating a matter in providing greater transparency about the audit for intended users. Accordingly the judgement not to communicate a key audit matter is appropriate only where the adverse consequences are viewed as so significant that they would reasonably be expected to outweigh the benefit of reporting. Importantly this does not apply if the entity has publicly disclosed information about the matter<sup>39</sup>.~~
- The issues to consider in deciding whether to not communicate a KAM are complex and involve significant judgement. In these scenarios the auditor considers:
  - ◆ Obtaining legal advice.

<sup>33</sup> ASA 701, paragraphs 15, A6 --A7  
<sup>34</sup> ASA 701 paragraph 15  
<sup>35</sup> ASA 705, paragraph 29  
<sup>36</sup> ASA 705, paragraph 29  
<sup>37</sup> ASA 701, paragraph 14  
<sup>38</sup> ASA 701, paragraph 14  
<sup>39</sup> ASA 701, 14 (b)



- ◆ Requesting a representation from those charged with governance detailing the reasons why it is not appropriate to communicate the KAM.
- ◆ If the matter results in additional reporting obligations (eg. to a regulator).
- In the rare scenario where matters identified as KAMs are not communicated, the audit documentation details the matters considered and the rationale for the conclusions made.
- ~~Some matters may be sensitive, such as those related to actual or potential litigation, or illegal acts, however these are likely to be required to be disclosed in the financial report, and therefore are reported as KAMs. In this scenario the auditor should be careful to not to report details which have not been disclosed or otherwise made public.~~
- ~~Determining if there are adverse consequences which outweigh the benefit of reporting a KAM is difficult to assess and is expected to be rare. If a matter is highly sensitive and has not been publicly disclosed by an entity, the auditor considers the facts and circumstances and discusses with the audit committee and management to assess whether the adverse consequences outweigh the benefit.~~
- ~~The issues to consider in deciding whether to not communicate a KAM are complex and involve significant judgement. In these scenarios the auditor considers:~~
  - ◆ ~~Obtaining legal advice.~~
  - ◆ Requesting a representation from those charged with governance detailing the reasons why it is not appropriate to communicate the KAM.
  - ◆ If the matter results in additional reporting obligation (eg. to a regulator).
- In the rare scenario where matters identified as KAMs are not communicated, the audit documentation details the matters considered and the rationale for the conclusions made.



14-15. How are Key Audit Matters (KAMs) described in the auditor's report?

- Communicating KAMs is an opportunity for the auditor to demonstrate the value of the audit, professional skepticism and sound professional judgement. This should be paramount in mind when writing KAMs.
- The following is required to be described<sup>40</sup>:

15-16. ~~described in the auditor's report?~~

- ~~Communicating KAMs is an opportunity for the auditor to demonstrate the value of the audit, professional skepticism and sound professional judgement. This should be paramount in mind when writing KAMs.~~
- ~~The following is required to be described<sup>41</sup>:~~
  - ◆ ~~Why the matter is was considered to be one of most significance in the audit and therefore determined to be a KAM.~~
  - ◆ What the auditor did to address the matter and form their conclusions.
  - ◆ Reference to the disclosures, if any, in the financial statements.
- The description of a key audit matter is in the context of the responsibility of the auditor to provide useful information to users, and avoids inappropriately providing original information about the entity<sup>42</sup>. Original information is any information about the entity which is not publicly available. The description should avoid including information about the entity which has not been disclosed in the financial report or otherwise made public by the entity, unless this is considered appropriate in the circumstances, and is not precluded by law or regulation. In this scenario the auditor encourages management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report.
- If there is insufficient disclosure in the financial report, the KAM cannot be used to communicate matters which are required to be disclosed. In this scenario the auditor requests those charged with governance to include appropriate disclosure and if not rectified considers the impact on the auditor's opinion.
- There is no requirement to detail the outcome of procedures however some auditors have elected to do so. If the outcome of procedures is included it is important that the wording does not imply discrete opinions on separate elements of the financial report.
- If an external or internal expert (the auditor's or management's) is used the auditor may detail the type of expert and the procedures the expert and the auditor performed. ~~However the expert cannot be named and the auditor is responsible for assessing the adequacy of their work and conclusions made.~~
- The auditor's report can refer to the use of component auditor where it is considered appropriate. However the group auditor is ultimately responsible for the conclusions made and the audit opinion.
- KAM descriptions:
  - ◆ Are succinct, relate to the audit for the current year, and avoid boilerplate language and jargon.

<sup>40</sup> ASA 701, paragraph 13

<sup>41</sup> ASA 701, paragraph 13

<sup>42</sup> ASA 701, paragraph A34 – A36



- ◆ Are referenced to relevant disclosures in the financial report rather than repeating that information.
  - ◆ ~~Are~~ Are specific to the circumstances and are not copied from other KAMs / audit reports.
  - ◆ Communicate the factors that led to the matter being identified as a KAM. For example, changes in the entity's business, the nature of the matter and any inherent uncertainty that exists, new or complex accounting policies etc.
  - ◆ Are specific about the exact matter eg. recoverability of an asset.
  - ◆ Describe the key audit procedures actually performed to address the matter. It is not necessary or advisable to list all procedures performed. Example wording is "our procedures included".
  - ◆ ~~Are very precise in their description of what the auditor actually did, and are not embellished. For example if certain controls were tested this is described as "key controls were tested" not "controls were tested".~~ and for substantive testing "we tested on a sample basis" and not "we tested".
  - ◆ Avoid terms such as verified, ensured and reviewed, as they are unlikely to accurately reflect what was done.
  - ◆ Do not imply a matter has not been appropriately resolved.
  - ◆ Demonstrate how the auditor was sceptical and how key assumptions used by management were challenged.
- The order of the presentation of individual KAMs is a matter of professional judgement. However it is advisable that the KAMs are ordered in a logical manner for example in order of importance, or KAMs which are interrelated are placed close together.

**16-17. What should the auditor document in the file about Key Audit Matters (KAMs?)?**

- As well as complying with ASA 230 *Audit Documentation*, the following are required<sup>43</sup> to be documented:
  - ◆ The identification of which matters required significant auditor attention and the determination as to whether or not they are a KAM.
  - ◆ If there are no KAMs, the rationale why.
  - ◆ The rationale for not including a matter in the auditor's report if it was determined to be a KAM.
- From the matters communicated to those charged with governance, the auditor determines those which required significant auditor attention. Professional judgement is used when determining the matters which required significant auditor attention, and are likely to be those which required auditor judgement and attention from the senior members of the audit team. The audit documentation needs to include why these matters are, or are not, KAMs. There is no requirement to document why all matters communicated to those charged with governance are, or are not, KAMs. ~~However it is advisable that there is documentation to support the auditor's judgements on why significant risks communicated to those charged with governance are, or are not, KAMs.~~

<sup>43</sup> ASA 701, paragraph 18



17.18. When should an auditor discuss Key Audit Matters (KAMs) with those charged with governance?

- It is advisable that the auditor discusses all likely KAMs as early as possible with those charged with governance. The assessment of KAMs may change during the audit so the auditor updates those charged with governance throughout the audit. At the end of the audit the final determination and communication of KAMs occurs.
- When discussing likely KAMs with those charged with governance, it is advisable to highlight / illustrate how the KAM may be described in the auditor's report.
- Early communication about KAMs also assists those charged with governance in considering whether there is adequate disclosure on the matter in the Financial Report.

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**18. ~~If a matter results in a qualified, adverse or disclaimer of opinion, is this also reported as a KAM?~~**

- ~~• Matters giving rise to a qualified or adverse opinion are by their nature KAMs however they are only described in the “Basis for qualified or adverse opinion” section of the audit report in accordance with ASA 705. In addition, the introduction to the KAM section is modified as follows:~~

**~~Key Audit Matters~~**

~~“In addition to the matter described in the Basis for Adverse / Qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.”~~

~~Note that the description of, and why the matter was considered to be a KAM, and how it was addressed in the audit, is not required to be included in the Basis for Adverse / Qualified opinion section.~~

- ~~• A KAM section is not included in the auditor’s report when a disclaimer of opinion is issued due to concerns that communicating KAMs would suggest that the auditor was able to conclude on that topic.~~
- ~~• Also if a disclaimer of opinion is issued there is no Other Information section<sup>45</sup>.~~

**19. Are Emphasis of Matter and / or Other Matter paragraphs still used?**

- Emphasis of Matter and Other Matter paragraphs are still used and the definitions have not changed.
- For listed entities, the frequency of Emphasis of Matter and Other Matter paragraphs is expected to decline as many will be reported as Key Audit Matters (KAMs) or a Material Uncertainty Related to Going Concern.
- If KAMs are reported and a matter meets the definition of a KAM and an Emphasis of Matter or Other Matter, it is reported as a KAM. ~~In this scenario the KAM section in the auditor’s report does not reference to an Emphasis of Matter or Other Matter paragraph.~~
- For all entities, if a material uncertainty related to going concern exists, and disclosure is adequate, this is now reported under the heading Material Uncertainty Related to Going Concern instead of the previous Emphasis of Matter paragraph.
- Examples of where an Emphasis of Matter paragraph maybe used:
  - ◆ If the use of the going concern basis of accounting is not appropriate and the financial report has been prepared using an alternative basis of accounting, and there is adequate disclosure in the financial report.
  - ◆ If a financial report has been prepared under a Special Purpose Framework.
- Examples of where an Other Matter paragraph maybe used:
  - ◆ If the previous year’s financial report was not audited.
  - ◆ If reporting on materiality and / or group scoping.

<sup>44</sup> ASA701-15  
<sup>45</sup> ASA 705, paragraph 29



- The placement of Emphasis of Matter and Other Matter paragraphs in the auditor's report depends on the nature of the information to be communicated, and the relative significance of the matter.

**20. Does the auditor's report on a financial report of a listed group entity include Key Audit Matters (KAMs) for the group only, or separate KAMs for both the group and the listed parent entity?**

- The auditor's report on a financial report of a listed group entity is only required to communicate KAMs for the group, which may include matters relating to the parent entity if they meet the definition of a KAM for the financial report as a whole. The parent entity note disclosures do not constitute a separate financial report, and therefore do not necessitate separate KAM considerations and reporting thereon.

**21. Where a listed group entity adopts Class Order 10/654 and presents the group financial statements and the parent financial statements in the financial report as 4 columns, does the auditor's report include Key Audit Matters (KAMs) on the group only, or both the group and the listed parent entity?**

**22. How are KAMs reported for stapled groups using ASIC Corporations Stapled Group Reports Instrument 2015/838 which provides relief for the presentation of financial reports of stapled group?**

**23. For stapled groups which prepare separate financial reports for the stapled issuer does the auditor's report include KAMs?**

### Other Information

**20-24. What is the auditor's responsibility in relation to other information?**

- ASA 720 *The Auditor's Responsibilities Relating to Other Information* has been reissued to provide increased clarity in the auditor's report on the auditor's responsibility in relation to, and the status of the auditor's consideration of, the other information reported in the Annual Report.
- The auditor does not express any form of assurance conclusion on the other information.
- The auditor is required to read and consider whether there is a material inconsistency between the other information and the financial report, and / or the auditor's knowledge obtained during the audit<sup>46</sup>. This responsibility applies regardless of whether the other information is obtained before or after the date of the auditor's report.
- As a basis for considering whether there is a material inconsistency between the other information and the financial report, the auditor is required to compare selected amounts or items in the other information to such amounts or items in the financial report<sup>47</sup>. This is a new requirement.
- The nature and extent of the amounts or items to compare is a matter of professional judgement however it is intended that the auditor selects amounts or items which are significant in size or important to the financial report.
- There is detailed reporting on the status of the auditor's consideration of the other information as follows:

<sup>46</sup> ASA 720, paragraph 14  
<sup>47</sup> ASA 720, paragraph 14



- ◆ Auditor's reports of listed entities now provide details of the other information they have received, and have not received, as at the date of the auditor's report<sup>48</sup>.
- ◆ Auditor's reports of non-listed entities include details of the other information obtained before the date of the auditor's report<sup>49</sup>, however do not include the details of the other information not yet received. If no other information has been received before the date of the auditor's report the auditor's report does not include an Other Information section. However as the director's report is other information and is always ordinarily received before the auditor's report date, this will not be unlikely to be the case for audits conducted under the Corporations Act.
- The auditor has to read and consider other information regardless of whether it is received before or after the date of the auditor's report.
- ~~It is common for an entity to prepare its full annual report after the financial report has been signed by the auditor. In this scenario the auditor's report details the other information which has not been received.~~
- Auditor's should discuss their responsibility for other information with those charged with governance as early as possible to ensure they are aware of the additional detail that will be provided in the auditor's report if the other information is not available to the auditor before the date the audit report is signed.
- When some of the other information will not be available until after the date of the auditor's report, the auditor is required to request a representation from management / those charged with governance that the final version of the documents will be provided to the auditor when available and prior to its issuance by the entity<sup>50</sup>.
- Audit documentation includes details of the procedures performed and the final version of the other information<sup>51</sup>.

<sup>48</sup> ASA 720, paragraph 22 (b)

<sup>49</sup> ASA 720, paragraph 22 (b)

<sup>50</sup> ASA 720, paragraph 13 (c)

<sup>51</sup> ASA 720, paragraph 25



**21-25. What information is considered to be other information and does it include information presented in the glossy annual report or just in the lodged financial report?**

- Other information is now defined as financial or non-financial information included in an entity's annual report<sup>52</sup>. The annual report contains or accompanies the financial report and the auditor's report, and includes information and reports required by the Corporations Act 2001 and the Australian Securities Exchange (ASX) listing rules, such as the directors report including the Operating and Financial Review and Remuneration Report and Corporate Governance Report, and may also include additional non-compulsory reporting for example sustainability reports, overview of strategy etc.
- ~~If a listed entity requests their auditor to provide an auditor's report at the time they submit their 4E to the ASX, and the full annual report is yet available to the auditor, the auditor's report details the information which has not been received.~~
- ~~The annual report contains or accompanies the financial report and the auditor's report, and usually includes information about the entity's recent developments, its future outlook and risks, and uncertainties, a statement by the entity's CEO and governing body, and reports covering governance matters.~~
- The Remuneration Report is included in the ~~Directors~~ Director's Report which forms part of the other information. However auditors are still required to express an opinion that the Remuneration Report complies with S 300A of the Corporations Act.
- Other information does not include<sup>53</sup>:
  - ◆ Reports which are issued as stand alone documents and are not part of the combination of documents which comprise the annual report. For example, separate industry or regulatory reports, corporate social responsibility reports, and sustainability reports if not issued within the annual report.
  - ◆ Preliminary announcements of financial information.
  - ◆ Security offering documents including prospectuses.
  - ◆ Unaudited supplementary information.

<sup>52</sup> ASA 720, paragraph 12 (c)

<sup>53</sup> ASA 720, paragraph A5



**22-26. What does the auditor do if a material inconsistency is identified in the other information, the financial report, or the auditor's understanding of the entity?**

- If a material inconsistency is identified between the other information and the financial report and / or the other information and the auditor's understanding of the entity, the auditor performs audit procedures to conclude whether ~~a material misstatement exists:~~
  - ◆ ~~a material misstatement exists in the other information;~~
  - ◆ ~~a material misstatement exists in the financial report; or~~
  - ◆ ~~the auditor's understanding of the entity needs to be updated.~~
- If a material misstatement is identified in the other information ~~received before it is issued~~ the date of the auditor's report, the auditor requests that ~~the other information is adjusted/amended~~. If the entity does not make appropriate ~~adjustments and:~~
- If ~~is before the date of the auditor's report/amendments~~ the auditor includes in the auditor's report details of the material misstatement of the other information.
- If ~~a material misstatement~~ is identified in the other information received after the date of the auditor's report and the entity does not make appropriate amendments, the auditor considers their legal rights and obligations and seeks to have the uncorrected material misstatement appropriately brought to the attention of users<sup>54</sup>. The auditor uses professional judgement to determine how to bring this to the attention of users<sup>55</sup>. For audits performed under the Corporations Act the auditor considers their reporting obligations under section 311<sup>56</sup>.
- If ~~as a material misstatement is identified in result of reading the financial report before other information received after~~ the date of the auditor's report, ~~the auditor requests that an adjustment is made. If the entity does not make appropriate adjustments, the auditor modifies the audit opinion as appropriate.~~
- If a material misstatement is identified in the financial report ~~after the date of the auditor's report,~~ the auditor considers their responsibilities under ASA 560 *Subsequent Events* paragraphs 14 to 17, including requesting those charged with governance to amend the financial report. If the financial report is not amended the auditor uses professional judgement to determine how to bring this to the attention of users and /or seeks/considers seeking legal advice.
- If a material inconsistency is identified in the auditor's understanding of the entity before the date of the auditor's report, the auditor considers the impact on the audit including whether the identified risk of material misstatements are still appropriate, and performs additional procedures as appropriate for the circumstances.
- If a material inconsistency is identified in the auditor's understanding of the entity, after the date of the auditor's report the auditor considers their responsibilities under ASA 560 *Subsequent Events*.

**Going Concern**

**23-27. What has changed in relation to Going Concern?**

- ASA 570 *Going Concern* has also been reissued and in combination with ASA 700 and 701 there are changes to how going concern matters are reported by the auditor. Appendix

<sup>54</sup> ASA 720, paragraph 19 and A50 and Aus A50.1

<sup>55</sup> ASA 720, paragraph A50

<sup>56</sup> ASA 720, paragraph Aus A50.1



1 to ASA 570 includes a helpful flowchart to assist in determining the appropriate reporting when going concern issues exist.

- There is a new requirement to challenge the adequacy of disclosures for “close calls” when events are identified that may cast significant doubt on an entity’s ability to continue as a going concern. When assessing the adequacy of disclosures the auditor considers whether there is appropriate detail on the principle events or conditions that have caused the going concern issue.
- If events or conditions exist that cast significant doubt on the entity’s ability to continue as a going concern, the type of audit opinion issued is dependent on the conclusions the auditor makes as follows:
  - ◆ If use of the going concern basis of accounting is not appropriate, and the financial report has been prepared using an appropriate alternative basis of accounting, and there is adequate disclosure in the financial report, this ~~is~~ may be reported as an Emphasis of Matter paragraph.
  - ◆ If use of the going concern basis of accounting is not appropriate, and the financial report has been prepared using the going concern basis of accounting, an Adverse opinion is issued.
  - ◆ If the auditor concludes a material uncertainty related to going concern exists, and there has been appropriate disclosure in the financial report, it is reported under a new separate section in the audit report under the heading “Material Uncertainty Related to Going Concern”. ~~This~~ For listed entities this is also a KAM, however the KAM section does not include details of the matter and is referenced to the “Material Uncertainty Related to Going Concern” section.
  - ◆ If the auditor concludes a material uncertainty related to going concern exists, and the disclosure in the financial report is not appropriate, a Qualified or Adverse opinion is issued.
  - ◆ ~~If~~ For a listed entity, if the auditor concludes that a material uncertainty does not exist, and there is adequate disclosure in the financial report, this is reported as a KAM if in the auditor’s judgement it was a matter of most significance to the audit. The KAM description includes the principle event or condition that cast significant doubt on the entity’s ability to continue as a going concern, and references to where this is disclosed in the Financial Report.

### Summary financial reports

#### ~~24. Are auditor’s reports on summary financial statements impacted by the changes to the auditor’s report?~~

- ~~ASA 810 is being re-issued to align with the new auditor’s report requirements. However the auditor’s report on the summary financial statements and concise financial reports does not have to include the details of KAMs, and can state that the auditor’s report on the audited financial report includes the communication of KAMs.~~

#### ~~25. What is the auditor’s responsibility for other information included with summary financial statements?~~

- ~~ASA 810 requires the auditor to read and consider the information included in a document containing summary financial statements, and consider whether there is a material inconsistency between that information and the summary financial statements.~~
- ~~If the other information included with summary financial statements, is the same as the other information included in the annual report, the work performed by the auditor in accordance with ASA 720 is relevant.~~



- ~~If the auditor's report on the financial report concludes that there is an uncorrected material misstatement in the other information in the annual report, and this information is included in a document containing the summary financial statements, the auditor's report on the summary financial statements includes reference to this, and describes the uncorrected material misstatement of the other information containing the summary financial statements.~~
- ~~If the other information included with the summary financial statements is not included in the annual report, the auditor reads and considers this information consistent with the requirements of ASA 720. If the auditor determines there is an uncorrected material inconsistency in the other information they include details of this matter in the auditor's report on the summary financial statements.~~
- ◆ If there is unaudited supplementary information presented with Summary Financial Statements the auditor evaluates whether this is clearly differentiated from the summary financial statements. If considered necessary, the auditor explains in the auditor's report that such information is not covered by that report.

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## AUDITOR REPORTING FAQ

### Introduction

The enhanced auditor reporting requirements come into effect for the upcoming 31 December 2016 reporting season. All auditor's reports will look very different, and will report more information to provide greater transparency to users.

The changes impact all auditor's reports for audits conducted in accordance with the Australian Auditing Standards. Listed entity auditor reports have additional requirements.

These FAQs assist auditors, directors, audit committee members, CFOs and other stakeholders, in understanding the new reports.

This publication has been prepared by the AUASB to assist with interpreting the new requirements and does not create new, amend or override the requirements of the Australian Auditing Standards. Further this publication is not meant to be exhaustive.

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### Changes to the Auditor's Report

#### 1. Why is the auditor's report changing?

Every auditor's report will change in order to:

- Enhance the communicative value of the auditor's report.
- Give prominence to the most important matters by re-ordering the content.
- Enhance reporting on going concern matters (if applicable), and provide enhanced description of the respective responsibilities of directors / management and the auditor, in relation to going concern.
- Provide an affirmative statement on auditor's independence and fulfilment of relevant ethical responsibilities.
- Provide more information to users on the auditor's responsibilities, and the key features of an audit.
- Provide greater clarity about the auditor's responsibilities in respect of, and the status of their consideration of, the other information that is included in an entity's annual report.

There are further changes to the auditor's report for listed entities in order to:

- Communicate matters of most significance to the audit of the current period and how the auditor addressed these.
- Provide details of other information the auditor has, or has not received, at the date of the auditor's report.

#### 2. Do the changes apply to all auditor's reports?

- All auditor's reports prepared in accordance with the Australian Auditing Standards (ASAs) will change. However some changes apply to listed entities only. Below is a summary of the changes and whether they are for auditor's reports of all entities or listed entities only. Question 3 provides details of the changes.



Summary of changes	Applicable to all entities	Applicable to listed entities
Order of paragraphs	√	√
IFRS compliance opinion no longer required	√	√
Key Audit Matters (KAMs)	Optional	√
Other information	√	√(additional reporting for listed entities)
Increased description of management's responsibilities	√	√
Increased description of the auditor's responsibilities	√	√(additional reporting for listed entities)
Going concern	√	√

- The changes are also required for auditor's reports:
  - ◆ of financial reports prepared in accordance with special purpose frameworks<sup>1</sup>;
  - ◆ of single financial statements and specific elements, accounts or items of a financial statement<sup>2</sup>;
  - ◆ of summary financial Statements<sup>3</sup>; and
  - ◆ to regulators if the audits are conducted in accordance with the Australian Auditing Standards.
- The changes do not relate to auditor's review reports, or auditor's reports on assurance engagements other than audits or reviews of historical financial information.

### 3. How is the auditor's report changing?

#### *Order of paragraphs*

- The order of the auditor's report has changed.
- The auditor's opinion and basis for opinion are now given prominence and must be presented first in the auditor's report.
- There is flexibility in the order of the remaining sections of the auditor's report. The Australian Auditing Standards provide guidance on the order with the overall principle being to give prominence to the matters of most importance. The requirements in ASA 700 achieves this principle and it is advisable that this order is followed. Refer to question 5 for further details.

#### *Auditor's opinion*

- The auditor's opinion no longer includes an opinion on compliance with International Financial Reporting Standards. This requirement was considered redundant in view of

<sup>1</sup> ASA 800  
<sup>2</sup> ASA 805  
<sup>3</sup> ASA 810



changes to the Corporations Act which now requires the director's declaration to include a statement of compliance with IFRS.

#### *Key Audit Matters (KAMs)*

- Auditors of listed entities now include information in respect of those matters which in their judgement, were of most significance in the audit of the financial report in the current year.
- Auditors of non-listed entities can elect to include KAMs but are not required to do so.
- Refer to questions 9 - 21 for further details.

#### *Other information*

- More detail is provided on the director's and auditor's responsibilities in respect of other information, and on the status of the auditor's consideration of other information, at the date of the auditor's report. Other information is financial and non-financial information included in the Annual Report (excluding the financial report and auditor's report thereon). This is included in the auditor's report under a heading "Other Information" or other appropriate heading.
- For listed entities, the auditor's report now details the other information received and has not yet received at the date of the auditor's report.
- For non-listed entities, the auditor's report details the other information that they have received at the date of the auditor's report. There is no requirement to detail other information not received at the date of the auditor's report.
- For non-listed entities, if at the date of the auditor's report no other information has been received the auditor's report does not include an "Other Information" section. As the other information includes the Director's report it is unlikely to be common that other information has not been received at the date of the auditor's report.
- Refer to questions 22 - 24 for further details.

#### *Management's responsibilities*

- This is reported using the heading "Responsibilities of Management<sup>4</sup> for the Financial report" (or for Corporations Act entities this would refer to "Directors").
- There are additional details on the responsibility of management / the directors for assessing whether the use of the going concern basis of accounting is appropriate, and whether any relevant disclosures are adequate. These responsibilities are not new, however are now described in the auditor's report.

#### *Auditor's responsibilities*

- The auditor's responsibilities section has been expanded to provide more information about the key features of an audit.
- This section is no longer "boiler plate" across all audits and is amended depending on whether or not:
  - ◆ the entity is a single entity or a group;
  - ◆ the entity is a listed entity or non-listed entity;

<sup>4</sup> ASA 700, paragraphs 33 – 35 Modify the heading to reflect who is responsible for the preparation of the financial report, and the oversight of the financial reporting process. This may be management, those charged with governance and / or directors. If the individuals responsible for the oversight of the financial reporting process are different to the preparation of the financial report the heading includes both parties.



- ◆ the entity uses a fair presentation or compliance framework in the financial report;
- ◆ the auditor applied a group approach to the audit;
- ◆ the auditor is issuing a qualified opinion.
- New options are now available to present parts of the auditor’s responsibility section<sup>5</sup>:
  - ◆ within the auditor’s report (as is current practice);
  - ◆ within an appendix to the auditor’s report with a reference from the auditor’s report to the appendix; or
  - ◆ by including a reference within the auditor’s report to the relevant page on the Australian Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>.)
- ASA 700 stipulates that the Australian Auditing and Assurance Standards Board website is the only website that can be referred to<sup>6</sup>.

#### *Going concern*

- There is an expanded description of the responsibilities of directors / management and the auditor in relation to going concern. These responsibilities are not new, just included for the first time in the auditor’s report.
- If there are events or conditions that cast significant doubt on an entity’s ability to continue as a going concern, there are changes to the way this is reported.
  - ◆ If the auditor concludes that a material uncertainty exists and disclosure is adequate, this is now reported in a section headed “Material Uncertainty Related to Going Concern” instead of the previous Emphasis of Matter paragraph. In this scenario it is not reported as a KAM if a listed entity.
  - ◆ If the auditor concludes a material uncertainty does not exist, and there is adequate disclosure in the financial report, in the case of a listed entity this is likely to be reported as a KAM, as it is likely that it was a matter of most significance in the audit. This is often referred to as a “close call” situation. If the entity is not listed the matter is not reported in the auditor’s report.
- Refer to question 25 for further details on going concern.

#### **4. When are the changes effective?**

- The changes are effective for financial reporting periods ending on or after 15 December 2016. For example, auditor’s reports for entities with a 31 December 2016 year end are required to comply with the new requirements.
- A number of auditors have elected to report under the new requirements early.

#### **5. Is there any flexibility in the presentation of the auditor’s report?**

- The auditor’s opinion and the basis for opinion paragraphs must be presented first<sup>7</sup>.
- There is flexibility in the order of the remaining sections of the auditor’s report however the intention is that sections are presented in order of importance to the users of the

<sup>5</sup> ASA 700, paragraph 41

<sup>6</sup> ASA 700, Aus A57.1

<sup>7</sup> ASA 700, paragraphs 23 and 28



financial report. The order in ASA 700 is structured to achieve this. Other Australian Auditing Standards provide guidance on the order of the sections as follows:

- ◆ If an Emphasis of Matter paragraph on an alternative basis of accounting is required, it may be appropriate to include immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion<sup>8</sup>.
- ◆ Placing the KAM section close to the auditor's opinion may give prominence to such information<sup>9</sup>.
- The order of the presentation of individual KAMs is a matter of professional judgement. However it is advisable that the KAMs are ordered in a logical manner, for example in order of importance, or that KAMs which are interrelated are placed close together.
- The following paragraph headings are stipulated by the Australian Auditing Standards:
  - ◆ The auditor's opinion paragraph heading must have the heading "Opinion"<sup>10</sup>;
  - ◆ Basis for Opinion<sup>11</sup>;
  - ◆ Material Uncertainty Related to Going Concern<sup>12</sup>;
  - ◆ Key Audit Matters<sup>13</sup>;
  - ◆ Responsibilities of Management (or those charged with governance) for the Financial Report<sup>14</sup>;
  - ◆ Auditor's Responsibilities for the Audit of the Financial Report<sup>15</sup>;
- The Australian Auditing Standards do not prohibit the auditor reporting additional information in the auditor's report. Emphasis of Matter paragraphs may be used to communicate matters which the auditor determines are important to users' understanding of the financial report, and Other Matter paragraphs may be used to communicate matters which the auditor determines are important to users understanding of the audit. These may still be used and provide flexibility to the auditor to report any relevant matters.
- The United Kingdom require the auditor to report on materiality in all auditor's reports, and group scoping where applicable. These matters are not required by the International or the Australian Auditing Standards however some auditors in Australia and other countries have voluntarily reported these.
- Auditors of non-listed entities may voluntarily communicate KAMs but must fully comply with ASA 701.

## 6. Is the name of the engagement partner required to be included in the auditor's report?

- The Australian Auditing Standards requires the engagement partner's name to be included in the auditor's report where required by law and regulation<sup>16</sup>. For all audits conducted in compliance with the Corporations Act the engagement partner signs the auditor's report in

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<sup>8</sup> ASA 706, paragraph A16  
<sup>9</sup> ASA 701, paragraph A31  
<sup>10</sup> ASA 700, paragraph 23  
<sup>11</sup> ASA 700, paragraph 28  
<sup>12</sup> ASA 570, paragraph 22  
<sup>13</sup> ASA 701, paragraph 11  
<sup>14</sup> ASA 700, paragraph 33  
<sup>15</sup> ASA 700, paragraph 37  
<sup>16</sup> ASA 700, paragraph 46



his or her own name and the name of the firm<sup>17</sup> or the name of the audit company as applicable<sup>18</sup>.

- For audits conducted in compliance with laws or regulations other than the Corporations Act, the engagement partner can sign the auditor's report in the name of the firm or the name of the audit company, unless the applicable law or regulation requires the engagement partner to sign in his or her own name.
- The International Auditing Standards require the auditor's name to be included in the auditor's report of listed entities<sup>19</sup> only.

## 7. What is the definition of a listed entity?

- A listed entity is defined in the Australian Auditing Standards<sup>20</sup> as an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulation of a recognised stock exchange or other equivalent body.
- A recognised stock exchange includes those in Australia (including ASX/NSX/CHI-X) or in another jurisdiction.
- If an entity is delisted during the year, the entity is not considered a listed entity for the purposes of the auditor reporting requirements.

## 8. Are stapled securities and entities quoted on the ASX under the AQUA Rules listed entities under the Australian Auditing Standards?

### Key Audit Matters

## 9. What are Key Audit Matters (KAMs) and how are they identified?

- KAMs are those matters which in the auditor's professional judgement were of most significance in the audit of the financial report of the current period<sup>21</sup>.
- The overall objective of communicating KAMs is to provide insight to the users of the financial report as to the most significant and / or challenging aspects of the audit for the current period.
- KAMs are selected from matters communicated with those charged with governance<sup>22</sup>.
- KAMs are likely to be the matters which;
  - ◆ required significant auditor attention<sup>23</sup>.
  - ◆ are of higher risk of material misstatement or have been identified as significant risks<sup>24</sup>.
  - ◆ are complex and and / or require significant auditor judgement, relating to areas that involved significant management judgement, including critical accounting estimates that have been identified as having high estimation uncertainty, and related disclosures<sup>25</sup>.

<sup>17</sup> Corporations Act 2001 section 324AB (3) and ASA 700 A64.1

<sup>18</sup> Corporations Act 2001 section 324AD (1)

<sup>19</sup> ISA 700, paragraph 45

<sup>20</sup> ASQC 1 and ASA 220, paragraph 7

<sup>21</sup> ASA 701, paragraph 8

<sup>22</sup> ASA 701, paragraph 9

<sup>23</sup> ASA 701, paragraph A12

<sup>24</sup> ASA 701, paragraph 9 (a)

<sup>25</sup> ASA 701, paragraph 9 (b)



- ◆ are the effect of significant events or transactions<sup>26</sup>. may have involved specialists or experts (management's or the auditor's)<sup>27</sup>.
- ◆ posed challenges to obtain sufficient appropriate audit evidence<sup>28</sup>.
- The final identification of KAMs occurs at the end of the audit. It is advisable to make an initial determination during the planning stages of the audit and to start discussions with those charged with governance early to avoid surprises. Refer to question 16.
- It is not intended that all significant risks or matters communicated to those charged with governance will be KAMs. For example the Australian Auditing Standards stipulate that the risk of management override of controls and the risk of fraud in the recognition of revenue are significant risks. However it is not intended that these are KAMs unless the auditor determines that they were of most significance to the audit.
- A KAM may be a matter relevant to the audit which is not required to be disclosed in the financial report under accounting standards or the applicable regulatory or legal framework. For example, the implementation of a new IT system may have required significant audit attention and the auditor may identify this as a KAM. If a matter giving rise to a KAM has not been disclosed in the financial report but is publicly available information, the auditor may make reference to the publicly available information if it is considered appropriate and helpful to users.
- There is no specific guidance on how many KAMs could be communicated. In the reports issued to date there have been between 1 and 7 KAMs with an average of around 3 – 4 KAMs. For audits of more complex entities it maybe appropriate to have more KAMs than for a non-complex entity. Other matters which may impact the number of KAMs communicated are the nature of an entity's business and environment. However the intention is to communicate the areas of most significance in the audit and a long list of matters may detract from this.

**10. Will all auditor's reports include Key Audit Matters (KAMs)?**

- Auditors of listed entities are required to communicate KAMs.
- Auditors of non-listed entities can voluntarily elect to communicate KAMs.

**11. In what scenarios is it acceptable to determine there are no Key Audit Matters (KAMs)?**

- It is expected to be extremely rare for an auditor of a listed entity not to have a matter which was of most significance.
- KAMs are specific to each audit, and it is expected that there will be at least one matter which required more focus and effort than other matters.
- The auditor usually will communicate some matters to those charged with governance and should select the matters of most importance from this.
- However, if the auditor has determined that there are no KAMs to communicate, the auditor's report details this as follows<sup>29</sup>:

**Key Audit Matters**

We have determined that that there are no key audit matters to communicate in our report.

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<sup>26</sup> ASA 701, paragraph 9 (c)  
<sup>27</sup> ASA 701, paragraph A14  
<sup>28</sup> ASA 701, paragraph A13  
<sup>29</sup> ASA 701, paragraph 16



- In the rare scenario where there are no KAMs identified, the audit documentation must detail the matters considered and the rationale for the conclusions made.

**12. If there is a modified opinion (qualified, adverse or disclaimer), or a Material Uncertainty Related to Going Concern, do I also report these as a Key Audit Matter (KAM)?**

- Matters giving rise to a modified opinion, or a Material Uncertainty Related to Going Concern, are by definition KAMs<sup>30</sup>, however these are reported in accordance with the requirements of the relevant standards ASA 705 and ASA 570. The auditor's report details this as follows:

**Key Audit Matters**

“In addition to the matter described in the Basis for Adverse / Qualified opinion section or the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report”.

- Note that the description of, and why the matter was considered to be a KAM, and how it was addressed in the audit, is not required to be included in the Basis for Adverse/Qualified opinion section<sup>31</sup>.
- A KAM section is not included in the auditor's report when a disclaimer of opinion is issued due to concerns that communicating KAMs would suggest that the auditor was able to conclude on that topic.
- Also if a disclaimer of opinion is issued there is no Other Information section<sup>32</sup>.

**13. In what scenarios is it acceptable not to communicate a matter which is identified as a Key Audit Matter?**

- Whilst it is expected to be very rare, there may be scenarios where it is not appropriate to communicate a matter which is identified as a KAM in the auditor's report. These are<sup>33</sup>:
  - ◆ If there is a law or regulation precluding the public communication of a matter.
  - ◆ If there are adverse consequences which would reasonably be expected to outweigh the public interest benefits of communicating a matter.
- It will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report, as it is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly the judgement not to communicate a key audit matter is appropriate only where the adverse consequences are viewed as so significant that they would reasonably be expected to outweigh the benefit of reporting. Importantly this does not apply if the entity has publicly disclosed information about the matter<sup>34</sup>.
- The issues to consider in deciding whether to not communicate a KAM are complex and involve significant judgement. In these scenarios the auditor considers:
  - ◆ Obtaining legal advice.
  - ◆ Requesting a representation from those charged with governance detailing the reasons why it is not appropriate to communicate the KAM.
  - ◆ If the matter results in additional reporting obligations (eg. to a regulator).

<sup>30</sup> ASA 701, paragraphs 15, A6 --A7

<sup>31</sup> ASA 701 paragraph 15

<sup>32</sup> ASA 705 paragraph 29

<sup>33</sup> ASA 701, paragraph 14

<sup>34</sup> ASA 701, 14 (b)



- In the rare scenario where matters identified as KAMs are not communicated, the audit documentation details the matters considered and the rationale for the conclusions made.

#### 14. How are Key Audit Matters (KAMs) described in the auditor's report?

- Communicating KAMs is an opportunity for the auditor to demonstrate the value of the audit, professional skepticism and sound professional judgement. This should be paramount in mind when writing KAMs.
- The following is required to be described<sup>35</sup>:
  - ◆ Why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM.
  - ◆ What the auditor did to address the matter and form their conclusions.
  - ◆ Reference to the disclosures, if any, in the financial statements.
- The description of a key audit matter is in the context of the responsibility of the auditor to provide useful information to users, and avoids inappropriately providing original information about the entity<sup>36</sup>. Original information is any information about the entity which is not publicly available. The description should avoid including information about the entity which has not been disclosed in the financial report or otherwise made public by the entity, unless this is considered appropriate in the circumstances, and is not precluded by law or regulation. In this scenario the auditor encourages management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report.
- If there is insufficient disclosure in the financial report, the KAM cannot be used to communicate matters which are required to be disclosed. In this scenario the auditor requests those charged with governance to include appropriate disclosure and if not rectified considers the impact on the auditor's opinion.
- There is no requirement to detail the outcome of procedures however some auditors have elected to do so. If the outcome of procedures is included it is important that the wording does not imply discrete opinions on separate elements of the financial report.
- If an external or internal expert (the auditor's or management's) is used the auditor may detail the type of expert and the procedures the expert and the auditor performed.
- The auditor's report can refer to the use of component auditor where it is considered appropriate. However the group auditor is ultimately responsible for the conclusions made and the audit opinion.
- KAM descriptions:
  - ◆ Are succinct, relate to the audit for the current year, and avoid boilerplate language and jargon.
  - ◆ Are referenced to relevant disclosures in the financial report rather than repeating that information.
  - ◆ Are specific to the circumstances and are not copied from other KAMs / audit reports.

<sup>35</sup> ASA 701, paragraph 13

<sup>36</sup> ASA 701, paragraph A34 – A36



- ◆ Communicate the factors that led to the matter being identified as a KAM. For example, changes in the entity's business, the nature of the matter and any inherent uncertainty that exists, new or complex accounting policies etc.
  - ◆ Are specific about the exact matter eg. recoverability of an asset.
  - ◆ Describe the key audit procedures actually performed to address the matter. It is not necessary or advisable to list all procedures performed. Example wording is "our procedures included".
  - ◆ Are very precise in their description of what the auditor actually did, and are not embellished. For example if certain controls were tested this is described as "key controls were tested" not "controls were tested", and for substantive testing "we tested on a sample basis" and not "we tested".
  - ◆ Avoid terms such as verified, ensured and reviewed, as they are unlikely to accurately reflect what was done.
  - ◆ Do not imply a matter has not been appropriately resolved.
  - ◆ Demonstrate how the auditor was sceptical and how key assumptions used by management were challenged.
- The order of the presentation of individual KAMs is a matter of professional judgement. However it is advisable that the KAMs are ordered in a logical manner for example in order of importance, or KAMs which are interrelated are placed close together.

**15. What should the auditor document in the file about Key Audit Matters (KAMs)?**

- As well as complying with ASA 230 *Audit Documentation*, the following are required<sup>37</sup> to be documented;
  - ◆ The identification of which matters required significant auditor attention and the determination as to whether or not they are a KAM.
  - ◆ If there are no KAMs, the rationale why.
  - ◆ The rationale for not including a matter in the auditor's report if it was determined to be a KAM.
- From the matters communicated to those charged with governance, the auditor determines those which required significant auditor attention. Professional judgement is used when determining the matters which required significant auditor attention, and are likely to be those which required auditor judgement and attention from the senior members of the audit team. The audit documentation needs to include why these matters are, or are not, KAMs. There is no requirement to document why all matters communicated to those charged with governance are, or are not, KAMs.

**16. When should an auditor discuss Key Audit Matters (KAMs) with those charged with governance?**

- It is advisable that the auditor discusses all likely KAMs as early as possible with those charged with governance. The assessment of KAMs may change during the audit so the auditor updates those charged with governance throughout the audit. At the end of the audit the final determination and communication of KAMs occurs.
- When discussing likely KAMs with those charged with governance, it is advisable to highlight / illustrate how the KAM may be described in the auditor's report.

<sup>37</sup> ASA 701, paragraph 18



- Early communication about KAMs also assists those charged with governance in considering whether there is adequate disclosure on the matter in the Financial Report.

**17. Are Emphasis of Matter and / or Other Matter paragraphs still used?**

- Emphasis of Matter and Other Matter paragraphs are still used and the definitions have not changed.
- For listed entities, the frequency of Emphasis of Matter and Other Matter paragraphs is expected to decline as many will be reported as Key Audit Matters (KAMs) or a Material Uncertainty Related to Going Concern.
- If KAMs are reported and a matter meets the definition of a KAM and an Emphasis of Matter or Other Matter, it is reported as a KAM.
- For all entities, if a material uncertainty related to going concern exists, and disclosure is adequate, this is now reported under the heading Material Uncertainty Related to Going Concern instead of the previous Emphasis of Matter paragraph.
- Examples of where an Emphasis of Matter paragraph maybe used:
  - ◆ If the use of the going concern basis of accounting is not appropriate and the financial report has been prepared using an alternative basis of accounting, and there is adequate disclosure in the financial report.
  - ◆ If a financial report has been prepared under a Special Purpose Framework.
- Examples of where an Other Matter paragraph maybe used:
  - ◆ If the previous year's financial report was not audited.
  - ◆ If reporting on materiality and / or group scoping.
- The placement of Emphasis of Matter and Other Matter paragraphs in the auditor's report depends on the nature of the information to be communicated, and the relative significance of the matter.

**18. Does the auditor's report on a financial report of a listed group entity include Key Audit Matters (KAMs) for the group only, or separate KAMs for both the group and the listed parent entity?**

- The auditor's report on a financial report of a listed group entity is only required to communicate KAMs for the group, which may include matters relating to the parent entity if they meet the definition of a KAM for the financial report as a whole. The parent entity note disclosures do not constitute a separate financial report, and therefore do not necessitate separate KAM considerations and reporting thereon.

**19. Where a listed group entity adopts Class Order 10/654 and presents the group financial statements and the parent financial statements within one financial report as 4 columns, does the auditor's report include Key Audit Matters (KAMs) on the group only, or both the group and the listed parent entity?**

**20. How are KAMs reported for stapled groups using ASIC Corporations Stapled Group Reports Instrument 2015/838 which provides relief for the presentation of financial reports of stapled group?**

**21. For stapled groups which prepare separate financial reports for the stapled issuer does the auditor's report include KAMs?**



## Other Information

### 22. What is the auditor's responsibility in relation to other information?

- ASA 720 *The Auditor's Responsibilities Relating to Other Information* has been reissued to provide increased clarity in the auditor's report on the auditor's responsibility in relation to, and the status of the auditor's consideration of, the other information reported in the Annual Report.
- The auditor does not express any form of assurance conclusion on the other information.
- The auditor is required to read and consider whether there is a material inconsistency between the other information and the financial report, and / or the auditor's knowledge obtained during the audit<sup>38</sup>. This responsibility applies regardless of whether the other information is obtained before or after the date of the auditor's report.
- As a basis for considering whether there is a material inconsistency between the other information and the financial report, the auditor is required to compare selected amounts or items in the other information to such amounts or items in the financial report<sup>39</sup>. This is a new requirement.
- The nature and extent of the amounts or items to compare is a matter of professional judgement however it is intended that the auditor selects amounts or items which are significant in size or important to the financial report.
- There is detailed reporting on the status of the auditor's consideration of the other information as follows:
  - ◆ Auditor's reports of listed entities now provide details of the other information they have received, and have not received, as at the date of the auditor's report<sup>40</sup>.
  - ◆ Auditor's reports of non-listed entities include details of the other information obtained before the date of the auditor's report<sup>41</sup>, however do not include the details of the other information not yet received. If no other information has been received before the date of the auditor's report the auditor's report does not include an Other Information section. However as the director's report is other information and is ordinarily received before the auditor's report date, this is unlikely to be the case for audits conducted under the Corporations Act.
- The auditor has to read and consider other information regardless of whether it is received before or after the date of the auditor's report.
- It is common for an entity to prepare its full annual report after the financial report has been signed by the auditor. In this scenario the auditor's report details the other information which has not been received.
- Auditor's should discuss their responsibility for other information with those charged with governance as early as possible to ensure they are aware of the additional detail that will be provided in the auditor's report if the other information is not available to the auditor before the date the audit report is signed.
- When some of the other information will not be available until after the date of the auditor's report, the auditor is required to request a representation from management / those

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<sup>38</sup> ASA 720, paragraph 14

<sup>39</sup> ASA 720, paragraph 14

<sup>40</sup> ASA 720, paragraph 22 (b)

<sup>41</sup> ASA 720, paragraph 22 (b)



charged with governance that the final version of the documents will be provided to the auditor when available and prior to its issuance by the entity<sup>42</sup>.

- Audit documentation includes details of the procedures performed and the final version of the other information<sup>43</sup>.

**23. What information is considered to be other information and does it include information presented in the glossy annual report or just in the lodged financial report?**

- Other information is now defined as financial or non-financial information included in an entity's annual report<sup>44</sup>. The annual report contains or accompanies the financial report and the auditor's report, and includes information and reports required by the Corporations Act 2001 and the Australian Securities Exchange (ASX) listing rules, such as the directors report including the Operating and Financial Review and Remuneration Report and Corporate Governance Report, and may also include additional non-compulsory reporting for example sustainability reports, overview of strategy etc.
- The Remuneration Report is included in the Director's Report which forms part of the other information. However auditors are still required to express an opinion that the Remuneration Report complies with S 300A of the Corporations Act.
- Other information does not include<sup>45</sup>:
  - ◆ Reports which are issued as stand alone documents and are not part of the combination of documents which comprise the annual report. For example, separate industry or regulatory reports, corporate social responsibility reports, and sustainability reports if not issued within the annual report.
  - ◆ Preliminary announcements of financial information.
  - ◆ Security offering documents including prospectuses.
  - ◆ Unaudited supplementary information.

**24. What does the auditor do if a material inconsistency is identified in the other information, the financial report, or the auditor's understanding of the entity?**

- If a material inconsistency is identified between the other information and the financial report and / or the other information and the auditor's understanding of the entity, the auditor performs audit procedures to conclude whether:
  - ◆ a material misstatement exists in the other information;
  - ◆ a material misstatement exists in the financial report; or
  - ◆ the auditor's understanding of the entity needs to be updated.
- If a material misstatement is identified in the other information received before the date of the auditor's report, the auditor requests that the other information is amended. If the entity does not make appropriate amendments the auditor includes in the auditor's report details of the material misstatement of the other information.
- If a material misstatement is identified in the other information received after the date of the auditor's report and the entity does not make appropriate amendments, the auditor considers their legal rights and obligations and seeks to have the uncorrected material

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<sup>42</sup> ASA 720, paragraph 13 (c)

<sup>43</sup> ASA 720, paragraph 25

<sup>44</sup> ASA 720, paragraph 12 (c)

<sup>45</sup> ASA 720, paragraph A5



misstatement appropriately brought to the attention of users<sup>46</sup>. The auditor uses professional judgement to determine how to bring this to the attention of users<sup>47</sup>. For audits performed under the Corporations Act the auditor considers their reporting obligations under section 311<sup>48</sup>.

- If as a result of reading the other information received after the date of the auditor's report, a material misstatement is identified in the financial report, the auditor considers their responsibilities under ASA 560 *Subsequent Events* paragraphs 14 to 17, including requesting those charged with governance to amend the financial report. If the financial report is not amended the auditor uses professional judgement to determine how to bring this to the attention of users and considers seeking legal advice.
- If a material inconsistency is identified in the auditor's understanding of the entity before the date of the auditor's report, the auditor considers the impact on the audit including whether the identified risk of material misstatements are still appropriate, and performs additional procedures as appropriate for the circumstances.
- If a material inconsistency is identified in the auditor's understanding of the entity, after the date of the auditor's report the auditor considers their responsibilities under ASA 560 *Subsequent Events*.

## Going Concern

### 25. What has changed in relation to Going Concern?

- ASA 570 *Going Concern* has also been reissued and in combination with ASA 700 and 701 there are changes to how going concern matters are reported by the auditor. Appendix 1 to ASA 570 includes a helpful flowchart to assist in determining the appropriate reporting when going concern issues exist.
- There is a new requirement to challenge the adequacy of disclosures for “close calls” when events are identified that may cast significant doubt on an entity's ability to continue as a going concern. When assessing the adequacy of disclosures the auditor considers whether there is appropriate detail on the principle events or conditions that have caused the going concern issue.
- If events or conditions exist that cast significant doubt on the entity's ability to continue as a going concern, the type of audit opinion issued is dependent on the conclusions the auditor makes as follows:
  - ◆ If use of the going concern basis of accounting is not appropriate, and the financial report has been prepared using an appropriate alternative basis of accounting, and there is adequate disclosure in the financial report, this may be reported as an Emphasis of Matter paragraph.
  - ◆ If use of the going concern basis of accounting is not appropriate, and the financial report has been prepared using the going concern basis of accounting, an Adverse opinion is issued.
  - ◆ If the auditor concludes a material uncertainty related to going concern exists, and there has been appropriate disclosure in the financial report, it is reported under a new separate section in the audit report under the heading “Material Uncertainty Related to Going Concern”. For listed entities this is also a KAM, however the KAM section does not include details of the matter and is referenced to the “Material Uncertainty Related to Going Concern” section.

<sup>46</sup> ASA 720, paragraph 19 and A50 and Aus A50.1

<sup>47</sup> ASA 720, paragraph A50

<sup>48</sup> ASA 720, paragraph Aus A50.1



- ◆ If the auditor concludes a material uncertainty related to going concern exists, and the disclosure in the financial report is not appropriate, a Qualified or Adverse opinion is issued.
- ◆ For a listed entity, if the auditor concludes that a material uncertainty does not exist, and there is adequate disclosure in the financial report, this is reported as a KAM if in the auditor's judgement it was a matter of most significance to the audit. The KAM description includes the principle event or condition that cast significant doubt on the entity's ability to continue as a going concern, and references to where this is disclosed in the Financial Report.

*Confidential  
Draft*



# Draft AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 5  
**Meeting Date:** 25 October 2016  
**Subject:** NOCLAR (ISA 250 and conforming amendments)  
**Date Prepared:** 17 October 2016

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**Action Required**

**For Information Purposes Only**

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## Agenda Item Objectives

1. To consider the timing of the adoption of ISA 250 and the conforming amendments to other standards; and
2. To consider and approve the compelling reasons for modifying the ISA's.

## Background

The IAASB issued the final revised ISA 250 on 5 October 2016. [Refer Agenda Item 5.2] In summary the changes in ISA 250 relate to:

- Align aspects of ISA 250 (Revised) to the NOCLAR provisions in the IESBA Code, particularly the definition of non-compliance and the examples of laws and regulations within the scope of ISA 250 (Revised) (see paragraphs 12, A6 and A9–A10 of ISA 250 (Revised)).
- Clarify the requirement regarding the auditor's determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity and the auditor's duty of confidentiality, in order to recognize the different provisions of laws, regulations, or relevant ethical requirements (see paragraphs 29 and A28–A34 of ISA 250 (Revised)).
- Highlight that the auditor may have additional responsibilities under law, regulation, or relevant ethical requirements regarding identified or suspected NOCLAR. This also includes additional emphasis of the possible documentation requirements contained in law, regulation or relevant ethical requirements (see paragraph 9 of ISA 250 (Revised)).
- Highlight the implications of identified or suspected NOCLAR on the audit, for example, the reliability of management's representations, the implications for the auditor's report, and the consideration of whether to withdraw from the engagement (see paragraphs 22 and A23–A27 of ISA 250 (Revised)).
- Emphasize the requirements in the IESBA Code relating to the communication of identified or suspected NOCLAR to a group engagement partner or an auditor at a component (see paragraph A8 of ISA 250 (Revised)).

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*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.*

- Draw attention to the fact that, in certain cases, communication with management or those charged with governance may be restricted or prohibited by law or regulation, for example law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (see paragraphs 20, 23 and A21 of ISA 250 (Revised)).
- Furthermore, conforming amendments were also made to a number of other International Standards to reflect the matters indicated above or clarify the expected work effort with regard to identified or suspected NOCLAR. These include ISQC 1; ISA 210; ISA 220; ISA 240; ISA 260; ISA 500; ISRE 3000, ISAE 3402; ISAE 3410; and ISRS 4410.

## **Matters to Consider**

### ***Part A – General***

The AUASB is requested to consider the matters below:

- (a) Timing of the adoption by the APESB of IESBA NOCLAR amendments to the Code
- Changes to the NOCLAR provisions in the IESBA code were issued on 14 July 2016.
  - ISA 250 has been amended to align with changes in the IESBA code. ASA 250 can only be amended once these changes have been adopted by the APESB.
  - The APESB approved a project plan for implementation of the IESBA changes in August 2016 with a view to developing an exposure draft for the Board’s consideration at the APESB meeting on 29 November 2016.
  - Given that mid-December to mid-January is a traditionally quiet time in Australia, the ED will likely have an extended exposure period of 90 days.
  - At the time APESB consulted in Australia in respect of the NOCLAR ED, stakeholders (for example, SMP practices) had divergent views and there is the potential for the APESB to receive a high number of questions/issues which may impact the timing of release of the final standard.
  - In addition, IESBA is going through a complete restructure of the Code and it is highly likely that the section and paragraph references will be redundant. For example, section 200 under the new Code actually addresses members in business rather than members in public practice. IESBA is expected to issue the Code’s restructure ED in Dec 2016 which will incorporate NOCLAR in the new format with section and paragraph referencing which differs from its July 2016 Standard. However, the stated intention is that the substance of the requirements will be maintained.
  - The AUASB and APESB will need to work together where appropriate to ensure that engagement with our stakeholders is conducted in a synchronised manner.
- (b) Issue arising from AUASB “Aus” additions contained in existing ASA 250 [refer Agenda Item 5.5 for a copy of existing ASA 250]

<b><i>ASA 250 Para ref</i></b>	<b><i>Extract</i></b>	<b><i>Suggestion</i></b>
Aus A11.1	Review of breach registers and equivalent records (for example, complaints, whistleblower or suspicious matter reports register).	Remove  This paragraph was originally included in ASA 250 based on feedback obtained from the 2009 exposure process.  Whilst the paragraph provides helpful guidance it does not meet the rationale in the compelling reason test (which requires an inconsistency with Australian regulatory arrangements or

ASA 250 Para ref	Extract	Suggestion
		principles and practices considered appropriate in Australia).
Aus A18.1	<p>Reporting Non-Compliance in the Auditor’s Report on the Financial Report (Ref: Para. 25)</p> <p>If, in the case of an audit conducted under the Corporations Act 2001, the auditor identifies non-compliance with an Australian Accounting Standard, defects or irregularities in the financial report or deficiencies, failures or shortcomings in respect of sec 307 of the Act, the auditor’s report is to include the information required by the Act.<sup>1</sup> The auditor needs to consider and other relevant laws and regulations. If the auditor is in doubt as to the proper interpretation of laws or regulations, or whether non-compliance has in fact occurred, the auditor ordinarily seeks legal advice before expressing an opinion on the financial report.</p> <p>* See sections 308 (2) and (3) of the <i>Corporations Act 2001</i></p>	<p>Remove</p> <p>This requirement is covered in AUS 700 Aus A58.1 which states:</p> <p>When the audit of a financial report is conducted in accordance with the <i>Corporations Act 2001</i> (the “Act”), section 308(3)(b) of that Act requires the auditor to describe in the auditor’s report and deficiency, failure or shortcoming in respect of certain matters referred to in section 307(b), (c) or (d) of that Act.</p>
Aus A29.1	<p>In certain circumstances, the auditor has a statutory responsibility to report instances of non-compliance with laws and regulations. For example, in certain circumstances, the auditor is required under the <i>Corporations Act 2001</i>, to report to the Australian Securities and Investments Commission (ASIC)*. Establishing the appropriate authority to which such a report would be made in a particular instance will depend on the nature and circumstances of the non-compliance. When in doubt, the auditor would ordinarily seek legal advice.</p> <p>* See ASIC Regulatory Guide 34 Auditors’ obligations: Reporting to ASIC (May 2013) that provides guidance to help auditors comply with their obligations, under sections 311, 601HG and 990K of the Corporations Act 2001, to report contraventions and suspected contraventions of the Act to ASIC.</p>	<p>Retain</p> <p>This Aus paragraph is in the extant and meets the compelling reason test as it results in effective and efficient compliance with a legal framework in Australia (the <i>Corporations Act 2001</i>).</p>

**Part B – NZAuASB**

The AUASB has liaised with the NZAuASB who not raised any significant issues on this ISA at this time. The NZAuASB technical group is taking a draft ED on ISA 250 to their October 2016 NZAuASB meeting for the board’s consideration. The NZ Ethics Board updated their code for the IESBA amendments in July 2016.

## ***Part C – “Compelling Reasons” Assessment***

Refer agenda item 5.5

### **AUASB Technical Group Recommendations**

To delay the adoption of ISA 250 and conforming amendments until the APESB have confirmed timing of the release of the NOCLAR ED. This will enable the AUASB and APESB to work together where appropriate to synchronise engagement with our stakeholders during the release of our respective EDs.

### **Material Presented**

Agenda Item 5	AUASB Board Meeting Summary Paper
Agenda Item 5.1	Project plan
Agenda Item 5.2	Final ISA 250 (marked-up from extant)
Agenda Item 5.3	Basis for Conclusions ISA 250
Agenda Item 5.4	Extant ASA 250
Agenda Item 5.5	Compelling reason test

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### Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Advise on timing of the project given that the APESB are still consulting on the required IESBA amendments to the APESB code	Advice on appropriate timing	AUASB	25 October 2016	o/s
2.	Approve the proposed compelling reason modifications to ISA 250	Approval	AUASB	25 October 2016	o/s



# Project Plan

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<b>Project Title:</b>	Revision of ASA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i>
<b>Project ID:</b>	ASA 250 (2016)
<b>Project Objective(s):</b>	To revise ASA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> (issued October 2009) and related conforming amendments to existing standards in order to harmonise with IAASB.
<b>Priority:</b>	High
<b>Issue/Reason:</b>	ASA 250 requires updating to accommodate changes adopted by the IAASB (primarily to conform with IESBA NOCLAR changes).
<b>Date Prepared:</b>	17 October 2016
<b>Date To Be Approved:</b>	25 October 2016 (AUASB teleconference)

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## Project Objectives

- To revise ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* to incorporate changes to the corresponding ISA standard. The changes result in conforming amendments to ASQC 1; ASA 210; ASA 220; ASA 240; ASA 260; ASA 450; ASRE 2400; ASAE 3000; ASAE 3402; and ASAE 3410.
- In addition, the conforming standard will include the change to ASA 700 in relation to the date of the audit report.

## Stakeholders

1. Practitioners – private and public sector;
2. ASIC;
3. Entities preparing general or special purpose financial statements that are audited or reviewed; and
4. Users of financial reports including shareholders and investors.

## Background

At the June 2016 IAASB meeting the IAASB approved revisions to ISA 250 and the related conforming amendments to other IAASB standards. The standard has been cleared by the Public Interest Oversight Board (PIOB), and in October 2016 was released by the IAASB.

The APESB has yet to expose amendments to the APES code resulting from NOCLAR amendments to the IESBA code, this is expected at the back end of 2016. While the AUASB can prepare ED's based on the ISA, this will ultimately be subject to APES adoption of the international amendment.

## Scope

To revise ASA 250 and amend other auditing standards impacted by the revisions to ISA 250.

## Risks/Issues

1. ISA 250 makes reference to a number of paragraphs in the IESBA Code that has yet to be adopted by the APESB in the APESB Code. Based on discussions with the APESB, whilst the exposure draft is scheduled to be considered at the APESB meeting on 29 November 2016, there is a high likelihood that the exposure draft may be held back to 2017 as a result of an IESBA project to restructure the code (including changes to paragraph references included in ISA 250).
2. AUASB stakeholders may raise issues not addressed by the IAASB when issuing ISA 250 and the related conforming amendments. Changes to Australian Auditing standards from the ISA's are made only in accordance with the AUASB "compelling reasons" policy.
3. There is one full AUASB meeting remaining for 2016 with the next meeting scheduled for 1 March 2017 which may cause a delay in issuing the standards.

## Action Plan

1. Develop a project plan and obtain AUASB approval;
2. Prepare an issues paper and draft exposure draft for AUASB approval;
3. Prepare a disposition paper in relation to feedback obtained;
4. Obtain OBPR clearance and perform QA;
5. Obtain AUASB approval for revised ASA 250 and compiled standards arising from conforming amendments; and
6. Issue ASA 250 and compiled standards arising from conforming amendments.

## Resources

1 Senior Project Manager (to oversee work performed by the Project Manager)

1 Project Manager

## Timetable (Note: Subject to APESB timing in relation to the adoption of IESBA amendments in the APES Code)

Date	Description
25 Oct 2015	Present project plan and issues paper and obtain AUASB approval.
Late Oct-Mid Nov 2016	Prepare draft exposure drafts, for both ASA 250 and compiled standards arising from conforming amendments.
29 Nov 2016	Present draft EDs for approval by AUASB (subject to APESB).
December 2016 (onwards)	Align release of the AUASB ED's with those of the APESB so that stakeholders can understand the implications of amendments from both boards.

**Final Pronouncement**  
October 2016

*International Standard on Auditing 250 (Revised)*

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# Consideration of Laws and Regulations in an Audit of Financial Statements

## Including Related Conforming Amendments to Other International Standards



International Auditing  
and Assurance  
Standards Board

## About the IAASB

This document was developed and approved by the International Auditing and Assurance Standards Board.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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ISA.

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# INTERNATIONAL STANDARD ON AUDITING 250 (REVISED) CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

(Effective for audits of financial statements for periods beginning  
on or after December 15, 2009~~17~~)

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INTERNATIONAL STANDARD ON AUDITING 250 (REVISED)  
CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

International Standard on Auditing (ISA) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

ISA 250 (Revised) has received the approval of the Public Interest Oversight Board (PIOB) which concluded that due process was followed in the development of the standard and that proper regard was paid to the public interest.

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. This ISA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

### Effect of Laws and Regulations

2. The effect on financial statements of laws and regulations varies considerably. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the reported amounts and disclosures in an entity's financial statements. Other laws or regulations are to be complied with by management or set the provisions under which the entity is allowed to conduct its business but do not have a direct effect on an entity's financial statements. Some entities operate in heavily regulated industries (such as banks and chemical companies). Others are subject only to the many laws and regulations that relate generally to the operating aspects of the business (such as those related to occupational safety and health, and equal employment opportunity). Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements.

### Responsibility for Compliance with Laws and Regulations (Ref: Para. A1–A68)

3. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.

### *Responsibility of the Auditor*

4. The requirements in this ISA are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.
5. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether ~~caused by~~ due to fraud or error.<sup>1</sup> In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.<sup>2</sup> In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:

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<sup>1</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 5

<sup>2</sup> ISA 200, paragraphs A51–A52

There are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.

- Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor.
- Whether an act constitutes non-compliance is ultimately a matter ~~for legal determination~~ to be determined by a court of law or other appropriate adjudicative body.

Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognize the non-compliance.

6. This ISA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows: (Ref: Para. A6, A12–A13)
  - (a) The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and pension laws and regulations (see paragraph ~~4314~~) (Ref: Para. A12); and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties ~~(for example e.g.,~~ compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements (see paragraph ~~4415~~) (Ref: Para. A13).
7. In this ISA, differing requirements are specified for each of the above categories of laws and regulations. For the category referred to in paragraph 6(a), the auditor's responsibility is to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations. For the category referred to in paragraph 6(b), the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.
8. The auditor is required by this ISA to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances of ~~identified or suspected~~ non-compliance to the auditor's attention. Maintaining professional skepticism throughout the audit, as required by ISA 200,<sup>3</sup> is important in this context, given the extent of laws and regulations that affect the entity.
9. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond this ISA, such as: (Ref: Para. A8)
  - (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with

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<sup>3</sup> ISA 200, paragraph 15

governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;

- (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of group financial statements); and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

### Effective Date

910. This ISA is effective for audits of financial statements for periods beginning on or after December 15, ~~2009~~2017.

### Objectives

110. The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements;
- (b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and
- (c) To respond appropriately to ~~non-compliance identified~~ or suspected non-compliance with laws and regulations identified during the audit.

### Definition

124. For the purposes of this ISA, the following term has the meaning attributed below:

~~Non-compliance – Acts of omission or commission by the entity, either intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity. (Ref: Para. A9–A10)~~

### Requirements

#### The Auditor's Consideration of Compliance with Laws and Regulations

132. As part of obtaining an understanding of the entity and its environment in accordance with ISA 315 (Revised),<sup>4</sup> the auditor shall obtain a general understanding of:

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<sup>4</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11

- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
  - (b) How the entity is complying with that framework. (Ref: Para. A711)
143. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements. (Ref: Para. A128)
154. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements: (Ref: Para. A139–A140)
- (a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and
  - (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
165. During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. (Ref: Para. A154)
176. The auditor shall request management and, where appropriate, those charged with governance, to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor. (Ref: Para. A126)
187. In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 132–176.

#### **Audit Procedures When Non-Compliance Is Identified or Suspected**

198. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain: (Ref: Para. A173–A18)
- (a) An understanding of the nature of the act and the circumstances in which it has occurred; and
  - (b) Further information to evaluate the possible effect on the financial statements. (Ref: Para. A194)
1920. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter, unless prohibited by law or regulation, with the appropriate level of management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. (Ref: Para. A2045–A2246)
210. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.

224. The auditor shall evaluate the implications of identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action. (Ref: Para. ~~A2347–A2518~~)

### **Communicating and Reporting of Identified or Suspected Non-Compliance**

#### **Communicating and Reporting Identified or Suspected Non-Compliance with Those Charged with Governance**

232. Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor,<sup>5</sup> the auditor shall communicate, unless prohibited by law or regulation, with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.

234. If, in the auditor's judgment, the non-compliance referred to in paragraph 232 is believed to be intentional and material, the auditor shall communicate the matter with those charged with governance as soon as practicable.

254. If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.

#### **Potential Reporting Implications of Identified or Suspected Non-Compliance in the Auditor's Report on the Financial Statements** (Ref: Para. ~~A26–A27~~)

265. If the auditor concludes that the identified or suspected non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with ISA 705 (Revised), express a qualified opinion or an adverse opinion on the financial statements.<sup>6</sup>

276. If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit in accordance with ISA 705 (Revised).<sup>7</sup>

287. If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion in accordance with ISA 705 (Revised).

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<sup>5</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

<sup>6</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7–8

<sup>7</sup> ISA 705 (Revised), paragraphs 7 and 9

*Reporting Identified or Suspected Non-Compliance to ~~Regulatory and Enforcement Authorities~~ and an Appropriate Authority outside the Entity*

298. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether law, regulation or relevant ethical requirements; ~~the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.~~ (Ref: Para. A2819–A3420)
- (a) Require the auditor to report 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.

**Documentation**

2930. The auditor shall include in the audit documentation<sup>8</sup> identified or suspected non-compliance with laws and regulations and; ~~the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.~~<sup>9</sup> (Ref: Para. A3521–A36)
- (a) The audit procedures performed, the significant professional judgments made and the conclusions reached thereon; and
- (b) The discussions of significant matters related to the non-compliance with management, those charged with governance and others, including how management and, where applicable, those charged with governance have responded to the matter.

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**Application and Other Explanatory Material**

**Responsibility for Compliance with Laws and Regulations** (Ref: Para. 3–89)

- A1. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with laws and regulations. Laws and regulations may affect an entity's financial statements in different ways: for example, most directly, they may affect specific disclosures required of the entity in the financial statements or they may prescribe the applicable financial reporting framework. They may also establish certain legal rights and obligations of the entity, some of which will be recognized in the entity's financial statements. In addition, laws and regulations may impose penalties in cases of non-compliance.
- A2. The following are examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:
- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
  - Instituting and operating appropriate systems of internal control.
  - Developing, publicizing and following a code of conduct.
  - Ensuring employees are properly trained and understand the code of conduct.

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<sup>8</sup> ISA 230, *Audit Documentation*, paragraphs 8–11, and A6

<sup>9</sup> ISA 230, *Audit Documentation*, paragraphs 8–11, and A6

- Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
- Engaging legal advisors to assist in monitoring legal requirements.
- Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.

In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:

- An internal audit function.
- An audit committee.
- A compliance function.

### *Responsibility of the Auditor*

- A3. Non-compliance by the entity with laws and regulations may result in a material misstatement of the financial statements. Detection of non-compliance, regardless of materiality, may affect other aspects of the audit including, for example, the auditor's consideration of the integrity of management, those charged with governance or employees.
- A4. Whether an act constitutes non-compliance with laws and regulations is a matter ~~for legal determination~~ to be determined by a court or other appropriate adjudicative body, which is ordinarily beyond the auditor's professional competence to determine. Nevertheless, the auditor's training, experience and understanding of the entity and its industry or sector may provide a basis to recognize that some acts, coming to the auditor's attention, may constitute non-compliance with laws and regulations.
- A5. In accordance with specific statutory requirements, the auditor may be specifically required to report, as part of the audit of the financial statements, on whether the entity complies with certain provisions of laws or regulations. In these circumstances, ISA 700 (Revised)<sup>10</sup> or ISA 800 (Revised)<sup>11</sup> deal with how these audit responsibilities are addressed in the auditor's report. Furthermore, where there are specific statutory reporting requirements, it may be necessary for the audit plan to include appropriate tests for compliance with these provisions of the laws and regulations.

### Categories of Laws and Regulations (Ref: Para. 6)

- A6. The nature and circumstances of the entity may impact whether relevant laws and regulations are within the categories of laws and regulations described in paragraphs 6(a) or 6(b). Examples of laws and regulations that may be included in the categories described in paragraph 6 include those that deal with:
- Fraud, corruption and bribery.
  - Money laundering, terrorist financing and proceeds of crime.
  - Securities markets and trading.

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<sup>10</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 4243

<sup>11</sup> ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 11

- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

#### Considerations Specific to Public Sector Entities

A67. In the public sector, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of financial statements or may extend to other aspects of the entity's operations.

#### Additional Responsibilities Established by Law, Regulation or Relevant Ethical Requirements (Ref: Para. 9)

A8. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations to other auditors within a group, including a group engagement partner, component auditors or other auditors performing work at components of a group for purposes other than the audit of the group financial statements.<sup>12</sup>

#### Definition (Ref: Para. 12)

A9. Acts of non-compliance with laws and regulations include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, by management or by other individuals working for or under the direction of the entity.

A10. Non-compliance also includes personal misconduct related to the business activities of the entity, for example, in circumstances where an individual in a key management position, in a personal capacity, has accepted a bribe from a supplier of the entity and in return secures the appointment of the supplier to provide services or contracts to the entity.

### **The Auditor's Consideration of Compliance with Laws and Regulations**

#### *Obtaining an Understanding of the Legal and Regulatory Framework (Ref: Para. 132)*

A117. To obtain a general understanding of the legal and regulatory framework, and how the entity complies with that framework, the auditor may, for example:

- Use the auditor's existing understanding of the entity's industry, regulatory and other external factors;
- Update the understanding of those laws and regulations that directly determine the reported amounts and disclosures in the financial statements;

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<sup>12</sup> See Sections 225.21–225.22 of the IESBA Code.

- Inquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity;
- Inquire of management concerning the entity's policies and procedures regarding compliance with laws and regulations; and
- Inquire of management regarding the policies or procedures adopted for identifying, evaluating and accounting for litigation claims.

*Laws and Regulations Generally Recognized to Have a Direct Effect on the Determination of Material Amounts and Disclosures in the Financial Statements* (Ref: Para. ~~436~~, 14)

A~~8~~12. Certain laws and regulations are well-established, known to the entity and within the entity's industry or sector, and relevant to the entity's financial statements (as described in paragraph 6(a)). They could include those that relate to, for example:

- The form and content of financial statements;
- Industry-specific financial reporting issues;
- Accounting for transactions under government contracts; or
- The accrual or recognition of expenses for income tax or pension costs.

Some provisions in those laws and regulations may be directly relevant to specific assertions in the financial statements (~~for example~~, e.g., the completeness of income tax provisions), while others may be directly relevant to the financial statements as a whole (~~for example~~, e.g., the required statements constituting a complete set of financial statements). The aim of the requirement in paragraph ~~43~~14 is for the auditor to obtain sufficient appropriate audit evidence regarding the determination of amounts and disclosures in the financial statements in compliance with the relevant provisions of those laws and regulations.

Non-compliance with other provisions of such laws and regulations and other laws and regulations may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for in the financial statements, but are not considered to have a direct effect on the financial statements as described in paragraph 6(a).

*Procedures to Identify Instances of Non-Compliance—Other Laws and Regulations* (Ref: Para. 446, 15)

A139. Certain other laws and regulations may need particular attention by the auditor because they have a fundamental effect on the operations of the entity (as described in paragraph 6(b)). Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may cause the entity to cease operations, or call into question the entity's continuance as a going concern.<sup>13</sup> For example, non-compliance with the requirements of the entity's license or other entitlement to perform its operations could have such an impact (~~e.g.~~ ~~for example~~, for a bank, non-compliance with capital or investment requirements). There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.

A140. As the financial reporting consequences of other laws and regulations can vary depending on the entity's operations, the audit procedures required by paragraph 4415 are directed to bringing to the

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<sup>13</sup> See ISA 570 (Revised), *Going Concern*.

auditor's attention instances of non-compliance with laws and regulations that may have a material effect on the financial statements.

*Non-Compliance Brought to the Auditor's Attention by Other Audit Procedures* (Ref: Para. 4516)

A154. Audit procedures applied to form an opinion on the financial statements may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. For example, such audit procedures may include:

- Reading minutes;
- Inquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and
- Performing substantive tests of details of classes of transactions, account balances or disclosures.

*Written Representations* (Ref: Para. 4617)

A162. Because the effect on financial statements of laws and regulations can vary considerably, written representations provide necessary audit evidence about management's knowledge of identified or suspected non-compliance with laws and regulations, whose effects may have a material effect on the financial statements. However, written representations do not provide sufficient appropriate audit evidence on their own and, accordingly, do not affect the nature and extent of other audit evidence that is to be obtained by the auditor.<sup>14</sup>

**Audit Procedures When Non-Compliance is Identified or Suspected**

*Indications of Non-Compliance with Laws and Regulations* (Ref: Para. 4819)

A17. The auditor may become aware of information concerning an instance of non-compliance with laws and regulations other than as a result of performing the procedures in paragraphs 13–17 (e.g., when the auditor is alerted to non-compliance by a whistle blower).

~~A183. If the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations:~~

- Investigations by regulatory organizations and government departments or payment of fines or penalties.
- Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
- Purchasing at prices significantly above or below market price.
- Unusual payments in cash, purchases in the form of cashiers' checks payable to bearer or transfers to numbered bank accounts.
- Unusual transactions with companies registered in tax havens.

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<sup>14</sup> ISA 580, *Written Representations*, paragraph 4

- Payments for goods or services made other than to the country from which the goods or services originated.
- Payments without proper exchange control documentation.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorized transactions or improperly recorded transactions.
- Adverse media comment.

*Matters Relevant to the Auditor's Evaluation* (Ref: Para. ~~48~~19(b))

A194. Matters relevant to the auditor's evaluation of the possible effect on the financial statements include:

- The potential financial consequences of identified or suspected non-compliance with laws and regulations on the financial statements including, for example, the imposition of fines, penalties, damages, threat of expropriation of assets, enforced discontinuation of operations, and litigation.
- Whether the potential financial consequences require disclosure.
- Whether the potential financial consequences are so serious as to call into question the fair presentation of the financial statements, or otherwise make the financial statements misleading.

*Audit Procedures and Communicating Identified or Suspected Non-Compliance with Management and Those Charged with Governance* (Ref: Para. ~~49~~20)

A2015. The auditor ~~may~~ is required to discuss the findings with suspected non-compliance with the appropriate level of management and, where appropriate, those charged with governance where, as they may be able to provide additional audit evidence. For example, the auditor may confirm that management and, where appropriate, those charged with governance have the same understanding of the facts and circumstances relevant to transactions or events that have led to the possibility of suspected non-compliance with laws and regulations.

A21. However, in some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with management and those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

A2246. If management or, as appropriate, those charged with governance do not provide sufficient information to the auditor that the entity is in fact in compliance with laws and regulations, the auditor may consider it appropriate to consult with the entity's in-house ~~legal counsel~~ or external legal counsel about the application of the laws and regulations to the circumstances, including the possibility of fraud, and the possible effects on the financial statements. If it is not considered appropriate to consult with the entity's legal counsel or if the auditor is not satisfied with the legal counsel's opinion, the auditor may consider it appropriate to consult the auditor's own legal counsel on a confidential basis with others within the firm, a network firm, a professional body, or with the auditor's legal counsel as

to whether a contravention of a law or regulation is involved, ~~the possible legal consequences,~~ including the possibility of fraud, the possible legal consequences, and what further action, if any, the auditor would take.

*Evaluating the Implications of Identified or Suspected Non-Compliance (Ref: Para. 2422)*

A2317. As required by paragraph 2422, the auditor evaluates the implications of identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations. The implications of particular ~~instances of identified or suspected non-compliance identified by the auditor~~ will depend on the relationship of the perpetration and concealment, if any, of the act to specific control activities and the level of management or ~~employees~~ individuals working for, or under the direction of, the entity involved, especially implications arising from the involvement of the highest authority within the entity. As noted in paragraph 9, the auditor's compliance with law, regulation or relevant ethical requirements may provide further information that is relevant to the auditor's responsibilities in accordance with paragraph 22.

A24. Examples of circumstances that may cause the auditor to evaluate the implications of identified or suspected non-compliance on the reliability of written representations received from management and, where applicable, those charged with governance include when:

- The auditor suspects or has evidence of the involvement or intended involvement of management and, where applicable, those charged with governance in any identified or suspected non-compliance.
- The auditor is aware that management and, where applicable, those charged with governance have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized reporting of, the matter to an appropriate authority within a reasonable period.

A4825. In ~~certain circumstances~~ exceptional cases, the auditor may consider ~~whether withdrawing~~ from the engagement, where withdrawal is possible under applicable law or regulation, for example is necessary when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances, or the identified or suspected non-compliance raises questions regarding the integrity of management or those charged with governance, even when the non-compliance is not material to the financial statements. When deciding whether withdrawal from the engagement is necessary, the auditor may consider it appropriate to obtain seeking legal advice to determine whether withdrawal from the engagement is appropriate. If withdrawal from the engagement is not possible, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter paragraph in the auditor's report.<sup>15</sup> When the auditor determines that withdrawing from the engagement would be appropriate, doing so would not be a substitute for complying with other responsibilities under law, regulation or relevant ethical requirements to respond to identified or suspected non-compliance. Furthermore, paragraph A8a of ISA 220<sup>16</sup> indicates that some ethical requirements may require the predecessor auditor, upon request by the proposed successor auditor, to provide information regarding non-compliance with laws and regulations to the successor auditor.

<sup>15</sup> ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8

<sup>16</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

## **Communicating and Reporting of Identified or Suspected Non-Compliance**

*Potential Implications of Identified or Suspected Non-Compliance for the Auditor's Report* (Ref: Para. 26–28)

A26. Identified or suspected non-compliance with laws and regulation is communicated in the auditor's report when the auditor modifies the opinion in accordance with paragraphs 26–28. In certain other circumstances, the auditor may communicate identified or suspected non-compliance in the auditor's report, for example:

- When the auditor has other reporting responsibilities, in addition to the auditor's responsibilities under the ISAs, as contemplated by paragraph 43 of ISA 700 (Revised);
- When the auditor determines that the identified or suspected non-compliance is a key audit matter and accordingly communicates the matter in accordance with ISA 701,<sup>17</sup> unless paragraph 14 of that ISA applies; or
- In exceptional cases when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances and withdrawal from the engagement is not possible (see paragraph A25), the auditor may consider describing the identified or suspected non-compliance in an Other Matter paragraph in accordance with ISA 706 (Revised).<sup>18</sup>

A27. Law or regulation may preclude public disclosure by either management, those charged with governance or the auditor about a specific matter. For example, law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including a prohibition on alerting the entity. When the auditor intends to communicate identified or suspected non-compliance in the auditor's report under the circumstances set out in paragraph A26 or otherwise, such law or regulation may have implications for the auditor's ability to describe the matter in the auditor's report, or in some circumstances to issue the auditor's report. In such cases, the auditor may consider obtaining legal advice to determine the appropriate course of action.

*Reporting Identified or Suspected Non-Compliance to Regulatory and Enforcement an Appropriate Authorities outside the Entity* (Ref: Para. 29&)

~~A19. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. However, the auditor's legal responsibilities vary by jurisdiction and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some jurisdictions, the auditor of a financial institution has a statutory duty to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities. Also, in some jurisdictions, the auditor has a duty to report misstatements to authorities in those cases where management and, where applicable, those charged with governance fail to take corrective action. The auditor may consider it appropriate to obtain legal advice to determine the appropriate course of action.~~

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<sup>17</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>18</sup> ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

- A28. 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 auditor to report (see paragraph A29);
  - (b) The auditor has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements (see paragraph A30); or
  - (c) Law, regulation or relevant ethical requirements provide the auditor with the right to do so (see paragraph A31).
- A29. In some jurisdictions, the auditor may be required by law, regulation or relevant ethical requirements to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity. For example, in some jurisdictions, statutory requirements exist for the auditor of a financial institution to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to a supervisory authority. Also, misstatements may arise from non-compliance with laws or regulations and, in some jurisdictions, the auditor may be required to report misstatements to an appropriate authority in cases where management or those charged with governance fail to take corrective action.
- A30. In other cases, the relevant ethical requirements may require the auditor to determine whether reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in the circumstances. For example, the IESBA Code requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed, which may include reporting to an appropriate authority outside the entity.<sup>19</sup> The IESBA Code explains that such reporting would not be considered a breach of the duty of confidentiality under the IESBA Code.<sup>20</sup>
- A31. Even if law, regulation or relevant ethical requirements do not include requirements that address reporting identified or suspected non-compliance, they may provide the auditor with the right to report identified or suspected non-compliance to an appropriate authority outside the entity. For example, when auditing the financial statements of financial institutions, the auditor may have the right under law or regulation to discuss matters such as identified or suspected non-compliance with laws and regulations with a supervisory authority.
- A32. In other 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 auditor's duty of confidentiality under law, regulation or relevant ethical requirements.
- A33. The determination required by paragraph 29 may involve complex considerations and professional judgments. Accordingly the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

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<sup>19</sup> See, for example, Section 225.29 and Sections 225.33–225.36 of the IESBA Code.

<sup>20</sup> See, for example, Section 140.7 and Section 225.35 of the IESBA Code.

Considerations Specific to Public Sector Entities

A3420. A public sector auditor may be obliged to report on ~~instances of~~identified or suspected non-compliance to the legislature or other governing body or to report them in the auditor's report.

**Documentation** (Ref: Para. ~~2930~~)

A3524. The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:

- Copies of records or documents.
- Minutes of discussions held with management, those charged with governance or parties outside the entity.

A36. Law, regulation or relevant ethical requirements may also set out additional documentation requirements regarding identified or suspected non-compliance with laws and regulations.<sup>21</sup>

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<sup>21</sup> See, for example, Section 225.37 of the IESBA Code.

## CONFORMING AMENDMENTS TO OTHER INTERNATIONAL STANDARDS

**Note:** The following are conforming amendments to other International Standards as a result of the approval of ISA 250 (Revised). These amendments will become effective at the same time as ISA 250 (Revised), and are shown with marked changes from the latest approved versions of the International Standards that are amended. The footnote numbers within these amendments do not align with the International Standards that are amended, and reference should be made to those International Standards. These conforming amendments have received the approval of the PIOB which concluded that due process was followed in the development of the conforming amendments and that proper regard was paid to the public interest.

### ***ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements***

#### **Application and Other Explanatory Material**

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation  
(Ref: Para. 46)

A56. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there are responsibilities under law, regulation or relevant ethical requirements ~~is a legal or professional duty~~ to do so.<sup>22</sup> Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

### ***ISA 210, Agreeing the Terms of Audit Engagements***

#### **Application and Other Explanatory Material**

##### **Agreement on Audit Engagement Terms**

A24. When relevant, the following points could also be made in the audit engagement letter:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other staff of the entity.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- A reference to, and description of, the auditor's responsibilities under law, regulation or relevant ethical requirements that address reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- Any restriction of the auditor's liability when such possibility exists.
- A reference to any further agreements between the auditor and the entity.
- Any obligations to provide audit working papers to other parties.

An example of an audit engagement letter is set out in Appendix 1.

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<sup>22</sup> See, for example, Section 140.7 and Section 225.35 of the IESBA Code.

## **ISA 220, *Quality Control for an Audit of Financial Statements***

### **Application and Other Explanatory Material**

#### **Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: Para. 12)**

A8a. Law, regulation, or relevant ethical requirements<sup>23</sup> may require the auditor to request, prior to accepting the engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgment, the auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, where the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the IESBA Code requires that the predecessor auditor, on request by a proposed successor auditor, provides all such facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.<sup>24</sup>

## **ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements***

### **Introduction**

#### **Responsibility for the Prevention and Detection of Fraud**

##### *Responsibilities of the Auditor*

8a. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including fraud, which may differ from or go beyond this and other ISAs, such as: (Ref: Para. A5a)

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of group financial statements); and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

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<sup>23</sup> See, for example, Sections 210.14 of the IESBA Code.

<sup>24</sup> See, for example, Sections 225.31 of the IESBA Code.

## Requirements

### Communications to Management and with Those Charged with Governance

40. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis ~~with~~ the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A59a–A60)
41. Unless all of those charged with governance are involved in managing the entity, if the auditor has identified or suspects fraud involving:
- (a) management;
  - (b) employees who have significant roles in internal control; or
  - (c) others where the fraud results in a material misstatement in the financial statements,
- the auditor shall communicate these matters ~~with~~ those charged with governance on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions ~~with~~ those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation. (Ref: Para. A59a, A61–A63)
42. The auditor shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in the auditor’s judgment, relevant to their responsibilities. (Ref: Para. A59a, A64)

### ~~Communications to Regulatory and Enforcement Authorities~~ Reporting Fraud to an Appropriate Authority Outside the Entity

43. ~~If the auditor has identified or suspects a fraud, the auditor shall determine whether law, regulation or relevant ethical requirements; there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the auditor’s professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor’s legal responsibilities may override the duty of confidentiality in some circumstances.~~ (Ref: Para. A65–A67)
- (a) Require the auditor to report 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.

## Application and Other Explanatory Material

### Responsibility for the Prevention and Detection of Fraud

*Responsibilities of the Auditor* (Ref: Para. 8a)

- A5a. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations to other auditors within a group,

including a group engagement partner, component auditors or other auditors performing work at components of a group for purposes other than the audit of the group financial statements.<sup>25</sup>

**Communications to Management and with Those Charged with Governance** (Ref: Para. 40–42)

A59a. In some jurisdictions, law or regulation may restrict the auditor’s communication of certain matters with management and those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report the fraud to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

~~**Communications to Regulatory and Enforcement Authorities**~~ **Reporting Fraud to an Appropriate Authority outside the Entity** (Ref: Para. 43)

A65. ISA 250 (Revised)<sup>26</sup> provides further guidance with respect to the auditor’s determination of whether reporting identified or suspected non-compliance with laws or regulations to an appropriate authority outside the entity is required or appropriate in the circumstances, including consideration of the auditor’s duty of confidentiality. The auditor’s professional duty to maintain the confidentiality of client information may preclude reporting fraud to a party outside the client entity. However, the auditor’s legal responsibilities vary by country and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some countries, the auditor of a financial institution has a statutory duty to report the occurrence of fraud to supervisory authorities. Also, in some countries the auditor has a duty to report misstatements to authorities in those cases where management and those charged with governance fail to take corrective action.

A66. The determination required by paragraph 43 may involve complex considerations and professional judgments. Accordingly, tThe auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider ~~it appropriate to~~ obtaining legal advice to understand the auditor’s options and the professional or legal implications of taking any particular ~~determine the appropriate~~ course of action in the circumstances, the purpose of which is to ascertain the steps necessary in considering the public interest aspects of identified fraud.

**ISA 260 (Revised), *Communication with Those Charged with Governance***

**Introduction**

**The Role of Communication**

7. In some jurisdictions, ~~l~~law or regulation may restrict the auditor’s communication of certain matters with those charged with governance. For example, ~~l~~Laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with laws and regulations to an appropriate

<sup>25</sup> See Sections 225.21–225.22 of the IESBA Code.

<sup>26</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraphs A28–A34

authority pursuant to anti-money laundering legislation. In some these circumstances, the issues considered by the auditor potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, and the auditor may consider it appropriate to obtaining legal advice.

## **ISA 450, *Evaluation of Misstatements Identified During the Audit***

### **Requirements**

#### **Communication and Correction of Misstatements**

8. The auditor shall communicate, unless prohibited by law or regulation, on a timely basis all misstatements accumulated during the audit with the appropriate level of management, ~~unless prohibited by law or regulation.~~<sup>27</sup> The auditor shall request management to correct those misstatements. (Ref: Para. A7–A9)

### **Application and Other Explanatory Material**

#### **Communication and Correction of Misstatements** (Ref: Para. 8–9)

- A8. In some jurisdictions, Law or regulation may restrict the auditor's communication of certain misstatements to management, or others, within the entity. For example, Laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with law or regulation to an appropriate authority pursuant to anti-money laundering legislation. In some these circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the issues considered by the auditor may be complex and the auditor may consider seeking it appropriate to obtain legal advice.

## **ISA 500, *Audit Evidence***

### **Requirements**

#### **Information to Be Used as Audit Evidence**

7. When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. (Ref: Para. A26–A33a)

### **Application and Other Explanatory Material**

#### **Information to Be Used as Audit Evidence**

##### *Relevance and Reliability* (Ref: Para. 7)

- A26. As noted in paragraph A1, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, for example, previous audits, in certain circumstances, ~~and a firm's quality control procedures for client acceptance and continuance~~ and complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

<sup>27</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 7

A33a. ISA 250 (Revised)<sup>28</sup> provides further guidance with respect to the auditor complying with any additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's identified or suspected non-compliance with laws and regulations that may provide further information that is relevant to the auditor's work in accordance with ISAs and evaluating the implications of such non-compliance in relation to other aspects of the audit.

## **ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements***

### **Requirements**

#### **Performing the Engagement**

##### *Designing and Performing Procedures*

48. The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A84–A87a)

...

- (d) The existence of any actual, suspected or alleged:
  - (i) Fraud or illegal acts affecting the entity; and
  - (ii) Non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations;

##### Fraud and non-compliance with laws ~~and~~ regulations

52. When there is an indication that fraud or non-compliance with laws ~~and~~ regulations, or suspected fraud or non-compliance with laws ~~and~~ regulations, has occurred in the entity, the practitioner shall:

- (a) Communicate that matter, unless prohibited by law or regulation, with ~~to~~ the appropriate level of ~~senior~~ management or those charged with governance as appropriate; (Ref: Para. A91a)
- (b) Request management's assessment of the effect(s), if any, on the financial statements;
- (c) Consider the effect, if any, of management's assessment of the effects of identified or suspected fraud or non-compliance with laws ~~and~~ regulations communicated to the practitioner on the practitioner's conclusion on the financial statements and on the practitioner's report; and
- (d) Determine whether law, regulation or relevant ethical requirements; ~~there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity.~~ (Ref: Para. A92–A92d)
  - (i) Require the practitioner 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.

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<sup>28</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 9

## Application and Other Explanatory Material

### Performing the Engagement

*Designing and Performing Procedures* (Ref: Para. 47, 55)

*Inquiry* (Ref: Para. 46–48)

A87a. The practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including fraud, which may differ from or go beyond this ISRE, such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor, for example a group engagement partner;<sup>29</sup> and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the practitioner's work in accordance with this ISRE (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

### Procedures to Address Specific Circumstances

*Fraud and non-compliance with laws and regulations* (Ref: Para. 52(a) and (d))

Communication with management and those charged with governance

A91a. In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the practitioner is required to report identified or suspected non-compliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

Reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity

A92. Under this ISRE, if the practitioner has identified or suspects fraud or illegal acts, the practitioner is required to determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. 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 (see paragraph A92a); or

<sup>29</sup> See, for example, Sections 225.44–225.48 of the IESBA Code.

- (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so (see paragraph A92b).

~~Although the practitioner's professional duty to maintain the confidentiality of client information may preclude such reporting, the practitioner's legal responsibilities may override the duty of confidentiality in some circumstances.~~

A92a. In some cases, the relevant ethical requirements may require the practitioner to report or to consider whether reporting identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in the circumstances. For example, the IESBA Code requires the practitioner to take steps to respond to identified or suspected non-compliance with laws and regulations, and consider whether further action is needed, which may include reporting to an appropriate authority outside the entity.<sup>30</sup> The IESBA Code explains that such reporting would not be considered a breach of the duty of confidentiality under the IESBA Code.<sup>31</sup>

A92b. Even if law, regulation or relevant ethical requirements do not include requirements that address reporting identified or suspected non-compliance, they may provide the practitioner with the right to report identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity.

A92c. In other 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.

A92d. The determination required by paragraph 52(d) may involve complex considerations and professional judgments. Accordingly, the practitioner may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The practitioner may also consider obtaining legal advice to understand the practitioner's options and the professional or legal implications of taking any particular course of action.

## **ISAE 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information**

### **Requirements**

#### **Planning and Performing the Engagement**

##### *Understanding the Underlying Subject Matter and Other Engagement Circumstances*

45. The practitioner shall make inquiries of the appropriate party(ies) regarding:
- (a) Whether they have knowledge of any actual, suspected or alleged intentional misstatement or non-compliance with laws and regulations affecting the subject matter information; (Ref: Para. A101–A101a)
  - (b) Whether the responsible party has an internal audit function and, if so, make further inquiries to obtain an understanding of the activities and main findings of the internal audit function with respect to the subject matter information; and

<sup>30</sup> See, for example, Section 225.51 to 225.52 of the IESBA Code.

<sup>31</sup> See, for example, Section 140.7 and Section 225.53 of the IESBA Code.

- (c) Whether the responsible party has used any experts in the preparation of the subject matter information.

### **Other Communication Responsibilities**

78. The practitioner shall consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the practitioner that is to be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others. (Ref: Para. A192–A192f)

## **Application and Other Explanatory Material**

### **Planning and Performing the Engagement**

*Understanding the Engagement Circumstances* (Ref: Para. 45–47R)

A101a. The practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity’s non-compliance with laws and regulations, which may differ from or go beyond the practitioner’s responsibilities under this ISAE, such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor;<sup>32</sup> and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the practitioner’s work in accordance with this and any other ISAE (e.g., regarding the integrity of the responsible party or those charged with governance). Paragraphs A192a–A192e further address the practitioner’s responsibilities under law, regulation or relevant ethical requirements regarding communicating and reporting identified or suspected non-compliance with laws and regulations.

### **Other Communication Responsibilities** (Ref: Para. 78)

*Communication with Management and Those Charged with Governance*

A192a. Relevant ethical requirements may include a requirement to report identified or suspected non-compliance with laws and regulations to an appropriate level of management or those charged with governance. In some jurisdictions, law or regulation may restrict the practitioner’s communication of certain matters with the responsible party, management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the practitioner is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

<sup>32</sup> See, for example, Sections 225.44–225.48 of the IESBA Code.

Reporting of Identified or Suspected Non-Compliance with Laws and Regulations to an Appropriate Authority outside the Entity

A192b. 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.<sup>33</sup>

A192c. 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.

A192d. The reporting of identified or suspected non-compliance with laws and regulations in accordance with law, regulation or relevant ethical requirements may include non-compliance with laws and regulations that the practitioner comes across or is made aware of when performing the engagement but which may not affect the subject matter information. Under this ISAE, the practitioner is not expected to have a level of understanding of laws and regulations beyond those affecting the subject matter information. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgment and expertise in responding to such non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

A192e. 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.<sup>34</sup>

A192f. 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).<sup>35</sup>

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<sup>33</sup> See, for example, Section 225.51 to 225.52 of the IESBA Code.

<sup>34</sup> See, for example, Section 140.7 and Section 225.53 of the IESBA Code.

<sup>35</sup> See, for example, Section 225.55 of the IESBA Code.

## **ISAE 3402, Assurance Reports on Controls at a Service Organization**

### **Requirements**

#### **Other Communication Responsibilities**

56. If the service auditor becomes aware of non-compliance with laws and regulations, fraud, or uncorrected errors attributable to the service organization that are not clearly trivial and may affect one or more user entities, the service auditor shall determine whether the matter has been communicated appropriately to affected user entities. If the matter has not been so communicated and the service organization is unwilling to do so, the service auditor shall take appropriate action. (Ref: Para. A53)

### **Application and Other Explanatory Material**

#### **Other Communication Responsibilities (Ref: Para. 56)**

A53. Appropriate actions to respond to the circumstances identified in paragraph 56, unless prohibited by law or regulation, may include:

- Obtaining legal advice about the consequences of different courses of action.
- Communicating with those charged with governance of the service organization.
- Determining whether to communicate with third parties (e.g., law, regulation or relevant ethical requirements may require the service auditor to report to an appropriate authority outside the entity or the external auditor of the service organization,<sup>36</sup> or establish responsibilities under which such reporting may be appropriate in the circumstances). ~~Communicating with third parties (for example, a regulator) when required to do so.~~
- Modifying the service auditor's opinion, or adding an Other Matter paragraph.
- Withdrawing from the engagement.

## **ISAE 3410, Assurance Engagements on Greenhouse Gas Statements**

### **Requirements**

#### **Other Communication Responsibilities**

78. The practitioner shall communicate, unless prohibited by law or regulation, ~~with~~ those person(s) with oversight responsibilities for the GHG statement the following matters that come to the practitioner's attention during the course of the engagement, and shall determine whether there is a responsibility to report them to another party within or outside the entity:
- (a) Deficiencies in internal control that, in the practitioner's professional judgment, are of sufficient importance to merit attention;
  - (b) Identified or suspected fraud; and
  - (c) Matters involving identified or suspected non-compliance with laws and/or regulations, other than when the matters are clearly trivial. (Ref: Para. A87)

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<sup>36</sup> See, for example, Section 225.44 to 225.48 of the IESBA Code.

## **ISRS 4410 (Revised), *Compilation Engagements***

### **Requirements**

#### **Ethical Requirements**

21. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A19–A21e)

#### **Communication with Management and Those Charged with Governance**

27. The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the compilation engagement, all matters concerning the compilation engagement that, in the practitioner’s professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A41–A41a)

#### **Ethical Requirements** (Ref: Para. 21)

##### Reporting of Identified or Suspected Non-Compliance with Laws and Regulations to an Appropriate Authority outside the Entity

A21a. 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.<sup>37</sup>

A21b. 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.

A21c. Under paragraph 28 of this ISRS, the practitioner is not expected to have a level of understanding of laws and regulations beyond that necessary to be able to perform the compilation 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 constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

A21d. 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

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<sup>37</sup> See, for example, Section 225.51 to 225.52 of the IESBA Code.

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.<sup>38</sup>

A21e. 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).<sup>39</sup>

**Communication with Management and Those Charged with Governance** (Ref: Para. 27)

A41a. Relevant ethical requirements may include a requirement to report identified or suspected non-compliance with laws and regulations to an appropriate level of management or those charged with governance. In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the practitioner is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

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<sup>38</sup> See, for example, Section 140.7 and Section 225.53 of the IESBA Code.

<sup>39</sup> See, for example, Section 225.55 of the IESBA Code.



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ISBN: 978-1-60815-313-8



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**Basis for Conclusions**  
**Prepared by the Staff of the IAASB**  
*October 2016*

*International Standard on Auditing 250 (Revised)*

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# Consideration of Laws and Regulations in an Audit of Financial Statements

## Including Related Conforming Amendments to Other International Standards

## About the IAASB

This document has been prepared by the Staff of the International Auditing and Assurance Standards Board. It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Auditing or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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ISA.

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# **BASIS FOR CONCLUSIONS: ISA 250 (REVISED), CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS, INCLUDING RELATED CONFORMING AMENDMENTS TO OTHER INTERNATIONAL STANDARDS<sup>1</sup>**

This Basis for Conclusions has been prepared by Staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, or the related conforming amendments to other International Standards.

ISA 250 (Revised) was approved with the affirmative votes of 16 out of 18 IAASB members present for the vote at the June 2016 meeting.<sup>2</sup> The related conforming amendments to other International Standards were approved with the affirmative votes of 15 out of 18 IAASB members present for the vote at the June 2016 meeting.<sup>3</sup>

## **Background**

1. This project was initiated in response to the need to make amendments to ISA 250 and certain other International Standards as a result of the International Ethics Standards Board for Accountants (IESBA's) project regarding non-compliance with laws and regulations (NOCLAR). The objective of the project was to address actual or perceived inconsistencies of the approach to identifying and dealing with instances of identified or suspected NOCLAR between the International Standards and the IESBA's *Code of Ethics for Professional Accountants* (the IESBA Code), as it is in the public interest that the International Standards and the IESBA Code are able to operate mutually and without confusion.

## **Background to the IESBA NOCLAR Project**

2. In providing a professional service to an entity, a professional accountant (including an auditor or an assurance practitioner)<sup>4</sup> may come across an act or suspected act of NOCLAR committed (or about to be committed) by the entity, by those charged with governance, by management, or by other individuals working for or under the direction of the entity. The IESBA noted that the professional accountant has a prima facie ethical responsibility not to turn a blind eye to the matter and recognized that such a situation could often be difficult and stressful for the professional accountant. Accordingly, the IESBA approved a project in 2010 to develop enhancements to the IESBA Code to help guide professional accountants in dealing with circumstances when NOCLAR is identified or suspected, and in deciding how best to act in the public interest in these circumstances.

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<sup>1</sup> The IAASB's International Standards comprise the International Standards on Auditing (ISAs), the International Standards on Review Engagements (ISREs), the International Standards on Assurance Engagements (ISAEs), and the International Standards on Related Services (ISRSs).

<sup>2</sup> For a full record of the voting on ISA 250 (Revised), including the rationale of the IAASB members who abstained from the vote, see the [minutes of the June 21–24 2016 IAASB meeting](#).

<sup>3</sup> For a full record of the voting on the conforming amendments, including the rationale of the IAASB members who abstained from the vote or voted against the conforming amendments, see the [minutes of the June 21–24 2016 IAASB meeting](#).

<sup>4</sup> Henceforth, the term "auditor" is used within this Basis for Conclusions to include auditors of financial statements and the term "practitioner" is used to include other assurance practitioners.

3. After two exposure drafts (EDs),<sup>5</sup> and after taking into consideration and responding to stakeholder feedback to the IESBA Re-Exposure Draft (IESBA Re-ED), the IESBA [approved](#) changes to the IESBA Code addressing NOCLAR at its April 2016 meeting, with an effective date of July 15, 2017 (i.e., effective for addressing instances of NOCLAR that come to the professional accountant's attention on or after July 15, 2017).
4. The revised IESBA Code sets out a framework for professional accountants to respond to identified or suspected NOCLAR, including consideration as to whether identified or suspected NOCLAR should be disclosed to an appropriate authority. This framework encompasses many other considerations and actions; these include obtaining an understanding of the matter, discussing the matter with management, and, when appropriate, those charged with governance, and assessing the appropriateness of their response, and determining whether further action is needed in the public interest (e.g., reporting to an appropriate authority or withdrawal from the engagement).

### **Background to the IAASB's NOCLAR Project**

5. The IAASB was kept apprised of developments on the IESBA's NOCLAR project through updates and discussions at IAASB meetings as the IESBA's NOCLAR project progressed. The IAASB considered the IESBA's efforts to address NOCLAR and noted that the changes proposed by the IESBA would represent a fundamental change in the approach to confidentiality under the IESBA Code in this area. Furthermore, the IESBA NOCLAR proposals included examples of laws and regulations that were more diverse than those described in extant ISA 250 and specifically referred to NOCLAR that may occur. Accordingly, the IAASB concluded that certain of the International Standards, in particular ISA 250, could be enhanced to give more attention to the additional responsibilities of the auditor or practitioner under the revised IESBA Code when NOCLAR is identified or suspected. The IAASB also thought it would be helpful within the International Standards to highlight the IESBA's view that, when disclosure of identified or suspected NOCLAR to an appropriate authority is an appropriate course of action in the circumstances, this is not considered a breach of the duty of confidentiality under Section 140 of the IESBA Code.
6. Accordingly, in June 2015 the IAASB [approved a project](#) to address actual or perceived inconsistencies of the approach to identifying and dealing with instances of identified or suspected NOCLAR in complying with ISA 250 and other International Standards when the IESBA Code also applies. While the IAASB believed that failing to address such actual or perceived inconsistencies may raise questions among stakeholders regarding the clarity of the interaction between the International Standards and the IESBA Code; the IAASB concluded that only limited amendments to its standards would be necessary. The IAASB accelerated this work so that its ED would be out for public comment at the same time as the IESBA's re-ED, in order for respondents to consider the implications of both proposals concurrently, and so that the respective Boards could finalize their proposals on a similar timeline. To further facilitate the liaison during this time, the IAASB's NOCLAR Task Force included the Chair of the IESBA NOCLAR project, and the IESBA's NOCLAR Task Force included the Chair of the IAASB NOCLAR project.
7. The IAASB's NOCLAR ED, [Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations](#) (ED-ISA 250), was released for public exposure in July 2015 and the comment period closed on October 20, 2015. Forty-five (45) comment letters were received from various

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<sup>5</sup> The IESBA released the first ED, *Responding to a Suspected Illegal Act*, in August 2012, and issued a Re-ED, *Responding to Non-Compliance with Laws & Regulations*, in May 2015.

respondents, including regulators and oversight bodies, national auditing standard setters, accounting firms, public sector organizations, IFAC member bodies, representatives of small and medium practices and other professional organizations. Included in the responses were two responses from Monitoring Group members.<sup>6</sup>

8. The IAASB discussed this project with its Consultative Advisory Group (CAG) on three separate occasions. In addition, the IAASB liaised closely with the IESBA in the finalization of the respective projects.
9. This Basis for Conclusions explains the significant issues raised by respondents to ED-ISA 250, and how the IAASB has addressed them.

## Significant Matters

### Public Interest Issues Addressed by This Project

10. The IAASB believes that it is in the public interest that its International Standards and the IESBA Code are able to operate mutually and without confusion due to the many jurisdictions that have adopted both. It is also important that the International Standards acknowledge and do not potentially undermine the enhancements to the IESBA Code in respect of NOCLAR — either through being inconsistent or failing to draw appropriate attention to the revised requirements in the IESBA Code. Equally, it would not be in the public interest for auditors and practitioners to be placed in a situation where the IESBA Code requires a response but the International Standards, either in the requirements or the application material, do not support or recognize that response.

### Nature and Extent of Changes from Extant ISA 250

11. As recommended in the project proposal, the limited amendments to ISA 250 (Revised) were not intended to explicitly duplicate all the specific requirements in the revised IESBA Code. This approach allows for flexibility when ethical codes other than the IESBA Code are applied and minimizes the amount of material that was necessary to incorporate into ISA 250 (Revised) and other International Standards. This approach is consistent with how reference was made in ISA 260 (Revised)<sup>7</sup> to the requirements in the IESBA Code to communicate with those charged with governance about breaches of independence.
12. In summary, the significant changes to ISA 250 (Revised) included in the final pronouncement are intended to:
  - Align aspects of ISA 250 (Revised) to the NOCLAR provisions in the IESBA Code, particularly the definition of non-compliance and the examples of laws and regulations within the scope of ISA 250 (Revised) (see paragraphs 12, A6 and A9–A10 of ISA 250 (Revised)).
  - Clarify the requirement regarding the auditor's determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity and the auditor's duty of

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<sup>6</sup> The Monitoring Group comprises the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Organizations (IOSCO), and the World Bank. IFIAR and IOSCO responded to the IAASB's ED.

<sup>7</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

confidentiality, in order to recognize the different provisions of laws, regulations, or relevant ethical requirements (see paragraphs 29 and A28–A34 of ISA 250 (Revised)).

- Highlight that the auditor may have additional responsibilities under law, regulation, or relevant ethical requirements regarding identified or suspected NOCLAR. This also includes additional emphasis of the possible documentation requirements contained in law, regulation or relevant ethical requirements (see paragraph 9 of ISA 250 (Revised)).
  - Highlight the implications of identified or suspected NOCLAR on the audit, for example, the reliability of management’s representations, the implications for the auditor’s report, and the consideration of whether to withdraw from the engagement (see paragraphs 22 and A23–A27 of ISA 250 (Revised)).
  - Emphasize the requirements in the IESBA Code relating to the communication of identified or suspected NOCLAR to a group engagement partner or an auditor at a component (see paragraph A8 of ISA 250 (Revised)).
  - Draw attention to the fact that, in certain cases, communication with management or those charged with governance may be restricted or prohibited by law or regulation, for example law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (see paragraphs 20, 23 and A21 of ISA 250 (Revised)).
13. Furthermore, conforming amendments were also made to a number of other International Standards<sup>8</sup> to reflect the matters indicated above or clarify the expected work effort with regard to identified or suspected NOCLAR.
14. For example, new application material has been included in ISA 220 to reflect the communication between predecessor and proposed successor auditors as contemplated in the revised IESBA Code, that is, the requirement that the predecessor auditor, upon request by the proposed successor auditor, will (i) provide known information regarding any facts or circumstances that, in the predecessor auditor’s judgment, the successor auditor needs to be aware of before deciding whether to accept the engagement, and (ii) inform the successor auditor of identified or suspected NOCLAR when the predecessor auditor resigns from the engagement as a result of such NOCLAR.

*Summary of Overall Comments Received on Exposure*

15. Overall, many respondents were supportive of the IAASB’s efforts to address actual or perceived inconsistencies in the approach to responding to identified or suspected NOCLAR between the International Standards and the IESBA NOCLAR Re-ED.

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<sup>8</sup> These include ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; ISA 210, *Agreeing the Terms of Audit Engagements*; ISA 220, *Quality Control for an Audit of Financial Statements*; ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, ISA 260 (Revised); ISA 450, *Evaluation of Misstatements Identified during the Audit*, ISA 500, *Audit Evidence*; ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*; ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*; ISAE 3402, *Assurance Reports on Controls at a Service Organization*; ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*; and ISRS 4410 (Revised), *Compilation Engagements*.

## Approach to Changes to the International Standards

### Summary of comments received on exposure

16. A few respondents explicitly expressed support for the IAASB's approach in proposing limited amendments to the International Standards that do not explicitly duplicate in detail all of the specific requirements in the IESBA NOCLAR Re-ED, allowing flexibility when other ethical codes are applied and minimizing the amount of material incorporated into ISA 250 (Revised) and other International Standards. Some respondents requested more alignment between the IESBA NOCLAR Re-ED and the International Standards, for example the inclusion of the work effort requirements from the IESBA NOCLAR Re-ED in the International Standards, or an enhanced link to the IESBA NOCLAR Re-ED. One Monitoring Group member specifically questioned whether the IAASB had concluded that certain aspects of the IESBA proposals that were not addressed in the IAASB's proposals did not need to be addressed in ISA 250 (Revised) because they went beyond what is necessary for an audit of financial statements, and suggested that if this was the case that ISA 250 (Revised) should indicate that the amendments made are those necessary for the purposes of an audit.
17. Some respondents emphasized their concerns and comments previously expressed in response to the IESBA NOCLAR Re-ED or expressed hesitation about the timing of ED-ISA 250 and concerns that the IAASB and IESBA needed to be closely aligned in finalizing their respective proposals. In this regard, the importance of ongoing coordination with the IESBA as it finalized the changes to the IESBA Code was stressed. There were also comments that updating the International Standards for minor amendments requires effort in translation and updates to firms' methodologies, at a time when there are other significant changes to deal with.

### IAASB decisions

18. The IAASB believed that, consistent with the IAASB NOCLAR ED, the intent was not to repeat all the requirements of the IESBA NOCLAR Re-ED in the International Standards, as doing so could place additional requirements on auditors and practitioners who are bound by ethical codes other than the IESBA Code and it could be impracticable for such auditors and practitioners to comply with the International Standards if they included these additional requirements. Furthermore, not all of the procedures contemplated by the IESBA NOCLAR Re-ED are designed for the purpose of providing sufficient appropriate audit evidence to support an opinion on the financial statements and are instead intended to support the auditor or practitioner in fulfilling relevant ethical obligations by responding to NOCLAR that the auditor or practitioner comes across or of which the auditor or practitioner is made aware. The IAASB carefully considered the matters addressed in the final IESBA pronouncement and decided it should continue with the limited approach to amendments to the International Standards, but has highlighted in ISA 250 (Revised) that the auditor may have additional responsibilities under law, regulation, or relevant ethical requirements regarding identified or suspected NOCLAR (see further discussion in paragraphs 27–30 of this Basis for Conclusions).

## **The Auditor's Determination of Whether to Report Identified or Suspected NOCLAR to an Appropriate Authority outside the Entity**

### *Background*

19. Extant ISA 250 includes a requirement that the auditor must determine whether the auditor has a responsibility to report identified or suspected NOCLAR to parties outside the entity.

20. In ED-ISA 250, the IAASB proposed updating this requirement to indicate that the auditor has a responsibility to determine whether the auditor has a legal or ethical duty or right to report identified or suspected NOCLAR. The amendments were proposed in order to more clearly recognize that the auditor may have a responsibility to report under law, regulation or relevant ethical requirements, and the expectations of the auditor may differ, for example, an obligation to report (“a duty”) or a general “right” (but not an obligation) to report.
21. Application material to support this amended requirement was also included in ED-ISA 250 to provide guidance to auditors on the considerations that the auditor may apply in reporting identified or suspected NOCLAR to appropriate authorities, including with respect to the auditor’s duty of confidentiality.

*Summary of Comments Received on Exposure*

22. Concerns were raised by respondents with the use of the phrase “legal or ethical duty or right”, as it was believed that this did not reflect the underlying decision-making process and evaluation that would take place before exercising a right, and it did not reflect that, in some cases, it is an ethical requirement or responsibility to report. It was also noted that the IESBA NOCLAR Re-ED did not make use of the term “right”. Other respondents were of the view that the phrase was ambiguous and unclear, particularly where laws or regulations prohibit the breach of confidentiality and the auditor is not able to report identified or suspected NOCLAR outside of the entity.
23. Respondents, including Monitoring Group members, provided various suggestions for improvements to ISA 250 and the conforming amendments in this regard, including the nature and extent of how ISA 250 makes reference to the provisions within the IESBA Code. Notably, there were requests to include, similar to the IESBA NOCLAR Re-ED, discussion of the legal and other risks that the auditor would take into account when determining whether to report identified or suspected NOCLAR to an appropriate authority, as well as reference to the “public interest test” included in the IESBA’s NOCLAR re-ED. Some also recommended more prominence be given in the requirements to the possible preclusion of reporting to an appropriate authority outside the entity, for example, due to confidentiality requirements contained in law or regulation that would override or be in conflict with any ethical requirements.

*IAASB Decisions*

24. The IAASB explored various alternatives of how to articulate the auditor’s determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity. The IAASB recognized that reporting responsibilities under law, regulation or relevant ethical requirements differ, and it is not possible to encapsulate all of these succinctly in a requirement without making it overly complex. Accordingly, the IAASB agreed to retain a simple requirement that generally covers the possible reporting responsibilities that may exist. The IAASB also believed that it should be clear that the ISAs require the auditor to determine what provisions are contained in law, regulation or relevant ethical requirements regarding reporting of identified or suspected NOCLAR, and that any reporting would be in accordance with such law, regulation or relevant ethical requirements (see paragraph 29 of ISA 250 (Revised)). Further, the IAASB was of the view that it is essential for the requirements to be supported by application material that comprehensively addresses the possible scenarios that may exist (see paragraphs A28–A31 of ISA 250 (Revised)).

25. As the objective of the project was to address actual or perceived inconsistencies with the IESBA Code, the IAASB also considered how best to give appropriate prominence within ISA 250 (Revised) to the requirements in the IESBA Code. The IAASB believed that reference to the IESBA Code would be best placed in the application material as an example, as this achieves the effect of highlighting the specific requirements within the IESBA Code, while recognizing not all who apply the ISAs apply the IESBA Code (see paragraph A30 of ISA 250 (Revised)). This approach is consistent with how the IESBA Code is referred to in other ISAs (e.g., ISA 260 (Revised)).
26. The IAASB also debated whether to explain the considerations relating to the duty of confidentiality in the requirement (i.e., that law, regulation or relevant ethical requirements may in some cases preclude reporting to an appropriate authority). The IAASB concluded that including this reference within the requirement could potentially undermine the objective of the project and inhibit the auditor's consideration of whether to report, and would therefore be best placed in application material (see paragraph A32 of ISA 250 (Revised)). Paragraphs A28–A33 of ISA 250 (Revised) are set out in the manner in which the IAASB believes an auditor would likely consider identified or suspected NOCLAR and determine whether reporting was required or appropriate in the circumstances.

### **Additional Responsibilities under Law, Regulation or Relevant Ethical Requirements Regarding Identified or Suspected NOCLAR, Including with Respect to Documentation**

#### *Background*

27. As noted in paragraph 11, the IAASB's approach was to make limited amendments to the International Standards that do not explicitly duplicate in detail all of the specific requirements in the IESBA NOCLAR Re-ED. Accordingly, in paragraph 8a of ED-ISA 250, the IAASB proposed highlighting that the auditor may have additional responsibilities under ethical requirements regarding identified or suspected NOCLAR, and that complying with those additional responsibilities may provide further information that is relevant to the auditor's work in accordance with ISA 250 and other ISAs.

#### *Summary of Comments Received on Exposure*

28. While respondents generally agreed with the IAASB's approach (see paragraph 16), some respondents specifically requested the inclusion of the documentation requirements contained in the IESBA NOCLAR Re-ED in ISA 250, or suggested other ways to alert the auditor to the fact that additional documentation is required for those auditors subject to the IESBA Code, to give this new requirement in the IESBA Code appropriate prominence.

#### *IAASB Decisions*

29. The IAASB believed that clarifying what some of the additional responsibilities under law, regulation or relevant ethical requirements would entail would be useful, and accordingly incorporated additional material highlighting some of the features of the IESBA Code in the introductory section (see paragraph 9 of ISA 250 (Revised)).
30. The IAASB also agreed with respondents that emphasis of the documentation requirements contained in the IESBA Code would be useful. In reconsidering the documentation requirements of ISA 250, the IAASB believed that the existing requirements in ISA 250 were somewhat limited, and may not appropriately guide the auditor in documenting their significant professional judgments, and the discussion of how management have responded to the identified or suspected NOCLAR.

Accordingly, the IAASB has enhanced the documentation requirements (see paragraph 30 of ISA 250 (Revised)) and has brought emphasis to the additional documentation requirements that may exist in law, regulation or relevant ethical requirements (see paragraphs 9 and A36 of ISA 250 (Revised)).

## Group Audits

### *Background and Summary of Comments Received on Exposure*

31. Consistent with the IESBA NOCLAR Re-ED, the ED-ISA 250 did not propose specific changes related to group audits.
32. In responding to the IESBA NOCLAR Re-ED, respondents, including one member of the Monitoring Group, commented that specific consideration should be given to communication of identified or suspected NOCLAR in a group audit situation. The IESBA accepted that there was a need to enhance the provisions in the IESBA Code regarding communication amongst auditors within a group audit as the guidance provided in the IESBA NOCLAR Re-ED lacked sufficient specificity. The IESBA did not believe that it would be appropriate to rely on ISA 600<sup>9</sup> to provide the necessary direction and guidance in this regard, as the IESBA Code serves different objectives compared with the ISAs. The IESBA also recognized that the IESBA Code and the ISAs are independent of each other and jurisdictions do not necessarily adopt them together. Subsequent to the issuance of ED-ISA 250, the IESBA found it necessary to include more specific provisions dealing with the communication of identified or suspected NOCLAR amongst auditors within a group audit in finalizing the changes to the IESBA Code.

### *IAASB Decisions*

33. The IAASB considered the implications of these amendments to the IESBA Code on the ISAs, and explored various alternatives to alerting auditors to the additional responsibilities in respect of group audit situations. These options included making conforming amendments to ISA 600, inserting additional requirements in ISA 250 addressing group audits, or including additional application material in ISA 250. The IAASB noted that the communication requirements in the revised IESBA Code would apply more widely than to those participating directly in a group audit. For example, there are communication requirements for auditors who are performing work at a component (e.g., a statutory audit) who may not be functioning as a component auditor for the purposes of the audit of the group financial statements.
34. The IAASB has a current initiative addressing group audits,<sup>10</sup> and as part of that initiative is exploring the two-way communications that may be necessary between group engagement teams and component auditors at a holistic level. The IAASB noted that there are existing provisions in ISA 600 that, to some extent, address the issues arising from the amendments in the revised IESBA Code. The IAASB<sup>11</sup> therefore did not believe a conforming amendment to ISA 600 would be appropriate at this time.

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<sup>9</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>10</sup> See the [Invitation to Comment, \*Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits\*](#).

<sup>11</sup> The IAASB member who voted against the conforming amendments did so on the basis that, in his view, a conforming amendment to ISA 600 was necessary at this time to give sufficient prominence to the additional communication requirements set out in the IESBA NOCLAR pronouncement.

35. Notwithstanding this view, the IAASB determined that emphasis should be included in ISA 250 regarding the additional responsibilities that may be contained in relevant ethical requirements relating to group audit situations. In order to remain consistent with the IAASB's decisions explained in paragraphs 18 and 29 above, the IAASB agreed to also highlight that the additional responsibilities that may be contained in relevant ethical requirements may include communicating instances of identified or suspected NOCLAR to other auditors (e.g., in an audit of group financial statements) (see paragraph 9 of ISA 250 (Revised)). This has been supported by application material that explains what such communication might entail (see paragraph A8 of ISA 250 (Revised)), with reference to the specific paragraphs in the IESBA Code. This positioning in ISA 250 has the benefit of highlighting the communication requirements in the IESBA Code that may apply in cases where ISA 600 does not apply – for example, to auditors performing statutory audits at a component who are not otherwise involved in the audit of the group financial statements.

### **The Implications of Identified or Suspected NOCLAR on the Audit**

#### *Background*

36. In ED-ISA 250, the IAASB proposed new guidance to clarify how addressing identified or suspected NOCLAR under the IESBA Code may have an effect on the audit being performed under the ISAs. In particular, new introductory material was added to highlight that complying with the additional responsibilities under relevant ethical requirements may provide further information that is relevant to the audit. This was further emphasized in the application material in ED-ISA 250, which explained circumstances that could impact on the reliability of written representations.

#### *Summary of Comments Received on Exposure*

37. Views were expressed that ISA 250 should incorporate more considerations relating to the impact of identified or suspected NOCLAR on the auditor's report, for example key audit matters. Respondents further noted that identified or suspected NOCLAR could qualify as a key audit matter, even if such NOCLAR was completely unrelated to the financial statements. Respondents also indicated that communication of identified or suspected NOCLAR in the auditor's report could be highly sensitive or there may be a circumstance when it should not be communicated as law or regulation may specifically prohibit a communication, or other action that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act.
38. It was also observed by respondents that the requirements of ISA 250 regarding withdrawal from the engagement were not aligned to the IESBA NOCLAR Re-ED, in particular that ISA 250 refers to the possibility of withdrawal as being an "exceptional case", and therefore contemplates withdrawal in more limited circumstances than the IESBA NOCLAR Re-ED.

#### *IAASB Decisions*

39. The IAASB reconsidered the application material in ED-ISA 250 addressing the implications for the auditor's report, including the possible withdrawal from the audit (as extant ISA 250 makes reference to an Other Matter paragraph, in the context of the auditor being unable to withdraw from the engagement).
40. The IAASB introduced new application material to clearly set out the variety of circumstances in which identified or suspected NOCLAR may have implications for the auditor's report (including key audit matters). This material acknowledges that the auditor may determine identified or suspected

NOCLAR to be a key audit matter, but also draws reference to relevant material in ISA 701<sup>12</sup> that addresses circumstances in which the auditor determines a matter to be a key audit matter but decides not to communicate the matter in the auditor's report<sup>13</sup> (see paragraph A26 of ISA 250 (Revised)). The application material also highlights that limitations may exist in relation to referring to identified or suspected NOCLAR in the auditor's report, which may affect the auditor's ability to describe the matter in the auditor's report, or in some circumstances, the auditor's ability to issue the auditor's report (see paragraph A27 of ISA 250 (Revised)).

41. The IAASB noted that, throughout the ISAs, the manner in which withdrawal from the engagement is described or required varies due to the circumstances in which withdrawal is contemplated. The IAASB believes that withdrawal "in exceptional circumstances", as indicated in extant ISA 250, may imply that withdrawal is a last resort, which is inconsistent with the intention of the revised IESBA Code. This is because withdrawal may be appropriate in some scenarios even if management has appropriately dealt with the identified or suspected NOCLAR, for example when there are questions about management's integrity. Accordingly, the IAASB agreed to better align the withdrawal provisions in ISA 250 with the revised IESBA Code (see paragraph A25 of ISA 250 (Revised)). However, the IAASB decided not to include the additional guidance in the revised IESBA Code regarding factors to consider in determining whether withdrawal is appropriate within ISA 250 (Revised), as this would be dissimilar to and more prescriptive than the approach taken in other ISAs in relation to withdrawal.

### **Alignment of the Definition of Non-Compliance and the Scope of Laws and Regulations with the IESBA Code**

#### *Background*

42. ED-ISA 250 included proposed changes to ISA 250 that the IAASB believed would significantly clarify the application of the International Standards in light of the IESBA Code. This largely comprised including in ED-ISA 250 the examples of laws and regulations that were indicated in the IESBA NOCLAR Re-ED as being those which the NOCLAR section of the IESBA Code addresses.

#### *Summary of Comments Received on Exposure*

43. Respondents expressed mixed views regarding the inclusion of the examples in ED-ISA 250. Some believed that it would create more confusion as there is no clear separation between the examples that relate to the two different categories<sup>14</sup> of laws and regulations contemplated in paragraph 6 of

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<sup>12</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>13</sup> Paragraph 14 of ISA 701 indicates that the auditor shall describe each key audit matter in the auditor's report unless (a) law or regulation precludes public disclosure about the matter; or (b) in extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<sup>14</sup> ISA 250 (Revised) distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows: (a) the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and pension laws and regulations; and (b) other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements.

ISA 250. Others expressed concern that the examples in the IESBA NOCLAR Re-ED are for a different purpose or application than the ISAs. There was also a view that the examples could increase the expectations gap in terms of how auditors respond in those circumstances versus what the public would expect them to do. Others noted that some of the examples are outside of the auditor's particular expertise, or were included in the IESBA NOCLAR Re-ED for a different purpose, for example to address insider trading.

44. There were suggestions on how to improve the examples, including classifying them between the two categories, combining the examples with other examples referenced in ISA 250, or including appropriate disclaimers to emphasize that the examples are not exhaustive and that the auditor would have to consider what represents relevant laws or regulations in the context of the particular engagement, the entity's industry and the regulatory framework. Respondents also recommended the inclusion of additional examples.
45. Additionally, while no changes were proposed to the definition of non-compliance in ED-ISA 250, respondents highlighted that the definition of non-compliance was not consistent with the IESBA NOCLAR Re-ED, which is explained in paragraph 225.2 of the revised IESBA Code as follows:

Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, committed by a client, or by those charged with governance, by management or by other individuals working for or under the direction of a client which are contrary to the prevailing laws or regulations.

46. There were suggestions that the definition in ISA 250 (Revised) should refer to personal misconduct related to the business activities of the entity, as well as include acts on behalf of the entity by individuals not employed by the entity. However, there was a view from a respondent that the definition in ISA 250 is subtly different from the IESBA NOCLAR Re-ED, in that all instances of personal misconduct are outside the scope of ISA 250.

#### *IAASB Decisions*

47. The IAASB believed that, to the extent possible, the relevant concepts in the ISAs (the scope of laws and regulations, the definition of non-compliance, and the circumstances under which the auditor may withdraw from the engagement) should be aligned to those of the revised IESBA Code, with the recognition that adaptations may be necessary to ensure the provisions remain relevant and appropriate in the context of the an audit of financial statements.

#### *Examples of Laws and Regulations*

48. The IAASB explored the suggestions and recommendations from respondents. While the IAASB acknowledged that it may be helpful to classify the examples between the two categories, the Board thought making a bright line distinction would not be possible, given that the appropriate classification depends on the nature and circumstances of the entity. Instead, the IAASB agreed that additional emphasis should be made in the application material to indicate that the classification of the laws or regulations between the two categories is dependent on the nature and circumstances of the entity (see paragraph A6 of ISA 250 (Revised)).
49. While the IAASB broadly believed that consistency with the revised IESBA Code is important, the Board did not think it necessary in ISA 250 (Revised) to reference the additional examples that were included in the IESBA NOCLAR pronouncement. The IAASB also noted that the examples are not

exhaustive, and therefore would not preclude the additional suggested examples from being within the scope of ISA 250 (Revised).

#### Definition of Non-Compliance

50. In exploring the need for consistency between the ISAs and the IESBA Code, the IAASB debated the meaning of the definition of non-compliance in extant ISA 250 and agreed the following matters:

- The reference to “transactions entered into by, in the name of, or on behalf of the entity” is an example of an act of non-compliance in the context of a financial statement audit.
- Personal misconduct related to the business activities of the entity is, and has always been, included within the scope of ISA 250, since the extant definition only scopes out personal misconduct unrelated to the business activities of the entity.

51. In light of these views, the IAASB evaluated the definition of non-compliance in relation to how non-compliance is described in the revised IESBA Code (see paragraph 225.2 and 225.9 of the revised IESBA Code). The intention of the IESBA was to align the concept of non-compliance with that contained in the ISAs, although the IESBA refined this explanation to ensure the description was relevant in the context of the IESBA Code. The IAASB noted the following key differences between extant ISA 250 and the revised IESBA Code:

- The description in the revised IESBA Code refers to acts committed by “other individuals working for or under the direction of the entity”, in addition to management and those charged with governance. Extant ISA 250 refers to “employees”. The IAASB agreed with how this is described in the revised IESBA Code, since it is possible that others who are not actual employees could be involved with the NOCLAR (such as contractors) and, accordingly, replaced “employees” with “other individuals working for or under the direction of the entity” (see paragraph 12 of ISA 250 (Revised)).
- Extant ISA 250 indicates that “Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees”. The revised IESBA Code does not make reference to this example as the IESBA believed that NOCLAR would not always arise from a transaction, but is rather something that arises from an action or inaction. The IAASB believed that this example should be retained as it is still relevant in the context of the ISAs, but relocated it to the application material supporting the definition (see paragraph A9 of ISA 250 (Revised)).
- The revised IESBA Code explains that the NOCLAR section of the Code does not address personal misconduct unrelated to the business activities of the client; this is located separately (paragraph 225.9 of the Code) from where the Code explains what non-compliance is (paragraph 225.2 of the Code). Extant ISA 250 also indicates that personal misconduct unrelated to the business activities of the entity is not included in the definition of non-compliance. In analyzing the consistency with the revised IESBA Code, the IAASB debated where best this would be placed, i.e., in the definition or in the application material. The IAASB believed that since this is important to the auditor’s understanding of which matters would be excluded from the definition of non-compliance, it should be retained in the definition (see paragraph 12 of ISA 250 (Revised)).
- The IAASB considered, but rejected, including additional explanatory material that was included in the IESBA Code to explain that non-compliance does not include acts committed

by third parties. The IAASB believed the example described in the IESBA Code would be rare, if at all possible, in an audit of financial statements, and concluded that including such a reference purely for consistency may be confusing.

52. The IAASB was further of the view that additional clarity regarding what would constitute personal misconduct related to the business activities would be helpful. Accordingly, an example has been included in the application material (see paragraph A10 of ISA 250 (Revised)).

## **Communication with Management or Those Charged with Governance**

### *Background*

53. New guidance was included in ED-ISA 250 to recognize that laws or regulations may prohibit alerting the entity, for example when the auditor is required to report identified or suspected NOCLAR to an appropriate authority pursuant to money laundering legislation.

### *Summary of Comments Received on Exposure*

54. Respondents raised concern that there is insufficient emphasis in the requirements to alert the auditor to the fact that the auditor may be prohibited from discussing the NOCLAR with management or those charged with governance. It was also noted that it is inconsistently treated within ISA 250 and could be given greater prominence (for example, by adding a statement to the introduction to ISA 250, consistent with paragraph 7 of ISA 260 (Revised)).
55. A Monitoring Group respondent also recommended that paragraphs 40–42 of ISA 240, which address the communication of fraud to management and those charged with governance, should encompass identified or suspected NOCLAR occurring at a component.

### *IAASB Decisions*

56. The IAASB reconsidered how ISA 250 and the conforming amendments address the possible preclusion on communicating with and reporting to management or those charged with governance. The IAASB believed it was important to highlight this possible preclusion in the requirements through the addition of “unless such communication is prohibited by law or regulation” in certain places (see, for example, paragraphs 20 and 23 of ISA 250 (Revised)), supported by an explanation in the application material (see paragraph A21 of ISA 250 (Revised)). The IAASB reviewed ISA 250 and the conforming amendments and included a reference to the preclusion in all cases where communication with management or those charged with governance is indicated.
57. The IAASB noted that both ISA 250 and ISA 240 address communication with management and those charged with governance, and accordingly provisions relating to communicating with group management regarding identified or suspected NOCLAR at a component would need to apply to both. However, as indicated in paragraphs 31–35 above, the IAASB considered revisions to ISA 250 and ISA 600 relating to group audits, and determined that revisions to ISA 600 at this time would not be appropriate, due to the current initiative addressing group audits. Instead, the IAASB has included a general indication that there may be additional responsibilities relating to group audit situations contained in relevant ethical requirements (see paragraphs 9 and A8 of ISA 250 (Revised)).

## **Communication with a Proposed Successor Auditor**

### *Background*

58. The ED proposed a conforming amendment to ISA 220 as application material to highlight a requirement in the IESBA NOCLAR Re-ED that, in the case of an audit of financial statements, an auditor shall request the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's opinion, the auditor needs to be aware of before deciding whether to accept the engagement.

### *Summary of Comments Received on Exposure*

59. There was concern that the predecessor auditor may not be willing to provide the information, or may not have the client's permission to do so, and clarification of this was requested in paragraph A8a of ISA 220. There was also a recommendation to indicate examples of "facts and circumstances" (e.g., identified or suspected NOCLAR), or to reference to the relevant sections of the revised IESBA Code.

### *IAASB Decisions*

60. The IAASB noted that, in finalizing the NOCLAR provisions for the revised IESBA Code, the IESBA made amendments to require that, when withdrawing from the engagement as a result of identified or suspected NOCLAR, the predecessor auditor, on request by the proposed successor auditor, should provide all such facts and other information concerning identified or suspected NOCLAR to the proposed successor auditor that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.
61. The IAASB has accordingly highlighted this requirement of the revised IESBA Code in the application material of ISA 220 (see paragraph A8a of ISA 220).
62. Furthermore, the IAASB agreed that it would be helpful to refer to paragraph 210.14 of the revised IESBA Code in ISA 220 as an example of what may specifically be required by relevant ethical requirements in relation to communications between a predecessor auditor and a proposed successor auditor (see paragraph A8a of ISA 220 (Revised)).

## **Implications for International Standards Other than ISAs**

### *Background*

63. The NOCLAR provisions in the revised IESBA Code apply to all professional accountants, although the responsibilities differ between professional accountants performing audits of financial statements, professional accountants providing professional services other than audits of financial statements and professional accountants in business.
64. In terms of the revised IESBA Code, the laws and regulations to which a professional accountant must respond if the professional accountant is made aware of identified or suspected NOCLAR are the same as the laws and regulations covered by ISA 250 (i.e., laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements or are fundamental to the operating aspects of the entity's business, to its ability to continue as a going concern or to avoid material penalties).
65. In the ED-ISA 250, proposed amendments were only made to ISRE 2400 (Revised), with a minor edit to ISAE 3402.

### *Summary of Comments Received on Exposure*

66. Two respondents highlighted that the scope of laws and regulations in the IESBA NOCLAR Re-ED is inconsistent with the scope of the laws and regulations contemplated by certain of the International Standards, specifically ISRE 2400 (Revised) and ISAE 3000 (Revised). There were also concerns about the inconsistency in work effort relating to identified or suspected NOCLAR between these International Standards and the IESBA NOCLAR Re-ED, since the IESBA NOCLAR Re-ED imposes an obligation on a practitioner beyond the requirements of these International Standards.
67. Three respondents questioned whether the conforming amendments to the International Standards were adequate, as no amendments were proposed in the ED to certain of the International Standards, particularly ISAE 3000 (Revised).

### *IAASB Decisions*

68. The IAASB noted that the practitioner is, under the revised IESBA Code, expected to respond to NOCLAR when it comes to the practitioner's attention. However, the revised IESBA Code does not require the practitioner to perform procedures to identify instances of NOCLAR. The revised IESBA Code explains the practitioner's expected level of knowledge of laws and regulations, as reflected in paragraph 225.40 of the revised IESBA Code:

The professional accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

69. The IAASB considered whether amendments to the other standards would be appropriate and concluded that:
- It would be appropriate to bring emphasis to the additional responsibilities relating to NOCLAR under the revised IESBA Code in ISAE 3000 (Revised) and ISRS 4410 (Revised).
  - Conforming amendments would not be appropriate for ISRE 2410,<sup>15</sup> as this standard is still in the "pre-clarity" format and has not been recently amended to reflect conforming amendments in respect of other IAASB projects.
  - Conforming amendments would not be appropriate for ISRS 4400,<sup>16</sup> as this standard is the subject of a current IAASB project.

## **Jurisdictions that Do Not Adopt, or Plan to Adopt, the IESBA Code**

### *Background*

70. In issuing ED-ISA 250, the IAASB proposed limited amendments to the International Standards and did not intend on duplicating all the specific requirements in the revised IESBA Code. This approach recognized that, in some jurisdictions, ethical codes other than the IESBA Code may be applied. The

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<sup>15</sup> ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

<sup>16</sup> ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*

IAASB requested respondents to indicate the impact, if any, of the proposed limited amendments in jurisdictions that have not adopted, or do not plan to adopt, the IESBA Code.

#### *Summary of Comments Received on Exposure*

71. Respondents generally indicated that there is no conflict between the proposed amendments to the International Standards and local jurisdictional codes or laws or regulations in jurisdictions that have not adopted, or do not plan to adopt, the IESBA Code. However, a limited number of respondents expressed the view that a possible conflict could arise, or that future compliance with the International Standards may become difficult, due to the requirement in ISA 200<sup>17</sup> that the auditor comply with “relevant ethical requirements” when conducting an audit in accordance with ISAs. There was also a question raised about how ethical codes applied by auditors and practitioners would be measured to determine their equivalency to the IESBA Code, given a perception of the IESBA Code becoming more explicit and detailed.

#### *IAASB Decisions*

72. The IAASB further discussed these matters, including with the IAASB’s National Auditing Standard Setters Liaison Group, in order to obtain a better understanding of how ISA 200 is interpreted and applied by NSS in their jurisdictions. IAASB staff also consulted with IESBA staff to ascertain the implication of the circumstances where the IESBA Code is in conflict with local laws or regulations. The Board concluded that the concern raised does not appear to have broad relevance internationally at this time, and therefore there is no present need to clarify ISA 200. Nonetheless, this may be a matter for monitoring by the IAASB, taking into account any pertinent findings from the post-implementation review the IESBA intends to undertake in the future regarding the NOCLAR provisions in the revised IESBA Code. It was also acknowledged that the determination of how national ethical requirements (when not the IESBA Code), the IESBA Code, and the ISAs interrelate is a matter for local or jurisdictional consideration, although it was recognized that the relevant ethical requirements applied would need to be high quality.

### **Other Issues Raised by Respondents**

#### *Whether a More Fulsome Review of ISA 250 Is Warranted in Due Course*

73. Prior to undertaking this project, in developing its current Strategy and Work Plan, the IAASB had not identified a need for a fulsome review of ISA 250. However, the IAASB recognized that ED-ISA 250 was an opportunity for the IAASB to solicit stakeholders’ views as to whether there is merit in exploring other aspects of ISA 250 where further improvements may need to be considered in due course (i.e., under a future IAASB Work Plan).
74. There were mixed views from respondents regarding the need for a future project to revise ISA 250 or explore its improvement. Respondents in support of a future revision, including a Monitoring Group member, expressed support for some of the specific aspects highlighted in the ED of matters that may warrant consideration in the future. There were also suggestions and recommendations from respondents of matters that could be considered in a future revision of ISA 250. Respondents who did not support a more fulsome review of ISA 250 cited various reasons, including other higher priority

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<sup>17</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

projects, a lack of observed problems with the current ISA, and concerns about the scope, responsibilities and expectations of the auditor arising from a revision.

#### *IAASB Decisions*

75. Consistent with the proposals in ED-ISA 250, the IAASB continues to believe that an immediate revision of ISA 250 is not warranted in light of other more urgent priorities that were identified in developing the current Work Plan – which continue to be supported by feedback to the December 2015 Invitation to Comment, *Enhancing Audit Quality in the Public Interest*. However, the question of the relative importance of a fulsome review and accordingly whether this should be considered by the IAASB in its next Work Plan for 2017–2018 was included in IAASB’s July 2016 survey, [Survey Consultation—The IAASB’s Work Plan for 2017–2018 and Continuing Relevance of Its Strategic Objectives](#). The determination of future priorities, including whether to revise ISA 250 more fully in the future, will be made based on feedback from this survey and discussions with the CAG, with oversight from the Public Interest Oversight Board.

#### *Firms’ Systems of Quality Control*

76. A Monitoring Group respondent indicated that the IAASB should establish requirements for firms to establish processes internal to the firm that stipulate how the firm should address those instances in which an auditor or practitioner comes across identified or suspected NOCLAR at an entity. It was suggested this could potentially be done as part of the IAASB’s current project addressing quality control.
77. ISQC 1 contains a general requirement for firms to establish policies and procedures with regards to compliance with relevant ethical requirements. The IAASB agreed that the establishment of appropriate policies and procedures to address the response to identified or suspected NOCLAR is important, and will consider the need for a specific requirement in ISQC 1 in this regard as part of its quality control project.

#### *Other Conforming Amendments*

78. Respondents recommended that paragraph A24 of ISA 210 should address the inclusion in the engagement letter of the auditor’s legal duty or ethical responsibility to report identified or suspected NOCLAR. The IAASB agreed with this suggestion.
79. For the purposes of consistency, respondents suggested revising paragraph A26 of ISA 500 and inserting a new paragraph in ISA 500 (paragraph A33a) to highlight that audit evidence may arise from other sources, such as ethical requirements, and that identified or suspected NOCLAR may provide further information relevant to the audit. The IAASB agreed with the inclusion of this additional guidance.

#### **Effective Date**

80. At the time of exposing ED-ISA 250, the IESBA was targeting approval of the NOCLAR provisions together with the restructured IESBA Code, which was expected to take place by the fourth quarter of 2016. Accordingly, the IAASB anticipated that the effective date of the changes to ISA 250 (Revised) could be aligned with that of the NOCLAR provisions in the revised IESBA Code, and respondents supported this.

81. The IESBA subsequently determined that its NOCLAR provisions should be issued when finalized, instead of waiting for the final restructuring of the IESBA Code, thus moving the timeline for the effective date of the IESBA NOCLAR pronouncement forward. The effective date of the IESBA NOCLAR provisions is July 15, 2017 (i.e., the provisions apply to instances of NOCLAR that come to the professional accountant's attention on or after July 15, 2017).
82. The IAASB debated various options, balancing the aim of trying to achieve alignment with the IESBA's effective date with recognition of the importance of allowing sufficient time for stakeholders to effectively implement ISA 250 (Revised) and the conforming amendments. The IAASB noted that it is not possible to achieve perfect alignment of the effective dates.
83. The IAASB noted that the changes to ISA 250 (Revised) do not change the auditor's work effort, i.e., the auditor's response to identified or suspected NOCLAR would not differ between extant and revised ISA 250. This is because the auditor would still have an obligation in accordance with extant ISA 250 to consider the appropriate action be taken in accordance with the relevant ethical requirements, for example the IESBA Code when this constitutes the relevant ethical requirements. Therefore, the lack of alignment of effective dates would, in practice, not have an effect.
84. Accordingly, the IAASB agreed that the most appropriate effective date is for audits of financial statements for periods beginning on or after December 15, 2017, with early adoption permitted, as this would allow for a sufficient time period for the implementation activities (approximately fifteen months).

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**Compiled Auditing Standard**

**ASA 250**

(June 2011)

**Auditing Standard ASA 250**  
***Consideration of Laws and***  
***Regulations in an Audit of a***  
***Financial Report***

This compilation was prepared on 27 June 2011 taking into account amendments made by ASA 2011-1

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



**Australian Government**

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**Auditing and Assurance Standards Board**

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ISSN 1833-4393

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## COMPILATION DETAILS

### **Auditing Standard ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report as Amended***

This compilation takes into account amendments made up to and including 27 June 2011 and was prepared on 27 June 2011 by the Auditing and Assurance Standards Board (AUASB).

This compilation is not a separate Auditing Standard made by the AUASB. Instead, it is a representation of ASA 250 (October 2009) as amended by another Auditing Standard which is listed in the Table below.

#### **Table of Standards**

<b>Standard</b>	<b>Date made</b>	<b>Operative date</b>
ASA 250	27 October 2009	1 January 2010
ASA 2011-1	27 June 2011	1 July 2011

#### **Table of Amendments**

<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [paragraph]</b>
5 Footnote 2	Amended	ASA 2011-1 [24]

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*Consideration of Laws and Regulations in an Audit of a Financial Report*

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**AUTHORITY STATEMENT**

Auditing Standard ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* (as amended at 27 June 2011) is set out in paragraphs 1 to A21.

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. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: 27 June 2011

M H Kelsall  
Chairman - AUASB

## AUDITING STANDARD ASA 250

The Auditing and Assurance Standards Board (AUASB) made Auditing Standard ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*, on 27 October 2009.

This compiled version of ASA 250 incorporates subsequent amendments contained in another Auditing Standard made by the AUASB up to and including 27 June 2011 (see Compilation Details).

## AUDITING STANDARD ASA 250

### *Consideration of Laws and Regulations in an Audit of a Financial Report*

#### Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

#### Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010. [Note: For operative dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

#### Introduction

##### Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibility to consider laws and regulations in an audit of a financial report. This Auditing Standard does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

##### Effect of Laws and Regulations

2. The effect on a financial report of laws and regulations varies considerably. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations have a direct effect on the

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***Consideration of Laws and Regulations in an Audit of a Financial Report***

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financial report in that they determine the reported amounts and disclosures in an entity's financial report. Other laws or regulations are to be complied with by management or set the provisions under which the entity is allowed to conduct its business but do not have a direct effect on an entity's financial report. Some entities operate in heavily regulated industries (such as banks and chemical companies). Others are subject only to the many laws and regulations that relate generally to the operating aspects of the business (such as those related to occupational safety and health, and equal employment opportunity). Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial report.

**Responsibility for Compliance with Laws and Regulations** (Ref: Para. A1-A6)

3. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial report.

*Responsibility of the Auditor*

4. The requirements in this Auditing Standard are designed to assist the auditor in identifying material misstatement of the financial report due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.
5. The auditor is responsible for obtaining reasonable assurance that the financial report, taken as a whole, is free from material misstatement, whether caused by fraud or error.<sup>1</sup> In conducting an audit of a financial report, the auditor takes into account the applicable legal and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial report may not be detected, even though the audit is properly planned and performed in accordance with the Australian Auditing Standards.<sup>2</sup> In the context of laws and regulations, the potential effects of inherent limitations

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<sup>1</sup> See ASA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 5.

<sup>2</sup> See ASA 200, paragraph A51-A52.

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on the auditor's ability to detect material misstatements are greater for such reasons as the following:

- There are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial report and are not captured by the entity's information systems relevant to financial reporting.
- Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor.
- Whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of law.

Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial report, the less likely the auditor is to become aware of it or to recognise the non-compliance.

6. This Auditing Standard distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:
- (a) The provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report such as tax and superannuation laws and regulations (see paragraph 13 of this Auditing Standard); and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial report, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial report (see paragraph 14 of this Auditing Standard).
7. In this Auditing Standard, differing requirements are specified for each of the above categories of laws and regulations. For the

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category referred to in paragraph 6(a) of this Auditing Standard, the auditor's responsibility is to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations. For the category referred to in paragraph 6(b) of this Auditing Standard, the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial report.

8. The auditor is required by this Auditing Standard to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on the financial report may bring instances of identified or suspected non-compliance to the auditor's attention. Maintaining professional scepticism throughout the audit, as required by ASA 200,<sup>3</sup> is important in this context, given the extent of laws and regulations that affect the entity.

**Effective Date**

9. [Deleted by the AUASB. Refer Aus 0.3]

**Objectives**

10. The objectives of the auditor are:
- (a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report;
  - (b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial report; and
  - (c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.

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<sup>3</sup> See ASA 200, paragraph 15.

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**Definition**

11. For the purposes of this Auditing Standard, the following term has the meaning attributed below:

Non-compliance means acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

**Requirements**

**The Auditor's Consideration of Compliance with Laws and Regulations**

12. As part of obtaining an understanding of the entity and its environment in accordance with ASA 315,<sup>4</sup> the auditor shall obtain a general understanding of:
- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
  - (b) How the entity is complying with that framework.  
(Ref: Para. A7)
13. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report. (Ref: Para. A8)
14. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial report:  
(Ref: Para. A9-A10)
- (a) Enquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and

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<sup>4</sup> See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11.

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- (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
- 15. During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. (Ref: Para. A11-Aus A11.1)
- 16. The auditor shall request management and, where appropriate, those charged with governance, to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial report have been disclosed to the auditor. (Ref: Para. A12)
- 17. In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 12-16 of this Auditing Standard.

**Audit Procedures When Non-Compliance Is Identified or Suspected**

- 18. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain: (Ref: Para. A13)
  - (a) An understanding of the nature of the act and the circumstances in which it has occurred; and
  - (b) Further information to evaluate the possible effect on the financial report. (Ref: Para. A14)
- 19. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgement, the effect of the suspected non-compliance may be material to the financial report, the auditor shall consider the need to obtain legal advice. (Ref: Para. A15-A16)
- 20. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.

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21. The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action. (Ref: Para. A17-A18)

**Reporting of Identified or Suspected Non-Compliance**

*Reporting Non-Compliance to Those Charged with Governance*

22. Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor,<sup>5</sup> the auditor shall communicate with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.
23. If, in the auditor's judgement, the non-compliance referred to in paragraph 22 of this Auditing Standard is believed to be intentional and material, the auditor shall communicate the matter to those charged with governance as soon as practicable.
24. If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.

*Reporting Non-Compliance in the Auditor's Report on the Financial Report*

25. If the auditor concludes that the non-compliance has a material effect on the financial report, and has not been adequately reflected in the financial report, the auditor shall, in accordance with ASA 705, express a qualified opinion or an adverse opinion on the financial report.<sup>6</sup> (Ref: Para. A18.1)

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<sup>5</sup> See ASA 260, *Communication with Those Charged with Governance*, paragraph 13.

<sup>6</sup> See ASA 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7-8.

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26. If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial report has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial report on the basis of a limitation on the scope of the audit in accordance with ASA 705.
27. If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion in accordance with ASA 705.

*Reporting Non-Compliance to Regulatory and Enforcement Authorities*

28. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity. (Ref: Para. A19-A20)

**Documentation**

29. The auditor shall include in the audit documentation identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.<sup>7</sup>  
(Ref: Para. A21)

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<sup>7</sup> See ASA 230 *Audit Documentation*, paragraphs 8-11, and paragraph A6.

## **Application and Other Explanatory Material**

### **Responsibility for Compliance with Laws and Regulations** (Ref: Para. 3-8)

- A1. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with laws and regulations. Laws and regulations may affect an entity's financial report in different ways: for example, most directly, they may affect specific disclosures required of the entity in the financial report or they may prescribe the applicable financial reporting framework. They may also establish certain legal rights and obligations of the entity, some of which will be recognised in the entity's financial report. In addition, laws and regulations may impose penalties in cases of non-compliance.
- A2. The following are examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:
- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
  - Instituting and operating appropriate systems of internal control.
  - Developing, publicising and following a code of conduct.
  - Ensuring employees are properly trained and understand the code of conduct.
  - Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
  - Engaging legal advisors to assist in monitoring legal requirements.
  - Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.

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In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:

- An internal audit function.
- An audit committee.
- A compliance function.

*Responsibility of the Auditor*

- A3. Non-compliance by the entity with laws and regulations may result in a material misstatement of the financial report. Detection of non-compliance, regardless of materiality, may affect other aspects of the audit including, for example, the auditor's consideration of the integrity of management or employees.
- A4. Whether an act constitutes non-compliance with laws and regulations is a matter for legal determination, which is ordinarily beyond the auditor's professional competence to determine. Nevertheless, the auditor's training, experience and understanding of the entity and its industry or sector may provide a basis to recognise that some acts, coming to the auditor's attention, may constitute non-compliance with laws and regulations.
- A5. In accordance with specific statutory requirements, the auditor may be specifically required to report, as part of the audit of the financial report, on whether the entity complies with certain provisions of laws or regulations. In these circumstances, ASA 700<sup>8</sup> or ASA 800<sup>9</sup> deal with how these audit responsibilities are addressed in the auditor's report. Furthermore, where there are specific statutory reporting requirements, it may be necessary for the audit plan to include appropriate tests for compliance with these provisions of the laws and regulations.

*Considerations Specific to Public Sector Entities*

- A6. In the public sector, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may

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<sup>8</sup> See ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraph 38.

<sup>9</sup> See ASA 800 *Special Considerations — Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*, paragraph 11.

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relate to the audit of a financial report or may extend to other aspects of the entity's operations.

**The Auditor's Consideration of Compliance with Laws and Regulations**

*Obtaining an Understanding of the Legal and Regulatory Framework*

(Ref: Para. 12)

- A7. To obtain a general understanding of the legal and regulatory framework, and how the entity complies with that framework, the auditor may, for example:
- Use the auditor's existing understanding of the entity's industry, regulatory and other external factors;
  - Update the understanding of those laws and regulations that directly determine the reported amounts and disclosures in the financial report;
  - Enquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity;
  - Enquire of management concerning the entity's policies and procedures regarding compliance with laws and regulations; and
  - Enquire of management regarding the policies or procedures adopted for identifying, evaluating and accounting for litigation claims.

*Laws and Regulations Generally Recognised to Have a Direct Effect on the Determination of Material Amounts and Disclosures in the Financial Report*

(Ref: Para. 13)

- A8. Certain laws and regulations are well-established, known to the entity and within the entity's industry or sector, and relevant to the entity's financial report (as described in paragraph 6(a)). They could include those that relate to, for example:
- The form and content of the financial report;
  - Industry-specific financial reporting issues;
  - Accounting for transactions under government contracts; or

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- The accrual or recognition of expenses for income tax or superannuation costs.

Some provisions in those laws and regulations may be directly relevant to specific assertions in the financial report (for example, the completeness of income tax provisions), while others may be directly relevant to the financial report as a whole (for example, the required statements constituting a complete set of financial statements). The aim of the requirement in paragraph 13 is for the auditor to obtain sufficient appropriate audit evidence regarding the determination of amounts and disclosures in the financial report in compliance with the relevant provisions of those laws and regulations.

Non-compliance with other provisions of such laws and regulations and other laws and regulations may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for in the financial report, but are not considered to have a direct effect on the financial report as described in paragraph 6(a).

*Procedures to Identify Instances of Non-Compliance – Other Laws and Regulations* (Ref: Para. 14)

- A9. Certain other laws and regulations may need particular attention by the auditor because they have a fundamental effect on the operations of the entity (as described in paragraph 6(b)). Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may cause the entity to cease operations, or call into question the entity's continuance as a going concern. For example, non-compliance with the requirements of the entity's license or other entitlement to perform its operations could have such an impact (for example, for a bank, non-compliance with capital or investment requirements). There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial report and are not captured by the entity's information systems relevant to financial reporting.
- A10. As the financial reporting consequences of other laws and regulations can vary depending on the entity's operations, the audit procedures required by paragraph 14 are directed to bringing to the auditor's attention instances of non-compliance with laws and regulations that may have a material effect on the financial report.

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*Non-Compliance Brought to the Auditor's Attention by Other Audit Procedures* (Ref: Para. 15)

A11. Audit procedures applied to form an opinion on the financial report may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. For example, such audit procedures may include:

- Reading minutes;
- Enquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and
- Performing substantive tests of details of classes of transactions, account balances or disclosures; and

Aus A11.1 Review of breach registers and equivalent records (for example, complaints, whistleblower or suspicious matter reports registers).

*Written Representations* (Ref: Para. 16)

A12. Because the effect on the financial report of laws and regulations can vary considerably, written representations provide necessary audit evidence about management's knowledge of identified or suspected non-compliance with laws and regulations, whose effects may have a material effect on the financial report. However, written representations do not provide sufficient appropriate audit evidence on their own and, accordingly, do not affect the nature and extent of other audit evidence that is to be obtained by the auditor.<sup>10</sup>

**Audit Procedures When Non-Compliance Is Identified or Suspected**

*Indications of Non-Compliance with Laws and Regulations* (Ref: Para. 18)

A13. If the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations:

- Investigations by regulatory organisations and government departments or payment of fines or penalties.

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<sup>10</sup> See ASA 580 *Written Representations*, paragraph 4.

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- Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
- Purchasing at prices significantly above or below market price.
- Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.
- Unusual transactions with companies or entities registered in tax havens.
- Payments for goods or services made other than to the country from which the goods or services originated.
- Payments without proper exchange control documentation.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorised transactions or improperly recorded transactions.
- Adverse media comment.

*Matters Relevant to the Auditor's Evaluation* (Ref: Para. 18(b))

- A14. Matters relevant to the auditor's evaluation of the possible effect on the financial report include:
- The potential financial consequences of non-compliance with laws and regulations on the financial report including, for example, the imposition of fines, penalties, damages, threat of expropriation of assets, enforced discontinuation of operations, and litigation.
  - Whether the potential financial consequences require disclosure.

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- Whether the potential financial consequences are so serious as to call into question the fair presentation of the financial report, or otherwise make the financial report misleading.

*Audit Procedures* (Ref: Para. 19)

- A15. The auditor may discuss the findings with those charged with governance where they may be able to provide additional audit evidence. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to transactions or events that have led to the possibility of non-compliance with laws and regulations.
- A16. If management or, as appropriate, those charged with governance do not provide sufficient information to the auditor that the entity is in fact in compliance with laws and regulations, the auditor may consider it appropriate to consult with the entity's in-house legal counsel or external legal counsel about the application of the laws and regulations to the circumstances, including the possibility of fraud, and the possible effects on the financial report. If it is not considered appropriate to consult with the entity's legal counsel or if the auditor is not satisfied with the legal counsel's opinion, the auditor may consider it appropriate to consult the auditor's own legal counsel as to whether a contravention of a law or regulation is involved, the possible legal consequences, including the possibility of fraud, and what further action, if any, the auditor would take.

*Evaluating the Implications of Non-Compliance* (Ref: Para. 21)

- A17. As required by paragraph 21, the auditor evaluates the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations. The implications of particular instances of non-compliance identified by the auditor will depend on the relationship of the perpetration and concealment, if any, of the act to specific control activities and the level of management or employees involved, especially implications arising from the involvement of the highest authority within the entity.
- A18. In exceptional cases, the auditor may consider whether withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, is necessary when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances, even when the non-compliance is not material to the financial report. When deciding

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whether withdrawal from the engagement is necessary, the auditor may consider seeking legal advice. If withdrawal from the engagement is not possible, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter(s) paragraph in the auditor's report.<sup>11</sup>

**Reporting of Identified or Suspected Non-Compliance**

*Reporting Non-Compliance in the Auditor's Report on the Financial Report*  
(Ref: Para. 25)

Aus A18.1 If, in the case of an audit conducted under the *Corporations Act 2001*, the auditor identifies non-compliance with an Australian Accounting Standard, defects or irregularities in the financial report or deficiencies, failures or shortcomings in respect of sec 307 of the Act, the auditor's report is to include the information required by the Act.\* The auditor needs to consider any other relevant laws and regulations. If the auditor is in doubt as to the proper interpretation of laws or regulations, or whether non-compliance has in fact occurred, the auditor ordinarily seeks legal advice before expressing an opinion on the financial report.

*Reporting Non-Compliance to Regulatory and Enforcement Authorities*  
(Ref: Para. 28)

A19. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. However, the auditor's legal responsibilities vary by jurisdiction and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some jurisdictions, the auditor of a financial institution has a statutory duty to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities. Also, in some jurisdictions, the auditor has a duty to report misstatements to authorities in those cases where management and, where applicable, those charged with governance fail to take corrective action. The auditor may consider it appropriate to obtain legal advice to determine the appropriate course of action.

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<sup>11</sup> See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8 and Aus 8.1.

\* See sections 308 (2) and (3) of the *Corporations Act 2001*.

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Aus A19.1 In certain circumstances, the auditor has a statutory responsibility to report instances of non-compliance with laws and regulations. For example, in certain circumstances, the auditor is required under the *Corporations Act 2001*, to report to the Australian Securities and Investments Commission (ASIC).<sup>\*</sup> Establishing the appropriate authority to which such a report would be made in a particular instance will depend on the nature and circumstances of the non-compliance. When in doubt, the auditor would ordinarily seek legal advice.

Considerations Specific to Public Sector Entities

A20. A public sector auditor may be obliged to report on instances of non-compliance to the legislature or other governing body or to report them in the auditor's report.

**Documentation** (Ref: Para. 29)

A21. The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:

- Copies of records or documents.
- Minutes of discussions held with management, those charged with governance or parties outside the entity.

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<sup>\*</sup> See ASIC Regulatory Guide 34 *Auditors' obligations: reporting to ASIC* (December 2007) that provides guidance to help auditors comply with their obligations, under sections 311, 601HG and 990K of the *Corporations Act 2001*, to report contraventions and suspected contraventions of the Act to ASIC.

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**Conformity with International Standards on Auditing**

This Auditing Standard conforms with International Standard on Auditing ISA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* (Redrafted), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

Compliance with this Auditing Standard enables compliance with ISA 250.



## Proposed modification (1) to international standard ISA 250

Proposed modification

Include Aus 29.1:

In certain circumstances, the auditor has a statutory responsibility to report instances of non-compliance with laws and regulations. For example, in certain circumstances, the auditor is required under the *Corporations Act 2001*, to report to the Australian Securities and Investments Commission (ASIC)\*. Establishing the appropriate authority to which such a report would be made in a particular instance will depend on the nature and circumstances of the non-compliance. When in doubt, the auditor would ordinarily seek legal advice.

\* See ASIC Regulatory Guide 34 Auditors' obligations: Reporting to ASIC (May 2013) that provides guidance to help auditors comply with their obligations, under sections 311, 601HG and 990K of the *Corporations Act 2001*, to report contraventions and suspected contraventions of the Act to ASIC.

### Rationale for the proposed modification

**The international standard is not consistent with Australian regulatory arrangements.**

The proposed modification is merely to correctly identify the reporting requirements under Australian legislation.

**OR**

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

NA

### A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.

**Compelling reason criteria as per agreed Principles of Convergence**

**Consideration whether the proposed modification meets the criteria**

**1. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia.**

Yes.

The proposed modifications provides a reference to a requirement under the *Corporations Act 2001*.

**2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.**

There is no conflict or lessening of the ISA requirements merely adaptations to comply with applicable legislation.

### B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.

**Compelling reason criteria as per agreed Principles of Convergence**

**Consideration whether the proposed modification meets the criteria**

**1. The application of the proposed modification will result in compliance with**

NA



<b>Proposed modification (1) to international standard ISA 250</b>	
<b>principles and practices considered appropriate by the AUASB.</b>	
<b>2. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)</b>	NA
<b>3. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)</b>	NA
<b>4. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).</b>	NA
<b>5. The proposed modification does not conflict with or result in lesser requirements than the international standard.</b>	NA
<b>6. The proposed modification overall does not result in the standard being overly complex and confusing.</b>	NA
<b>7. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.</b>	NA
<b>C. Conclusion</b>	
<b>Compelling reasons test met/not met?</b>	The compelling reasons test has been met.
<b>Does the Board agree that the proposed modification meets the compelling reason test, and that ISA 250 should be modified as described above?</b>	



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**           **6**  
**Meeting Date:**               25 October 2016  
**Subject:**                       Audit Committee Guide Revision  
**Date Prepared:**              11 October 2016

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**Action Required**

**For Information Purposes Only**

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## **Objective:**

To present to the AUASB the updated sections as allocated to the AUASB of the Audit Committee Guide Revision.

## **Background:**

At the 26 July 2016 AUASB meeting, the AUASB approved a project plan for all three authors, the Australian Institute of Company Directors (AICD), the Institute of Internal Auditors Australia (IIA) and the Australian Auditing and Assurance Standards Board (AUASB), to work jointly, to take into account changes in the regulation and operation of audit committees since the guide was last issued in February 2012.

This project is a high level update/revision only – the project is not intended to be a re-write.

A collated full version of the updated guide will be presented to the AUASB at the 29 November 2016 AUASB meeting.

For purposes of this teleconference, only the AUASB allocated sections have been updated but the full version with AUASB sections marked up has been provided to provide context.

The colour coded table of contents (Agenda Item 6.1) has been provided and sections highlighted yellow are the AUASB allocated work areas.

## **Extract of timetable – AUASB input/timing:**

August – October 16: Working group members complete each section as noted above.

**AUASB: 25 October AUASB meeting – AUASB allocated sections only presented to AUASB**

Nov – Dec 2016: Draft sent out for review and review comments received by mid-December

**AUASB: 29 November AUASB meeting – First Draft of full revision**

February 2017 Review comments incorporated and Draft 2 sent out for review (including ASIC review)

**AUASB: 1 March AUASB meeting – Second Draft of full revision**

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*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**

N/A – for noting only.

**Material Presented**

Agenda Item 6 AUASB Board Meeting Summary Paper  
Agenda Item 6.1 Colour coded table of contents  
Agenda Item 6.2 Draft 1 – only AUASB allocated sections have been marked up

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**Action Required**

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Input	Input	AUASB	25 October 2016	

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**BLUE: AICD**  
**GREEN: IIA**  
**YELLOW: AUASB**

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**AUDIT COMMITTEES**  
**A GUIDE TO GOOD PRACTICE**  
2nd Edition

A joint publication from the Auditing and Assurance Standards Board, Australian Institute of  
Company Directors and The Institute of Internal Auditors-Australia

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Second edition published August 2012 by:

The Auditing and Assurance Standards Board, the Australian Institute of Company Directors, the Institute of Internal Auditors-Australia

### Related publications:

1997: Audit Committees: best practice guide

2001: Audit Committees: best practice guide 2e

2008: Audit Committees: a guide to good practice

National Library of Australia Cataloguing-in-Publication entry

Title: Audit Committees: a guide to good practice

ISBN 978-1-876604-05-9

1. Audit committees-Australia. 2. Finance, Public-Australia-Auditing, 3. Expenditure, Public-Australia-Auditing. 4. Administrative agencies-Australia-Auditing. 4. Executive departments-Australia-Auditing

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## Introduction

An audit committee is a committee of a board of directors (board), operating under delegation of authority from the board. Its objectives are clearly defined and documented in its charter and its efficiency and effectiveness is measured by reference to its objectives.

An independent audit committee is a fundamental component of good corporate governance.<sup>1</sup>

Typically, an audit committee:

1. focuses on issues relevant to the integrity of an entity's financial reporting
2. oversees external audit, internal audit, risk management, internal control and compliance
3. liaises with the board, internal and external auditors<sup>2</sup> and management.

Some entities establish one committee with the responsibility for all of these tasks, such as an audit and risk management committee. Other entities may establish more than one committee, such as an audit committee, together with a risk and compliance committee, health and safety committee, environmental management committee and other committees. This depends on the nature of the entity, but is more common in larger entities due to the increased work load.

## Who should use this guide?

This guide is primarily for directors and audit committees of Australian listed companies. Directors, boards of management and audit committees of not-for-profit, public sector<sup>3</sup>, and other private sector entities, may also find this guide to be a useful reference.

There is no "one size fits all" good practice solution for audit committees. The nature of the business, the regulatory environment, ownership structure, legal requirements, and audit committee membership influence the objectives and activities of an audit committee. Smaller entities with limited resources might find it impractical to meet all of the practices outlined in this guide. They may use this guide to assess the elements of good practice that are relevant for their financial reporting, corporate governance, risk management and internal control and exercise them at the board or committee level.

## Purpose of this guide

This guide provides a practical introduction to the role and responsibilities of an audit committee. It explains the context in which an audit committee typically operates and outlines good practice.

While the guide assists the board and audit committee members, it may also be helpful to risk and compliance managers, internal auditors, external auditors and senior management, as it demonstrates the interactions between the audit committee and these other parties.

Clarifying the roles and responsibilities between the audit committee, risk and compliance managers and auditors (both internal and external) assists their communication, efficiency and effectiveness. Using this guide assists audit committees in assessing an entity's external

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<sup>1</sup> See Principle 4 *Safeguard Integrity in Financial Reporting*, Recommendation 4.1 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments*.

<sup>2</sup> See glossary for definitions.

<sup>3</sup> Federal and state bodies should also consider their own specific guidance relating to the operation of their audit committees.

financial and other internal and external reporting requirements. It also assists in assessing the effectiveness of an entity's risk management and internal control systems.

This second edition of the guide reflects developments in audit committee practice, legislation and guidance from regulatory bodies and in leading global board practices since the previous edition was published in 2008. It has been produced by the Auditing and Assurance Standards Board, the Australian Institute of Company Directors and the Institute of Internal Auditors- Australia.

The guide does not attempt to advise directors or members of audit committees about their legal duties. For a general discussion of directors' duties refer to *Duties and Responsibilities of Directors and Officers 20th Edition* by Professor Robert Baxt AO, published by the Australian Institute of Company Directors in 2012.

### Recent developments regarding audit committees

Since the previous edition of this guide was published in 2008, some of the key developments in Australia include:

- November 2009—the Australian Prudential Regulation Authority (APRA)<sup>4</sup> issued revised Prudential Standards on governance for APRA-regulated institutions. These standards outline the governance arrangements for authorised deposit-taking institutions and for life and general insurance entities and include requirements for board audit committees and board risk committees.
- January 2010—revised Australian Auditing Standards came into effect, some of which impact the operation of audit committees. For example, Auditing Standard ASA 260 *Communication with Those Charged with Governance* introduced new requirements for auditor reporting to the board, including the audit committee.
- June 2010—the ASX Corporate Governance Council<sup>5</sup> released *Corporate Governance Principles and Recommendations with 2010 Amendments*. These revised guidelines came into effect from 1 January 2011.
- October 2010—The Institute of Internal Auditors Inc. (IIA) issued a revised *International Professional Practices Framework (IPPF)*. The IPPF has been adopted by the Institute of Internal Auditors-Australia (IIA-A) and was effective from 1 January 2011.
- August 2011—the Australian National Audit Office (ANAO) published its revised better practice guide, *Public Sector Audit Committees*.
- September 2011—APRA released a new consolidated Prudential Standard CPS 510 Governance, which came into effect on 1 July 2012 and replaces the previous prudential standard on governance.
- June 2012—the *Corporations Legislation Amendment (Audit Enhancement) Act 2012* made changes to the *Corporations Act 2001* and the *Australian Securities and Investments Commission Act 2001* (ASIC Act) that are relevant to audit committees. The new provisions relate to extending the rotation period for the external audit engagement partner, subject to certain requirements; annual transparency reports to be published by external auditors in certain circumstances; audit deficiency reports that may be published by the Australian Securities and Investments Commission (ASIC) in certain circumstances; and new powers for ASIC to communicate directly

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<sup>4</sup> APRA Prudential Standards on governance for regulated institutions are available through APRA's website [www.apra.gov.au](http://www.apra.gov.au).

<sup>5</sup> The ASX Corporate Governance Council was formed in August 2002 and brings together various business, shareholder and industry groups to enhance corporate governance practices in Australia. Its ongoing mission is to ensure that the principles-based framework it developed for corporate governance continues to be a practical guide for listed entities, their investors and the wider Australian community.

with the audit committee, the board or senior management of an entity in certain circumstances.

Mainly due to the ongoing global financial crisis, there has been continuing focus on corporate governance around the world. This has resulted in the review of existing governance frameworks, including accounting and auditing frameworks and regulatory reforms, to strengthen corporate governance.

Businesses, regulators, investors and the members of the public have increasingly called for more transparency in corporate reporting.

The audit committee plays a pivotal role in assisting the board in fulfilling its corporate governance obligations and enhancing the integrity and transparency of corporate reporting, particularly financial reporting, and consequently, some of the proposed reforms relate to clarifying and expanding the role of the audit committee.

## The board and board committees

Under the *Corporations Act 2001* in section 201A, every company must have at least one director and public companies must have at least three directors.<sup>6</sup> Collectively, the directors are known as the board of directors (board) and its overriding responsibility is to supervise the company on behalf of shareholders and other stakeholders.

The boards of larger entities often establish committees of directors to better use their time and to help deal with complex or specialised areas, such as financial reporting and audit, compliance, risk management, sustainability or health and safety.

Committees make recommendations for action to the full board, which retains collective responsibility for decision-making.

The audit committee plays a key role in assisting the board to fulfil its corporate governance and oversight responsibilities. These responsibilities can include an entity's financial reporting, risk management and internal control, compliance, the internal audit activity<sup>7</sup> and external audit. For example, the audit committee may assist the board in achieving the following objectives of the entity:

- Facilitating well-informed, efficient and effective decision making, particularly by the board
- Promoting and monitoring an ethical culture throughout the entity
- Ensuring a code of conduct is appropriately designed and implemented and compliance with the code is monitored
- Implementing an effective system of risk oversight and management, which may typically include:
  - policies dealing with material business risks, clearly describing the roles and responsibilities of the board, audit committee, management and internal audit activity
  - documenting the entity's risk profile and the risk appetite of the board
  - effective reporting of material business risks
  - ongoing monitoring of the entity's risk profile
  - risk-based internal audit plans
- Implementing an effective and efficient internal control system, including:

---

<sup>6</sup> This requirement does not include alternative directors, and two of the three directors (one for proprietary companies) need to ordinarily reside in Australia.

<sup>7</sup> See glossary.

- a strong control environment, commensurate with the risk appetite of the board
- identification and management of risk
- adequate design and operation of business policies and procedures to safeguard assets, protect against fraud and comply with applicable laws, regulations and standards
- ongoing monitoring of internal controls
- an independent, internal audit activity to provide assurance over the internal control systems
- timely responsiveness to internal and external audit recommendations to enhance the internal control environment
- Ensuring high quality internal and external reporting (financial and non-financial), including:
  - complete, timely, accurate and useful information
  - appropriate accounting policies and procedures
  - reasonable judgements and estimates
- Obtaining an independent, effective and efficient external audit
- Promoting effective communication between the board and the internal and external auditors, and providing timely and appropriate responses to matters arising from audits.

## Role of the audit committee

Under the *Corporations Act 2001*, directors are required to declare that the financial statements and notes comply with accounting standards and give a true and fair view of the financial position and performance of the company. Overall responsibility for the content of the annual financial statements and notes sits with the board.

The board determines the audit committee's role, which may include oversight and monitoring of:

- corporate reporting, including external financial reporting
- external audit
- internal audit
- risk management and internal control
- compliance and ethics
- activities to prevent, deter, detect and report on fraud.

The audit committee's responsibilities are typically documented in its charter. Ideally, the audit committee's annual work plan is cross-referenced to its charter to ensure that the committee fulfils its responsibilities.

The board and its individual directors cannot abrogate or delegate their responsibilities to the audit committee (see page 15, 16 for more detail).

The audit committee can assist directors to fulfil their responsibilities and facilitate decision making by:

- facilitating open communication between board members and senior management, risk and compliance managers, internal and external auditors
- focusing on matters within the audit committee's charter, thereby allowing the full board to spend more time on other matters.

To be effective, the audit committee must be independent from management and free from any undue influence. Members of the audit committee should not have any executive powers, management functions, or delegated financial responsibility of the entity.

## Regulatory context

Audit committee members need to be aware of legislation, regulatory requirements, standards and guidance that are relevant to the operation of the audit committee, either directly, by establishing requirements for boards and audit committees, or indirectly, by establishing requirements for other parties reporting to, or working with, the audit committee, such as the internal and external auditors.

For those entities that operate in multiple jurisdictions, the audit committee would also need to consider the relevant legislation and regulations in those jurisdictions.

The legislation, regulatory bodies and the accompanying regulation, standards and guidance listed below may be relevant.

## Corporations Act 2001

The *Corporations Act 2001* is the principal legislation regulating companies in Australia. It covers matters such as the formation and operation of companies, duties of officers, takeovers and fundraising. It is a key point of reference for the audit committee on financial reporting and external audit requirements.

## Australian Securities Exchange Listing Rules and Corporate Governance Guidelines

The ASX Listing Rules require entities included in the S&P/ASX All Ordinaries Index at the beginning of their financial year to have an audit committee.<sup>8</sup> They also require the S&P/ASX 300 listed entities to comply with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments* ~~third edition~~ (Corporate Governance Principles and Recommendations) on the composition, operation and responsibility of the audit committee.

Principle 4 of the Corporate Governance Principles and Recommendations states that:

*Companies should have a structure to independently verify and safeguard the integrity of their financial reporting. A listed entity should have the formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.*

### ASX Listing rule 12.7

An entity which was included in the S&P All Ordinaries Index at the beginning of its financial year must have an audit committee during that year. If the entity was included in the S&P/ASX 300 Index at the beginning of its financial year it must also comply with the best practice recommendations set out in the ASX Corporate Governance Council in relation to composition ~~and~~, operation ~~and responsibility~~ of the audit committee for the whole of that financial year, unless it had been included in that for the first time less than three months before the beginning of that financial year. An entity that is included in the S&P/ASX 300 Index for the first time less than three months before the first day of its financial year but did not comply with the ~~best practice~~ recommendations set by the ASX Corporate Governance Council in relation to composition ~~and~~, operation ~~and responsibility~~ of the audit committee at that date must take steps so that it complies within three months of the beginning of the financial year.

The supporting recommendations for a listed entity for that principle<sup>9</sup> are:

<sup>8</sup> See ASX Listing Rule 12.7.

<sup>9</sup> These recommendations came into effect from 1 January 2008.

Recommendation 4.1

4.1(a): The board should establish ~~have~~ an audit committee which:

4.2: The audit committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not the chair of the board
- has at least three members; and

4.3: The audit committee should have a formal charter. ~~board should disclose the:~~

- charter of the audit committee
- relevant qualifications and experience of the audit committee
- number of times the committee met during the period and the individual attendances of the members at those meetings; or

4.4(b): Companies should provide the information indicated in the Guide to reporting on Principle 4. If the board does not have an audit committee, this is disclosed as well as the processes that the board employs that independently verifies and safeguards the integrity of the corporate reporting function.

Recommendation 4.2

The board should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Recommendation 4.3

Where the entity has an AGM, the external auditor should attend and be available to answer questions relevant to the audit.

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~~The commentary under Recommendation 4.3 states that the audit committee should report to the board on the results of the committee's review of risk management and internal control systems. Further guidance on the recognition and management of risk is provided under Principle 7 of the Corporate Governance Principles and Recommendations.<sup>10</sup>~~

### AASB Accounting Standards

The *Corporations Act 2001* requires the entity's financial report to comply with the Accounting Standards made by the Australian Accounting Standards Board (AASB). Compliance with these standards underpins the audit committee's monitoring and oversight of the entity's financial reporting. The Act also requires that financial reports present a "true and fair view". Since July 2005 the standards made by the AASB incorporate the equivalent International Financial Reporting Standards (IFRS).<sup>11 12</sup>

### AUASB Auditing Standards

The *Corporations Act 2001* requires the entity's financial report to be audited in accordance with the Auditing Standards made by the Auditing and Assurance Standards Board

<sup>10</sup> ~~Corporate Governance Principles and Recommendations with 2010 Amendments, Principle 7 Recognise and manage risk, ASX Corporate Governance Council.~~

<sup>11</sup> International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board.

<sup>12</sup> Australian Accounting Standards may include additional paragraphs that do not appear in the equivalent IFRS. They are identified by the prefix "Aus" and generally relate to identifying the entities required to apply the standard and to matters affecting not-for-profit entities.

(AUASB).<sup>13</sup> While not creating obligations for the entity itself, the Australian Auditing Standards establish the mandatory requirements and provide application and other explanatory material for the external auditor of the entity.

This includes requirements for the external auditor to:

- agree with the entity the terms of the audit engagement
- communicate with the entity:
  - the auditor's responsibility for forming and expressing an opinion on the financial report prepared by management
  - an overview of the planned scope and timing of the audit
  - significant qualitative aspects of the entity's accounting practices
  - significant difficulties, if any, encountered during the audit
  - significant matters arising during the audit that were discussed or subject to correspondence with management, including significant deficiencies in internal control identified during the audit
  - circumstances that affect the form and content of the auditor's report
  - any other matters that are significant to the oversight of the financial reporting process
  - independence statements
- seek representations from management.

The audit committee can expect to interact with the external auditor on these matters and plays a key role in establishing an appropriate relationship with the external auditor.

### International Professional Practices Framework

The *International Professional Practices Framework* (IPPF) is promulgated by the IIA to provide consistent standards for the internal auditing profession. Members of the IIA agree to conform with the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* (Standards).

The Standards are principles-based requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance, which are internationally applicable at organisational and individual levels.
- Interpretations, which clarify terms or concepts within the statements.

### Accounting Professional and Ethical Standards Board

The Accounting Professional and Ethical Standards Board (APESB) is an independent, national body that sets the code of ethics and professional standards by which members of Australia's three professional accounting bodies abide.

Audit committee members who are members of an Australian professional accounting body must comply with the standards issued by the APESB and, in particular, APES 110 Code of Ethics for Professional Accountants (the Code), which includes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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<sup>13</sup> Auditing Standards made by the AUASB conform with equivalent International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB). Australian Auditing Standards may include additional paragraphs that do not appear in the equivalent ISA. Such paragraphs are identified by the prefix "Aus" and generally relate to Australian-specific legislative requirements and established audit practices.

Audit committee members should be aware that auditors and other advisers that deal with the audit committee, who are members of an Australian professional accounting body, must comply with the Code, including the requirements to be independent and to comply with Australian Auditing Standards issued by the AUASB, where relevant.

### **Australian Securities and Investments Commission**

The Australian Securities and Investment Commission (ASIC) is Australia's corporate, markets and financial services regulator, established under the *Australian Securities and Investment Commission Act 2001*. Its role includes maintaining, facilitating and improving the performance of the Australian financial system and entities in that system, thereby promoting confident and informed participation by investors and consumers in the financial system.

ASIC has responsibility for the surveillance, investigation and enforcement of the financial reporting requirements of the *Corporations Act 2001*, including the enforcement of auditor independence and audit quality requirements, as well as audit inspection and information gathering powers under the ASIC Act.

The *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, further enhances ASIC's audit inspection and reporting powers by allowing ASIC to issue an audit deficiency report about specified failures by an individual audit firm and to communicate directly with the audit committee (or board or senior management), subject to certain requirements.

### **Australian Prudential Regulatory Authority**

The Australian Prudential Regulatory Authority (APRA) is the prudential regulator that oversees banks, credit unions, building societies, life and general insurance and reinsurance companies, friendly societies and superannuation funds (excluding self-managed funds).

APRA formulates, promulgates and enforces prudential policy and practice through Prudential Standards, which are supported by law, and Guidance Notes.

Audit committees of APRA-regulated entities will need to have regard to applicable APRA prudential requirements, for example, for risk management, governance, internal control systems and annual reporting requirements.

### **Standards Australia**

Where audit committees are responsible for overseeing and monitoring risk management and compliance, joint Australian/New Zealand Standards such as AS/NZS ISO 31000: 2009 *Risk Management – Principles and guidelines* and AS 3806-2006 *Compliance programs*, developed by Standards Australia, might be useful.

AS/NZS ISO 31000: 2009 provides principles and generic guidance for the design and implementation of risk management plans and frameworks which can be used by any public, private or community enterprise, association, group or individual.

AS 3806-2006 provides principles and guidance for designing, developing, implementing, maintaining and improving a flexible, responsive, effective and measurable compliance program within an organisation.

## Responsibilities of the audit committee

It is important to clearly define the responsibilities of the audit committee in its charter, formally approved by the board and communicated to shareholders. Ideally, the audit committee's annual work plan is cross-referenced to its charter.

As previously set out, the key responsibilities of the audit committee are discussed in more detail below.

## Financial reporting

The audit committee plays a key role in reviewing financial information before it is presented to the board for approval and publication, including the financial report and other financial information in an entity's financial reporting cycle, namely the concise financial report (if applicable), half year review and the annual report.

The audit committee may also report to the board on profit announcements, analyst briefings, investor presentations, announcements made under continuous disclosure obligations and other media releases containing financial information about the entity.

It is important to note that the board retains ultimate responsibility for financial reporting and cannot delegate that responsibility to the audit committee, or to management or external advisers.

In the recent court case *ASIC v Healey* (2011) 196 FCR 291 at 339 and 298, Justice Middleton held that:

“... whilst an audit committee has an important role of monitoring and oversight, this is not to the exclusion of the role of a director to consider the financial accounts for him or herself in the way I have attempted to explain. This does not involve a director being familiar with every accounting standard, but sufficiently aware and knowledgeable to understand what is being approved or adopted.”

Justice Middleton further held that:

“... What each director is expected to do is to take a diligent and intelligent interest in the information available to him or her, to understand that information, and apply an enquiring mind to the responsibilities placed upon him or her. Such a responsibility arises in this proceeding in adopting and approving the financial statements. Because of their nature and importance, the directors must understand and focus upon the content of financial statements, and if necessary, make further enquiries if matters revealed in the financial statements call for such enquiries.”

## Annual financial report

Regarding the annual financial report,<sup>14</sup> the audit committee needs to consider whether:

- The financial report complies with applicable legislation and accounting standards
- The financial statements and note disclosures present a true and fair view of the entity's financial position and performance, if not, additional disclosures are required

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<sup>14</sup> The audit committee may also review the concise financial report, if any, and the interim financial statements, and make similar considerations to those discussed for the annual financial report.

- The financial statements and note disclosures have been prepared on the basis that the entity is a going concern, and, if not, that they appropriately reflect the entity's inability to continue as a going concern
- Other information in the annual report is consistent with the financial report and other information known to the audit committee. For example, information in the directors' report or other management report/s relating to the entity's operations, financial position, business strategies and future prospects
- There is any information known to them gained in their role as a director of the entity that should be disclosed.

In light of the above, the audit committee may consider whether it is appropriate to make a recommendation to the board regarding approval of the directors declaration.<sup>15</sup>

To fulfil this role the audit committee needs to have a good understanding of:

- the entity's financial reporting framework, which in most cases for Australian listed entities will be the Corporations Act 2001 and the Australian Accounting Standards
- the appropriateness of the entity's accounting policies and procedures, and whether they are consistent with the stated financial reporting framework
- the nature of the underlying transactions, assets and liabilities.

The audit committee will make use of knowledge gained from considering risk management, internal control and compliance activities, and from discussing matters with management, the internal auditor and the external auditor.

The audit committee may require management to advise and provide representation on:

- How they selected and applied critical accounting policies and any changes in significant accounting policies, or their application, during the reporting period
- Whether they made a specific assessment of the entity's ability to continue as a going concern and how they made that assessment; if not, the basis for using the going concern assumption in preparing the financial statements and note disclosures
- The methods used to account for significant, complex or unusual transactions, or transactions in emerging areas for which there may be no specific accounting standard, including management's reasoning in determining the appropriateness of those methods
- The process used to determine that all relevant information has been brought to the attention of senior management to enable consideration of whether disclosure is required in the financial report
- Significant estimates and judgements in the financial report and the processes used by management in making those estimates and judgements. Management should comment on the impact of different assumptions, where these could have a significant impact on the financial report
- Other significant matters that do, or may, impact on the financial position of the entity and management's decision on disclosure or otherwise in the financial report
- The processes for identifying related party transactions and the nature, extent and reasonableness of related party transactions identified
- The processes for ensuring and monitoring compliance with laws, regulations and other requirements on external reporting by the entity of financial and non-financial information. Requirements include IFRS, the Corporations Act 2001, the ASX listing rules, APRA and, where applicable, the legislation and regulations of other countries in which the entity operates.

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<sup>15</sup> The *Corporations Act 2001* in section 295(4) sets out the requirements of the directors' declaration regarding the financial report.

The audit committee may require the external auditor and, where appropriate, the internal auditor, to advise on:

- The appropriateness of the entity's accounting policies and procedures
- Areas of subjectivity in the financial report, including significant estimates and areas where judgement was involved
- Actual and potential material audit adjustments
- The materiality threshold used in the performance of the audit
- Other areas that may affect the quality of the financial report, for example:
  - non-compliance with laws and regulations, and actions taken by the entity in response to non-compliance
  - internal control issues.
- The auditor's view on management's:
  - technical competence and compliance with accounting standards
  - use of the going concern basis in preparing the financial statements and note disclosures
  - proper application of accounting principles
  - clarity in financial disclosure practices.

Ideally, the audit committee reviews all representation letters signed by management to assess whether information provided appears complete and appropriate.

The audit committee may review the chief executive officer (CEO) and chief financial officer (CFO) declarations in respect of the financial report and financial records, provided in accordance with section 295(A) of the *Corporations Act 2001*.

The audit committee also reviews the letter, if any, provided by the external auditor to the audit committee at the end of the audit of the financial report, which may include, for example, a discussion of audit materiality, the appropriateness of accounting policies adopted by the entity and information about changes to accounting standards, both current and proposed, that may be relevant to the entity's financial report.

Based on its review and consideration of the financial statements and note disclosures, and other information, the audit committee should recommend to the board whether the financial report should be approved.

### Other external reporting

In relation to other external reporting,<sup>16</sup> the audit committee should ideally:

- Review documents and reports to regulators for consistency with the financial report and other information known to the audit committee
- Review the reporting of the entity's main corporate governance practices as required under the ASX listing rules for completeness and accuracy
- Review any non-IFRS financial information,<sup>17</sup> including the reconciliation between the underlying profit and statutory profit, if applicable
- Review any analyst briefings, investor presentations and media releases for consistency with the financial report
- Review the processes established for the purposes of continuous disclosure reporting to the ASX.

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<sup>16</sup> Other external reporting may include corporate social responsibility (CSR), sustainability, greenhouse gas and energy and occupational health and safety reporting.

<sup>17</sup> See ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information and Underlying Profit: Principles for reporting of non-statutory profit information*, a joint publication between the Australian Institute of Company Directors and the Financial Services Institute of Australasia (Finsia).

Based on its review and consideration of the other external reports, the audit committee should recommend to the board whether the reports should be approved.

## External audit

The audit committee has a key role in the entity's relationship with the external auditor and in promoting audit quality. ASIC information sheet 196<sup>18</sup> provides guidance to assist directors and audit committees in their role in ensuring the quality of the external audit of a financial report.

The audit committee's responsibilities typically include:

- Recommending the appointment of an auditor to the board or assessing potential and continuing auditors<sup>18</sup> including understanding the:
  - audit tender or selection process;
  - auditor's commitment to audit quality;
  - auditor's resources devoted to the audit;
  - auditor's reliance on experts and other auditors, (including using the work of other auditors, coverage of components within a group and reliance on internal auditors); and
  - accountability for audit quality by the auditor's engagement partner, review partner, specialists and audit team members.

The audit committee may agree the audit fee or make a recommendation thereon to the board. In addition, the audit committee may recommend to the board, if appropriate, the extension of the rotation period of the external audit engagement partner subject to certain requirements<sup>19</sup>

- Facilitating the audit process<sup>18</sup> by supporting the audit and ensuring company management and staff are accountable, supportive and helpful of the audit process.

Supporting the audit includes understanding that a high quality and comprehensive audit can be conducted for the agreed fee and that financial reporting and audit processes have been planned to ensure that an effective quality audit can be conducted within the financial reporting timeframes.

- Establishing ongoing communications with the auditor<sup>18</sup> so as to:

- address any risk or areas of concern; and
- ensure access to directors and audit committees

Ensuring access includes the auditor attending all appropriate audit committee meetings and the auditor meeting with the audit committee separately from management without discussions being shared with management.

- Maintaining and reviewing auditor independence<sup>18</sup> and objectivity by considering whether the external auditor's relationships and services with the entity and other relevant organisations might impair, or appear to impair, the external auditor's independence. Under the Corporations Act 2001, the audit committee of a listed entity must provide written advice to the board regarding the provision of non-audit services by the external auditor.<sup>20</sup> Some audit committees may establish policies on the extent to which the external auditor can provide other assurance, or non-assurance, services and monitor the application of the policies to consider the possible implications for the auditor's independence

<sup>18</sup> ASIC information sheet 196 Audit Quality: The Role of Directors and Audit Committees

<sup>19</sup> Under the Corporations Legislation Amendment (Audit Enhancement) Act 2012, the audit committee of a listed entity may recommend to the board that the rotation period of the audit engagement partner be extended from five up to a maximum of seven years. The recommendation may be endorsed by a resolution passed by members of the audit committee and be in writing, stating the audit committee is satisfied that approval of the extension is consistent with maintaining the quality of the audit and would not give rise to a conflict of interest.

<sup>20</sup> See Corporations Act 2001, section 300 (11B) – (11E).

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- Assessing the quality of audits conducted<sup>18</sup> and evaluation of the performance of the auditor including considering:
  - the auditor's internal quality and standards (reference may be made to the audit firms transparency report lodged with ASIC);
  - the audit process (including the auditor's demonstration of professional scepticism);
  - the timeliness of communications and usefulness and relevance of issues;
  - other information (including firms audit transparency reports);
  - findings from ASIC's audit inspections and surveillances.

The audit committee has a key role in the entity's relationship with the external auditor.

The audit committee's responsibilities typically include:

- ~~Making recommendations to the board on the appointment of the external auditor. The audit committee may agree the audit fee or make a recommendation thereon to the board. The audit committee needs to be satisfied that a high quality and comprehensive audit can be conducted for the agreed fee~~
- ~~Recommending to the board, if appropriate, the extension of the rotation period of the external audit engagement partner subject to certain requirements<sup>21</sup>~~
- ~~Carefully examining any recommendations by management that the external auditor needs to be replaced, or that the audit needs to be put out to tender. The audit committee reports to the board on its examination before any decision is made by the board~~
- ~~Agreeing on the terms of the audit engagement with the external auditor at the start of each audit~~
- ~~Reviewing the independence of the external auditor. The audit committee considers whether the external auditor's relationships and services with the entity and other relevant organisations might impair, or appear to impair, the external auditor's independence. Under the Corporations Act 2001, the audit committee of a listed entity must provide written advice to the board regarding the provision of non-audit services by the external auditor.<sup>22</sup> Some audit committees may establish policies on the extent to which the external auditor can provide other assurance, or non-assurance, services and monitor the application of the policies to consider the possible implications for the auditor's independence~~
- ~~Inviting the external auditor to attend audit committee meetings throughout the financial year, as a minimum to coincide with the reporting and audit cycles. For example, meetings to review the external audit plan, including proposed audit strategies, particularly in areas of identified audit risk, to discuss audit results and to consider the implications of the external audit findings for the control environment~~
- ~~Meeting privately with the external auditor, at least once each year without management, to facilitate free and open communication. For example, the audit committee may ask the external auditor if there are any significant resolved or unresolved issues arising from the audit or whether senior management imposed any restrictions on the conduct of the audit~~
- ~~Evaluating the performance of the external auditor~~
- ~~Monitoring the relationship between the internal and external auditors.~~

<sup>21</sup> Under the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, the audit committee of a listed entity may recommend to the board that the rotation period of the audit engagement partner be extended from five up to a maximum of seven years. The recommendation may be endorsed by a resolution passed by members of the audit committee and be in writing, stating the audit committee is satisfied that approval of the extension is consistent with maintaining the quality of the audit and would not give rise to a conflict of interest.

<sup>22</sup> See *Corporations Act 2001*, section 300 (11B)–(11E).

Australian Auditing Standards include requirements for the external auditor to communicate certain matters to the audit committee.<sup>23</sup> Audit committee members may wish to familiarise themselves with these requirements and may expect to be informed by the external auditor of important matters related to the audit.

## Internal audit

Internal audit activities within entities are a key expression of their attitude towards an effective control environment.<sup>24</sup>

Good audit committee practices in overseeing internal audit activities typically include:

- Making recommendations to the board on the appointment, remuneration and dismissal of the chief audit executive (CAE)
- Reviewing the internal audit activity's mission, charter, resources and budget to determine whether these maintain and enforce internal audit's independence from management. This is achieved through its reporting structures and the right to access all levels of management and relevant information<sup>25</sup>
- Maintaining the independence of the internal audit activity<sup>26</sup>
- Ensuring that the CAE reports to the audit committee for functional purposes, and to the CEO (or equivalent) for administrative purposes, and has access to all levels of management with the right to seek information and explanations relevant to their operations

The IPPF, Standard 1100 provides examples of functional reporting to the board, where the board is involved in:

- approving the internal audit charter
- approving the risk based internal audit plan
- receiving communications from the CAE on the internal audit activity's performance relative to its plan and other matters
- approving decisions regarding the appointment and removal of the CAE making appropriate enquiries of management and the CAE to determine whether there are inappropriate scope or resource limitations.

- Monitoring the internal audit activity's participation in non-assurance roles to assess whether it impairs their independence and it aligns with the internal audit program
- Reviewing the internal audit plan to assess whether it is risk-based and addresses the material business risks of the entity
- Reviewing and approving the scope of the internal audit plan and work program
- Meeting privately with the internal auditor at least once each year, without management, to facilitate free and open communication. For example, the audit committee may ask the internal auditor if there are any significant resolved or unresolved issues arising from the internal audit reviews, or whether senior management imposed any restrictions on the conduct of the internal audit activity
- Receiving and reviewing reports prepared by the internal audit activity in terms of quality, timeliness and results of engagements
- Monitoring the progress of the internal audit plan and work program

<sup>23</sup> See *Relationships – External Auditor* on page 30 of this guide.

<sup>24</sup> Not all entities will have an internal audit function.

<sup>25</sup> The *Privacy Act 1988* may be a consideration in determining access to information.

<sup>26</sup> The IPPF, Standard 1110 states that, "Organisational independence is effectively achieved when the CAE reports functionally to the board".

- Noting and discussing the implications of internal audit findings on the internal control framework and business environment
- Monitoring the implementation of internal audit activity's findings and recommendations
- Monitoring and reviewing the quality of internal audit services delivered
- Evaluating the process the entity has in place for monitoring and assessing the effectiveness of the internal audit activity
- Overseeing the coordination of the planned activities of internal and external audit, risk and compliance management, and any other assurance providers.

### **Risk management and internal control**

The risk management and internal control framework within an entity is a key expression of its attitude to the control environment. While the board retains overall responsibility for risk management and internal control, it typically delegates elements of this responsibility to the audit committee (or the audit and risk management committee or a separate risk management committee, as applicable).

The three most commonly used sources of guidance on the elements of an effective risk management and internal control framework are the:

- Australia/New Zealand Standard on Risk Management (AS/NZS ISO 31000:2009) and accompanying handbooks published by Standards Australia
- Enterprise Risk Management Conceptual Framework (published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO))
- Internal control – Integrated Framework (also published by COSO).

For example, the board retains responsibility for establishing an appropriate “tone at the top” - the corporate environment or culture, which disseminates throughout the entity and may be seen by some as equal to the internal control environment. This tone can be the most important factor contributing to the integrity of the entity's key business processes, including financial reporting.

The board is also responsible for agreeing on the entity's risk appetite and monitoring the strategic risks facing the entity.

The board may delegate the following responsibilities to the audit committee:

- Reviewing whether the entity has an effective risk management system and that material business risks to the entity are appropriately reflected in the risk profile reported at least annually to the board
- Understanding the processes for determining and managing material business risks in accordance with the entity's identified tolerance for risk, particularly risks in the following areas:
  - significant business risks, recognising that responsibility for general or specific risk areas for example, environmental risk, occupational health and safety, might be assigned to other board committees
  - breakdown of key business processes
  - non-compliance with laws, regulations and standards, and entity policy
  - fraud and theft
  - business continuity and disaster preparedness
- Monitoring the effectiveness of the entity's processes for identification and control of material business risks, including operational, financial, legal, compliance and strategic risks. This might include oversight of the entity's risk management framework and activities conducted by internal and external audit and any other assurance providers to give assurance over that framework

- Receiving summary reports from management on all suspected and actual frauds, thefts and material breaches of laws, ensuring such events are reported to the board and/or relevant authorities
- Assessing adequacy of entity processes to manage insurable risks and the adequacy of insurance cover, and if applicable, the level of self-insurance
- Monitoring the effectiveness of the entity's internal control system through discussions with management and the internal and external auditors
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk
- Meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the entity's control environment
- Liaising with other board committees.

### Compliance and ethics

Within entities, compliance and ethics programs are a key expression of an entity's values. Non-compliance and unethical behaviour can have potential financial, non-financial or reputational impacts on an entity.

Accordingly, good audit committee practices will often include some level of oversight of compliance and ethics programs, including:

- Staying informed about the entity's processes for monitoring compliance with laws and regulations, industry codes, internal policies, standards of good corporate governance and other community expectations, ensuring they are aligned with the compliance culture expectations of the board. This will normally involve receiving reports and briefings from key senior management, and meeting periodically with them.<sup>27</sup>
- Ensuring a code of conduct is in place, there is an effective implementation process to support its adoption, and the entity has a program for monitoring compliance with the code
- Approving and reviewing the policies, processes and framework for identifying, analysing and addressing complaints relating to the entity's compliance and ethical obligations. This includes both whistleblowing procedures for employees and customer complaint handling processes
- Staying informed on significant compliance and ethical issues, as well as independent investigations and disciplinary action in relation to non-compliance or unethical behaviour
- Receiving information from the external auditor on matters involving non-compliance with laws and regulations that were identified during the audit<sup>28</sup>
- Identifying and recognising adverse trends within the entity and reviewing management's plans to deal with them
- Reviewing management disclosures in the financial reports of the effect of significant compliance issues
- Ensuring the internal audit activity considers assessing compliance and ethics risks in their audit plan.

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<sup>27</sup> In this context, senior management might include the compliance officer, legal counsel, chief financial officer, head of human resources or tax manager.

<sup>28</sup> See Auditing Standard ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

## Fraud

The audit committee may be responsible for overseeing the systems and programs implemented by management for fraud prevention, deterrence and detection, particularly in the context of financial accounting and reporting.

The existence of systems and programs to prevent, deter and detect fraud within entities is a key expression of the attitude of the board, audit committee and management to minimising fraud.

Good audit committee practices in overseeing fraud minimisation and detection programs typically include:

- Ascertaining whether fraud risks have been included in the assessment of the risk profile of the entity
- Reviewing management's efforts to create and maintain a strong internal control environment, including the design and implementation of anti-fraud strategies and programs
- Reviewing management's communications, if any, to employees regarding its views on business practices and ethical behaviour
- Enquiring of management, the internal auditor and the external auditor<sup>29</sup> regarding their assessments of the risk of material misstatement in the financial report due to fraud, including the nature, extent and frequency of such assessments
- Enquiring of management, the internal auditor and the external auditor whether they have knowledge of any actual, suspected or alleged fraud affecting the entity and how the entity responded to such instances, including changes made to the control environment
- Monitoring remedial actions implemented by management, where weaknesses were identified
- Obtaining representations from management that all known instances of actual, suspected or alleged fraud affecting the entity have been disclosed to the audit committee
- Ensuring the entity has fulfilled its fraud reporting obligations, if any, in accordance with relevant laws, regulations or other authority.

## Relationships

### Board

#### Role

The audit committee assists in the discharge of the board's oversight and corporate governance responsibilities, whereas the role of the board is that of a constituting and governing body.

#### Responsibilities

The board:

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<sup>29</sup> See Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*. Although intended for external auditors, this auditing standard contains information in its appendices that may be helpful for audit committee members. For example, it provides an extensive list of factors that indicate an incentive, pressure or opportunity to commit fraud, and examples of circumstances that indicate the possibility of fraud.

- Establishes the audit committee with an appropriate charter, membership and level of resources to effectively carry out its activities
- Ensures that there is an appropriate reporting mechanism in place between it and the audit committee
- Periodically reviews the performance of the audit committee as a whole, and of each audit committee member. The audit committee performance review can be (and often is) by self-assessment (see the self-assessment tool in Appendix 2), but should preferably be part of a whole of board review.

It is important for the members of the audit committee and the board to recognise that delegation of activities to the audit committee does not absolve individual directors from their responsibilities. Individual directors are obliged to reach their own decisions based on a proper assessment of the information, which includes audit committee reports.

General responsibilities of directors, which extend to audit committee interaction and involvement, typically include:

- Duty to act in good faith in the best interests of the entity
- Duty to act with care and diligence
- Duty to avoid a conflict in the position of a director and/or any interest that a director may have
- A range of duties that prohibit the misuse of information obtained by directors.<sup>30</sup>

## External Auditor

### Role

The scope of the external auditor's engagement usually emanates from a regulatory requirement, such as a requirement under the *Corporations Act 2001*, or other relevant legislation, to audit or review the entity's financial report.<sup>31</sup>

The external auditor must be independent from the entity's governance, internal control and ownership structures. The external auditor gains an understanding of the entity, its environment and its internal controls, makes risk assessments about the financial report and obtains sufficient appropriate audit evidence to support the auditor's report on the financial report.

As an independent party with knowledge of the entity's financial affairs, the external auditor can provide the audit committee with valuable, objective insight into aspects of the entity's governance and internal control, including its risk management. In turn, the audit committee aids the effectiveness of the external auditor.

For the external auditor, communication and consultation with the audit committee helps to facilitate an effective and efficient audit and the communication of matters arising from the audit. External auditors seek a constructive relationship with the audit committee while maintaining their independence, objectivity and an attitude of professional scepticism.

External auditors are required to respond to questions relating to certain aspects of the audit raised by the members of a listed entity at the entity's annual general meeting (AGM).<sup>32</sup> The relevant matters that members may query include the content of the auditor's report, the

<sup>30</sup> See *Duties and Responsibilities of Directors and Officers 20<sup>th</sup> Edition* by Professor Robert Baxt AO, Australian Institute of Company Directors, 2012.

<sup>31</sup> Sections 307, 308, 309 and 314(2)(c) of the *Corporations Act 2001*.

<sup>32</sup> Not all listed entities are required to hold an annual general meeting, such as listed trusts.

conduct of the audit, the accounting policies adopted by the entity and the independence of the auditor. As such, the external auditor fulfils an important role in providing independent information to members.

## Responsibilities

As set out in Australian Auditing Standards the external auditor has responsibilities for effective communication with those charged with governance (which may include the audit committee) in an audit of a financial report.

### Promoting effective two-way communication

Effective two-way communication<sup>33</sup> assists:

- The audit committee in fulfilling its responsibility to oversee the financial reporting process
- The auditor in obtaining information relevant to the audit from the audit committee
- Both the audit committee and the auditor in establishing a constructive working relationship.

Auditing Standard ASA 260 *Communication with Those Charged with Governance* provides an overarching framework for the external auditor's communication with those charged with governance and identifies some specific matters to be communicated with them.

Additional matters to be communicated are identified in other auditing standards.<sup>34</sup> The key requirements are listed below:

### ~~Promoting effective two-way communication~~

~~Effective two-way communication<sup>35</sup> assists:~~

- ~~• The audit committee in fulfilling its responsibility to oversee the financial reporting process~~
- ~~• The auditor in obtaining information relevant to the audit from the audit committee~~
- ~~• Both the audit committee and the auditor in establishing a constructive working relationship.~~

### Establishing whether the preconditions for an audit are present

In establishing whether the preconditions for an audit are present<sup>36</sup> discussions are needed with management and the audit committee to assist the auditor in:

- Determining whether the financial reporting framework to be applied by management in the preparation of the financial report is acceptable
- Obtaining the agreement of management that it acknowledges and understands its responsibility for preparation of the financial report, for the internal control system related to preparation of the financial report and for providing access by the auditor to all relevant information and persons for the purposes of obtaining audit evidence.

### Agreeing the terms of the audit engagement

- Discussing and agreeing the terms of the audit engagement,<sup>37</sup> including who to communicate with, when and how to communicate
- Communicating the auditor's responsibilities in relation to the audit.

<sup>33</sup> See ASA 260.

<sup>34</sup> See ASA 260, Appendix 1, which lists other auditing standards that require specific matters to be communicated to those charged with governance.

<sup>35</sup> See ASA 260.

<sup>36</sup> See ASA 210 *Agreeing the Terms of Audit Engagements*.

<sup>37</sup> See ASA 210.

### ***Establishing and maintaining independence***

- Confirming their independence<sup>38</sup> in accordance with ethical and regulatory requirements
- Communicating any relationships that might have a bearing on their independence, including the provision of other assurance, and non-assurance, services to the entity and relevant external organisations and disclosing a categorised fee breakdown
- Notifying the audit committee of any contraventions to the auditor's independence requirements
- Communicating the safeguards applied to eliminate threats to their independence.

### ***Discussing elements of audit planning***

- Discussing the overall audit strategy, scope and timing,<sup>39</sup> including any limitations – based on the auditor's consideration of materiality, high risk areas affecting the financial report and their plans to examine the effectiveness of internal controls
- Discussing proposed co-ordination with the internal audit activity, including any planned use of internal audit work
- Discussing the nature and extent of specialised skill or knowledge needed, including the use of auditor's or management's experts
- Discussing the auditor's preliminary views about matters that may require significant auditor's attention and therefore may be key audit matters that are required to be included in the auditor's report.-

### ***Communicating considerations of group audits***

- The group engagement team communicates the following with the audit committee:
  - an overview of the work to be done on the financial information of components and an overview of the group engagement teams planned involvement in that work
  - concerns over the quality of component auditor's work
  - limitations on the group audit for example access to information restrictions
  - fraud or suspected fraud involving group or component management or where a fraud resulted in a material misstatement of the group financial report

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### ***Discussing significant related party relationships and transactions***

- Discussing with the audit committee the nature, extent and business rationale of significant related party relationships and transactions,<sup>40</sup> including those involving actual conflicts of interest.

### ***Enquiring about fraud***

- The auditor is required to obtain an understanding of how management and others within the entity, including the audit committee, exercise oversight of management's processes for identifying and responding to the risks of fraud and the internal controls that management has established to mitigate these risks
- The auditor is required to enquire of management and others within the entity, including the audit committee and internal audit, to determine if they have any knowledge of actual, suspected or alleged fraud<sup>41</sup> affecting the entity:-

<sup>38</sup> See ASA 260.

<sup>39</sup> See ASA 300 *Planning and Audit of a Financial Report*.

<sup>40</sup> See ASA 550 *Related Parties*.

- The auditor communicates fraud or suspected fraud involving group or component management or employees to the audit committee.

### **Communicating significant findings from the audit**

- Determining, based on professional judgement, when significant findings from the audit<sup>42</sup> should be communicated to management, the audit committee and/or directly to the board<sup>43</sup>
- Communicating the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial report disclosures
- Discussing significant difficulties, if any, encountered during the audit
- Discussing significant matters raised with management during the audit, including any disagreements with management, whether resolved or unresolved, relating to the financial report
- Advising on representations the auditor is seeking from management<sup>44</sup>
- Communicating circumstances that affect the form and content of the auditor's report including:
  - a modification of the opinion in the auditor's report
  - a material uncertainty related to going concern
  - key audit matters
  - an Emphasis of Matter paragraph or Other Matters paragraph
  - an uncorrected material misstatement of the other information
- Communicating significant deficiencies in internal controls identified during the audit<sup>45</sup>
- Communicating identified fraud, information that indicates a fraud might exist, or weaknesses in the design or implementation of internal control to prevent, deter, detect and report on fraud
- Communicating significant matters of non-compliance with laws and regulations and the appropriate remedies<sup>46</sup>
- Communicating uncorrected misstatements identified by the auditor, ~~including corrected and uncorrected misstatements~~<sup>47</sup>
- Communicating events or conditions identified by the auditor that may cast doubt on the entity's ability to continue as a going concern<sup>48</sup>
- Communicating matters of governance interest that arose during the audit of the financial report that are relevant to the oversight of financial reporting. Such matters typically include:
  - modifications in audit strategy based on a revised consideration of risks
  - material risks and exposures regarding the financial report
  - industry, regulatory, or other external factors

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<sup>41</sup> See ASA 240.

<sup>42</sup> See ASA 260.

<sup>43</sup> While the auditor may agree with the entity on preferred lines and forms of communications, the auditor should continue to use judgement to determine whether communication with the audit committee is sufficient and appropriate. The auditor should take into account such things as the nature of the matters, the governance structure, legal requirements and the composition of the audit committee (for example, the extent to which the members of the board are represented on the audit committee).

<sup>44</sup> See ASA 580 *Written Representations*.

<sup>45</sup> See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

<sup>46</sup> See ASA 250.

<sup>47</sup> See ASA 450 *Evaluation of Misstatements Identified during the Audit*.

<sup>48</sup> See ASA 570 *Going Concern*.

- material misstatements of fact or material inconsistencies in information accompanying the audited financial report

● ~~Discussing expected modifications to the auditor's report.~~

It is highly desirable that the external auditor discuss all issues to be raised at the audit committee meeting with the CEO and the CFO before the meeting. This ensures that all relevant information has been obtained and is done as a courtesy to these executives.

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### Responding to questions

- Responding in a timely manner to reasonable audit committee questions and communications.

## Internal Auditor

### Role

The internal audit activity, where it exists, acts as an agent for the audit committee and provides independent and objective assurance to the audit committee on governance, risk management and internal control processes.

It should be conducted in a manner consistent with the IPPF, including the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Internal audit activity requires professionals with an appropriate level of understanding of the business culture, systems and processes to provide assurance that the internal controls in place are sufficient to manage the risks, that the governance processes are adequate and that organisational goals and objectives are met.

Ultimately, the internal audit activity assists the audit committee in its role with monitoring and oversight and typically falls into two distinct categories:

1. **Assurance services:** involves the internal auditor's objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation.
2. **Consulting services:** providing advisory and related client service activities, the nature and scope of which are agreed with management. When performing consulting services, the internal audit activity must not assume management responsibility.

Internal auditors must communicate the results of engagements, and include their objectives and scope, as well as applicable conclusions, recommendations and action plans.

### Responsibilities

The responsibilities of the internal audit activity typically include:

#### Discussing elements of internal audit planning

- Providing a draft of the risk-based internal audit plan for input and formal approval. In developing the draft internal audit plan, the CAE should consider all risks to the organisation, including operational, financial, compliance and strategic risks. The draft plan should detail the internal audit activity's objectives, work schedules, staffing requirements, budgets and a description of any limitations placed on the internal audit activity's scope of work
- The internal audit plan might also include financial or compliance audits, operational reviews, risk and control self-assessments, system-based audits, performance audits, IT audits and so on, and/or specific one-off assignments. It should evaluate and

monitor the adequacy and effectiveness of the internal control systems. The plan should:

- Provide details of the internal audit staff structure, including staff skills, experience and qualifications
- Consider the activities of other assurance providers, both internal and external to the entity
- Advise on the coordination of the internal audit plan with the external audit plan.
- Discussing any changes to the internal audit plan
- Holding periodic discussions with the chair, and with all audit committee members, without the presence of management.

### ***Communicating on independence***

- Advising on the independence of the internal audit activity
- Reporting any non-assurance activities of the internal audit activity.

### ***Communicating matters arising from an internal audit***

- Submitting activity reports highlighting significant findings, their effect, or potential effect, and recommendations (particularly regarding the entity's risk management plan), and advising on the action taken, or proposed, by management
- Submitting reports on any major variances from the internal audit activity goals, work schedule and budget
- Providing activity reports on any major fraud or identified conflict of interest
- Advising changes to the risk profile of the entity and the implications of these for the audit plan.

### ***Responding to requests***

- Providing any other information requested by the audit committee
- Providing assurance to management in the areas of internal corporate governance, risk management, internal control and compliance and being available to management for consultation to assist with the improvement of these processes and control activities.

### ***Engaging with the audit committee on matters associated with risk management, internal control and other matters***

- The internal audit activity provides a key source of information for members of the audit committee on risk management and internal control, and other matters affecting the entity's operations.

## **Developing an effective charter**

The charter is the audit committee's blueprint for its operations, and should be developed to meet the needs of the entity, allowing for the entity's objectives, culture and the industry in which it operates.

The charter should cover all key aspects of the audit committee's operations while remaining flexible to enable the committee to respond appropriately to issues that arise.

The audit committee charter is approved by the board.

A wide range of sample audit committee charters are available in the public domain including some issued by professional bodies.<sup>49</sup>

Commonly the charter defines and/or outlines the following:

- The audit committee's purpose and objectives
- The authority delegated from the board to the audit committee, which might include the committee's right to:
  - obtain outside legal or independent professional advice at the entity's expense
  - institute special investigations
  - recommend the appointment and retention of the external auditor
  - approve the external audit fee and oversee the work of the external auditor
  - Audit committee membership, which may:
    - cover the number of independent, non-executive directors and non-director committee members, if applicable
    - the process for their appointment and replacement by the board
    - their terms of office
    - the process for reviewing the independent, non-executive status of committee members
- The appointment and role of the chair (see page -- for more detail).
- The method of identifying and declaring actual or potential conflicts of interest by audit committee members
- The arrangements for meetings, including who may call a meeting, the frequency and timing of meetings and what constitutes a quorum
- The need to prepare a meeting agenda, minutes of meetings and other records, if any, of significant decisions made by the audit committee
- Attendance at audit committee meetings by non-member invitees, including board members (who should be entitled to attend but not vote)
- The parties with whom the audit committee should meet privately, without management, and the frequency of such meetings
- The audit committee's responsibilities, including:
  - its duty to carry out, or to arrange, investigations requested by the board
  - the scope of its activities for:
    - financial reporting oversight
    - internal and external audit evaluation
    - risk management and internal control
    - compliance with laws, regulations, internal policies and industry standards
    - fraud control
    - continuous disclosure
  - its responsibility for ensuring procedures are in place for the receipt, retention and treatment of complaints received by the entity regarding accounting, internal accounting controls or auditing matters
- The audit committee's obligations to report on its activities to the board, regulators and/or members
- The process for assessing the audit committee's performance, including compliance with its charter
- The process for periodic review of the audit committee charter
- The extent of liaison expected between the audit committee and other board committees.

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<sup>49</sup> See Appendix 1 for a sample audit committee charter.

Audit committee members, the board, management and internal and external auditors need to understand the audit committee's charter, including the audit committee's scope of activities and communication and reporting arrangements.

The charter should be regularly monitored, and reviewed annually to ensure it remains relevant to the entity's needs (for instance, revising reporting requirements to cover board needs for additional information) and reflects current regulatory requirements and audit committee good practice.

## Membership

The membership of the audit committee is a key determinant of its success.

### Audit committee composition

The composition of the audit committee should include a balance of professional skills, knowledge and technical experience, as well as sufficient capacity, independence and objectivity, to discharge its responsibilities as defined in its charter.

The ASX Corporate Governance Council recommends the audit committee should be structured so that it:<sup>50</sup>

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not the chair of the board
- has at least three members.

S&P/ASX 300 entities are required to comply with these recommendations regarding the structure of the audit committee.<sup>51</sup>

The CEO (or managing director) should not be a member of the audit committee, although it is not uncommon for the CEO to be invited to attend audit committee meetings (see *Attendance* on page 54).

The board might appoint a person who is not a director of the entity to the audit committee to provide particular expertise.

### Selection of audit committee members

Not only is it important to maintain audit committee continuity, but also provide a fresh perspective through succession planning and the selection process.

The following key qualities are desirable when appointing members:

- Individuals should have:
  - an understanding of the industry, the entity, its business and its products and/or services
  - a mindset that is independent of the entity's management
  - strong communication skills, including an ability to offer different perspectives and constructive suggestions
  - high levels of personal integrity and ethics
  - sufficient time available to devote to executing responsibilities

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<sup>50</sup> See Recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments*.

<sup>51</sup> See ASX Listing Rule 12.7.

- financial literacy, including an ability to read or understand financial statements, ask pertinent questions about them, and interpret and evaluate answers.
- The audit committee as a whole should have:
  - at least one member with financial expertise, which may be interpreted broadly as being “a qualified accountant or other financial professional with experience of financial and accounting matters.”
  - a mix of skills and experience relevant to discharging responsibilities, including experience in business, financial and legal compliance, risk management and international commercial background and experience, if applicable.

Committee members and the audit committee chair should be appointed by the board. A board nomination committee should be convened with the power to interview candidates considered to have the skills, experience and interest in being a member of the audit committee and recommend their appointment.

### **Independent and non-executive members**

It is recommended that the majority of members of the audit committee are independent and non-executive members. However, if the entity is in the S&P/ASX 300 at the beginning of the year, it is a requirement under the Listing Rules that the committee consist solely of non-executive directors, a majority of whom are “independent”.

Independent, non-executive directors are individuals free from any management, business or other relationship that could reasonably be perceived to materially interfere with their ability to act in the best interests of the entity. The “independence” of audit committee members should always be considered in relation to any applicable legislation, or regulation, that defines the requirements of independence for audit committee membership.

Independence is arguably a state of mind, and cannot necessarily be assessed by a person’s relationship with the entity. It is commonplace to examine an audit committee member’s past and current relationships with the entity as indicators of independence, or otherwise.

The ASX Corporate Governance Council<sup>52</sup> identifies the following relationships which may affect the independent status of a director if the director:

- Is a substantial shareholder of the entity or an officer of, or otherwise associated directly with, a substantial shareholder of the entity
- Is employed, or has previously been employed, in an executive capacity by the entity or another group member, and there has not been a period of at least three years between ceasing this employment and serving on the board
- Has, within the last three years, been a principal of a material professional adviser or a material consultant to the entity or another group member, or an employee materially associated with the service provided
- Is a material supplier or customer of the entity or other group member, or an officer of, or otherwise associated directly or indirectly with, a material supplier or customer
- Has a material, contractual relationship with the entity or another group member other than as a director.

This list is not exhaustive and if one or more of the above is exhibited by a director it is possible that their status as an independent director might be compromised.

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<sup>52</sup> See Box 2.1 of the ASX Corporate Governance Council’s *Corporate Governance Principles and Recommendations with 2010 Amendments*.

Members and potential members of the audit committee need to exercise care to ensure they disclose to the board for its consideration any relationships that could be viewed by other parties as impairing either the individual's, or the audit committee's actual or perceived independence. When deciding what is significant, consider the significance of the relationship to both the entity and to the individual.

The board might choose to appoint an individual to the audit committee, despite the existence of relationships identified above, because of the individual's business or other expertise.

The ASX Corporate Governance Council suggests that the board should state its reasons for considering such a director to be independent, and the corporate governance statement should disclose the existence of any such relationships.<sup>53</sup> It is important for the board to consider materiality thresholds from the perspective of both the entity and its directors, and to disclose these.

### **Audit committee chair**

The chair of the audit committee plays a pivotal role in the overall effectiveness of the audit committee. The chair of the audit committee is preferably independent and not be the chair of the board.<sup>54 55</sup> However, if the entity is in the S&P/ASX 300 at the beginning of its financial year, then this is actually a requirement under the Listing Rules.

The chair is responsible for:

- Promoting effective communications between the audit committee and the board, CEO, CFO, CAE, other senior management and the external auditor
- Ensuring audit committee meetings run smoothly, that the views of all audit committee members are heard, that adequate time is allowed for discussion of each issue and that the agenda and meeting papers properly reflect proceedings.

The board should select an audit committee chair who:

- Has demonstrated strong leadership qualities
- Is knowledgeable of the duties and responsibilities of the position as outlined in the charter
- Has skills and knowledge about the industry, the entity's business, and financial reporting and auditing requirements
- Has strong communication skills, including the ability to promote effective working relationships among audit committee members and with others, such as management and the internal and external auditors

The chair's own term of appointment should be specified by the board and should relate to the director's term of appointment to the audit committee. The board may also appoint a deputy chair in the same manner.

### **Induction of new members**

The audit committee's knowledge and proficiency are enhanced when new members are appropriately acquainted with the audit committee's objectives and practices. All new

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<sup>53</sup> See Recommendation 2.1 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments*.

<sup>54</sup> See Recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments*.

<sup>55</sup> ASX Listing Rule 12.7.

members and existing directors need to be well briefed. Induction can be undertaken in many different ways, ranging from formal orientation programs to informal discussions.

A new member needs to understand the audit committee's role, objectives and responsibilities, be familiar with its relationships with management and the internal and external auditors, and have a sound knowledge of the entity's operations and the environment in which it operates, including the entity's code of conduct. They also need to understand the time and effort they will need to devote to their audit committee membership additional to the time and effort they devote to each board meeting.

Relevant information may be provided to new audit committee members, including:

- The audit committee charter
- An overview of business operations and the industry in which the entity operates
- All material previously provided to audit committee members on matters still before the audit committee, including current audit plans and outstanding corrective action from previous audit reports (both external and internal)
- Papers from recent audit committee meetings
- Internal audit charter
- Financial performance information
- Risk profile of the entity and a list of material business risks
- Risk appetite of the board
- Risk management framework and processes
- Internal control framework and processes
- Key financial reporting policies, including any related party issues
- Legal and regulatory requirements, including external reporting and compliance responsibilities
- Code of conduct for the entity, board and/or the audit committee
- Estimates of the time members need to commit to their audit committee role
- Fraud control framework (and high level details on previous fraud issues/allegations, if any).

All new members should meet with the chair, other audit committee members, senior management, and external and internal auditors as soon as practicable after being appointed.

### **Ongoing training**

It is important that audit committee members keep abreast of current developments in matters that affect their capacity to effectively discharge their duties. Audit committee members may routinely receive focussed information on:

- Important relevant industry issues, trends and developments
- Key financial, and other performance indicators, of the entity detailing the level of achievement of the entity's objectives
- Significant proposed changes in financial reporting and regulatory requirements
- Other matters that might have a significant impact on the risk profile of the entity.

Audit committee members should be encouraged to attend relevant third-party training, conferences and seminars and share information at subsequent audit committee meetings.

### **Rotation**

Periodic rotation of audit committee members is encouraged as it enhances the perception of audit committee independence.

Rotation will generally depend on the size of the board from which audit committee members are drawn, and the availability of suitable candidates from within and outside the entity.

## Conducting meetings

How audit committee meetings are conducted will greatly influence the ability of audit committee members to achieve the audit committee's objectives.

## Frequency of meetings

A regular schedule of meetings should be designed to enable the audit committee to effectively discharge its responsibilities.

While the number and duration of audit committee meetings will depend on the size and complexity of the audit committee's responsibilities, it is common for the following to occur:

- Audit committees typically meet at least four times a year to coincide with key dates within the financial reporting and audit cycles, and to plan the year and review performance
- There may be a separate meeting to consider the annual financial report and half year review, which may be covered within the normal meeting schedule or in an additional meeting, where necessary. This meeting should allow ample time for detailed consideration of the report,<sup>56</sup> with the agenda tailored accordingly and not overburdened with other items. For example, important accounting judgements and decisions may be determined ahead of the year end and at an earlier meeting than the one that considers the annual financial report
- When possible, meetings are arranged so that all audit committee members can attend. The proposed schedule of audit committee meetings may be discussed and agreed well in advance. In planning the schedule of meetings, reference should be made to the meeting schedule of the full board, allowing sufficient time between audit committee and board meetings to action any items and prepare papers and reports to be tabled at the board meeting
- The audit committee charter normally empowers the chair to convene a special meeting at the request of the board, an audit committee member, senior management, the external or internal auditor.

## Structure of meetings

Normal business practices for committee meetings apply to audit committees.

Well-run audit committee meetings typically include:

- The preparation of a formal, well-structured agenda with reference to the audit committee charter to ensure that the agenda and meeting papers are appropriate
- The internal and external auditors are invited to contribute to the agenda
- The chair reviews and approves the agenda, and relevant meeting papers, before issuing them to audit committee members and other parties authorised by the audit committee
- The agenda and meeting papers are distributed before the meeting, allowing sufficient time for members to read them carefully. As a guide, papers should be distributed at least one week before the meeting. However, where there is a large

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<sup>56</sup> Time should be allowed for the audit committee to consider any changes that have been made to the financial report since the audit committee papers were distributed. Management may provide the audit committee with a detailed list of all such changes.

volume of papers, or papers involve complex matters, the audit committee may require them to be distributed more than one week before the meeting to enable members to carefully review and understand the content of papers

In *ASIC v Healey* (2011) 196 FCR 291, notwithstanding a complex corporate reporting structure, multiple sets of financial statements requiring approval and reporting deadlines, the ruling confirmed the proposition that members of the audit committee and other directors have a duty to read the financial statements and check them. Timing issues and information overload cannot be used as defences in avoiding this responsibility.

- Inclusion of the annual work plan or calendar of events, cross-referenced to the charter, in meeting papers may be useful in providing audit committee members with an overview and ensuring compliance with the charter
- Efficient running of the meeting is assisted by:
  - Ensuring the meeting starts and finishes on time, while taking as long as necessary to adequately consider agenda items
  - Members agreeing to the priority of, and the time to be devoted to, each item at the commencement of each meeting
  - Meeting processes requiring members to declare any actual, perceived or potential conflicts of interest each year, and at the beginning of each meeting to strengthen the audit committee's independence. Members consider past employment, consultancy arrangements and related party issues when considering conflicts of interest
  - Establishing clear decision-making processes and voting protocols.
- The minutes are usually administered as follows:
  - Minutes are complete, clear and concise, providing a record of proceedings, including the issues, outcomes and actions with clear responsibilities and timelines attached
  - Draft minutes are provided to the chair within a week of the meeting for clearance and distributed to audit committee members within two weeks of the meeting
  - Within two weeks of the meeting, the audit committee secretariat provides senior management with a brief summary of issues dealt with at each meeting, including details of actions to be taken with assigned responsibilities and timelines
  - The minutes are circulated to the board with the papers of the next board meeting after the audit committee meeting
  - The chair should brief the board on significant issues
  - The minutes are signed by the chair at the subsequent audit committee meeting.

## Attendance

Regarding attendance at audit committee meetings, the following matters should be considered:

- Attendance of non-members is by invitation only. Audit committees should always reserve this right to meet alone, without non-members, including management, in attendance. This enables the audit committee to approach its tasks objectively and to maintain both actual and perceived independence
- The CEO, CFO and other relevant staff are generally invited to attend meetings to participate in discussion of particular agenda items. Their presence can provide an opportunity to resolve issues swiftly and efficiently
- The internal auditor and external auditor are generally invited to attend relevant parts of each meeting. Where necessary, the chair might decide that they should not attend for certain agenda items

- The audit committee should meet separately, at least annually, with both the internal auditor and the external auditor to discuss issues of mutual interest, without management present.

The chair of the audit committee is likely to have meetings with key executives and advisors outside the audit committee meetings to ensure ongoing awareness of issues and activities as they arise.

## Reporting by the audit committee

### To the board

The formality, detail and frequency of audit committee reports to the board vary. The audit committee refers to its charter when preparing a report.

Ideally, the audit committee should formally report to the board at the board meeting following each audit committee meeting, providing a summary of the audit committee's work and results.

The report should typically cover areas such as:

- The audit committee minutes<sup>57</sup>, including details of members present
- Any formal resolutions of the audit committee
- Assessment of management processes supporting external reporting
- Procedures for selection and appointment / removal of external auditor
- Information about the audit processes and the results of work completed by the internal and external auditors as well as an assessment thereof
- Any determination by the audit committee about the external auditor's independence
- The annual review of the audit committee charter and whether the audit committee has achieved the responsibilities set out in the charter
- Any recommendations requiring board actions and/or approval
- Audit recommendations for corrective action and status report
- Information about instances of actual, suspected or alleged fraud, if any
- Information about whistleblowing by employees or other parties, if any
- Any concerns about the entity's ability to continue as a going concern
- Recommendations on whether to extend the rotation period for the external audit engagement partner beyond five years to a maximum of seven years<sup>58</sup>
- Information about the annual transparency report published by the external auditor, if applicable<sup>59</sup>
- Information about an audit deficiency report published by ASIC on its website, if applicable

<sup>57</sup> APES GN 41 Management Representations prepared and issued by the Accounting Professional and Ethical Standards Board, provides guidance that a Member in Business who is at the audit committee level should consider taking reasonable steps to ensure that key decisions made at those meetings are appropriately reflected in the minutes of the applicable meeting.

<sup>58</sup> See footnote 18

<sup>59</sup> Under the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, an individual auditor, an audit firm or an authorised audit company conducting audits of ten or more entities of certain specified categories is required to publish an annual transparency report. The disclosures in the transparency report will include the names of relevant entities audited, information about the auditor's governance structure and independence practices, and other information.

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Under the *Corporations Legislation Amendment (Audit Enhancement) Act 2012* an audit deficiency is where ASIC reasonably believes that there is a significant weakness, in the auditor's quality control system or a significant weakness in the conduct of the audit that may be detrimental to the overall quality of the audit as a result of a failure by the auditor to comply with:

- auditing standards
- the auditor independence requirements of the *Corporations Act 2001*
- any applicable code of professional conduct
- provisions of the *Corporations Act 2001* dealing with the conduct of audits.

- Information about any communications received directly from ASIC regarding significant matters (such as an audit client's accounting or disclosure practices) identified while exercising its functions and powers in relation to audit (mainly its surveillance and inspection activities)<sup>60</sup>
- Information about correspondence from other regulators or stakeholders, if any (for example, from APRA in relation to APRA-regulated entities)
- Other matters the audit committee believes need to be reported to the board.

### To the shareholders

The annual report would typically include information on the audit committee's role and responsibilities, structure and membership, and its principal activities during the year. This information would be included as part of the wider corporate governance information in the annual report.

Improving the communication channels to investors highlights the importance of the active role that audit committees play in promoting greater transparency in reporting.

The following material would typically be included in the corporate governance section of the annual report:

- [A summary of the role of the audit committee](#)
- Details of the names and qualifications of those appointed to the audit committee, or, where the audit committee has not been formed, those who fulfil the functions of an audit committee
- The number of meetings of the audit committee and the names of the attendees.

### To other stakeholders

The following information may be publicly available on an entity's website in a clearly marked corporate governance section:

- The audit committee charter
- Description of the role and responsibilities of the audit committee
- A description of the audit committee's oversight role for the entity's governance, risk management and internal control
- Names of audit committee members, professional background and qualifications
- Information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partner
- Information on procedures for the selection and appointment of the internal auditor.

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<sup>60</sup> The *Corporations Legislation Amendment (Audit Enhancement) Act 2012* gives ASIC the power to communicate directly with the audit committee, other directors or senior management of an entity in relation to significant matters identified by ASIC during the course of the exercise of its statutory functions in relation to audit.

## Assessing performance

### Assessing the audit committee's performance

Recent pronouncements on corporate governance have emphasised the need for boards and board committees to demonstrate a high level of professionalism. The board may annually review the performance of the audit committee, preferably as part of the whole of board review.

Matters for consideration by the board include:

- Identifying and agreeing to the criteria by which the performance of the audit committee will be assessed
- Assessing the effectiveness of the audit committee as a whole and the performance of individual audit committee members
- Identifying the process for implementing action plans developed in response to areas identified for improvement
- Assessing compliance with the audit committee's charter.

The board may require the audit committee to self-assess its performance and report its findings to the board. A self-assessment guide for audit committees is provided in Appendix 2.

Audit committees should also take advantage of opportunities to benchmark their organisational procedures and activities with audit committees in similar entities.

### Evaluation of individual audit committee members

The chair of the audit committee may undertake an annual performance assessment of individual audit committee members as part of the board review process.

The assessment would typically cover issues such as whether the member has displayed:

- A good understanding of, and commitment to, the audit committee's role and responsibilities
- Objectivity and independence
- An ability and willingness to take difficult but constructive stands at meetings when necessary
- A good understanding of the entity's business
- A good understanding of the entity's risk management and internal control processes
- Their participation in activities to keep their business, industry, financial and regulatory knowledge current
- Their preparation for, and participation in, audit committee meetings.

Audit committees can use tools such as a self-assessment questionnaire to assist with the evaluation of a member's performance and contribution to the audit committee. A self-assessment guide for audit committees is at Appendix 2.

Results of performance assessments should be formally communicated to the board.

### Further reading

*Corporate Governance Principles and Recommendations with 2010 Amendments*, June 2010, ASX Corporate Governance Council, Australia

*Audit Committee Effectiveness—What Works Best*, 4th ed., June 2011, sponsored by The Institute of Internal Auditors Research Foundation and prepared by PricewaterhouseCoopers LLP

*The Audit Committee Handbook*, 5th ed., March 2010, Louis Braiotta, Jr., R. Trent Gazzaway, Robert Colson, Sridhar Ramamoorti, USA

*International Professional Practices Framework*, 2011, The Institute of Internal Auditors Inc.

*Walk the line: Discussion and insights with leading audit committee members*, February 2012, The Institute of Chartered Accountants Australia, Financial Reporting Council (UK) and The Institute of Chartered Accountants of Scotland

*Going Concern Issues in Financial Reporting A Guide for Companies and Directors*, 2009, Auditing and Assurance Standards Board and the Australian Institute of Company Directors.

*Underlying Profit: Principles for reporting of non-statutory profit information*, 2009, the Australian Institute of Company Directors and the Financial Services Institute of Australasia

## Appendix 1

### Sample audit committee charter

The following is one example of an audit committee charter and captures many of the good practices used today. No sample charter encompasses all activities that might be appropriate to a particular audit committee, nor will all activities identified in a sample charter be relevant to every committee. Each committee should tailor this charter to their needs and governing rules.

The audit committee's annual work plan may be developed having regard to, and being cross-referenced to, its charter to ensure that the audit committee acts according to its authority and fulfils its responsibilities.

### Sample audit committee charter

#### Purpose

The audit committee is appointed by the board of directors to assist the board in discharging its responsibilities to oversee corporate reporting processes, including the financial reporting process, risk management and internal control, external audit, internal audit and compliance with laws, regulations, internal policies (including the code of conduct) and industry standards.

#### Authority

The board authorises the audit committee, within its scope of responsibilities, to:

- Perform the activities identified within this charter
- Make recommendations to the board on the appointment, compensation and retention of the external auditor
- Approve the terms of the external audit engagement (other than the audit fee, although some audit committee charters may allow the audit committee to approve

the fee or may make provision for the audit committee to recommend the audit fee to the board)

- Oversee the work of the external auditor
- Consider any disagreements between management and the external auditor related to financial reporting
- Require the attendance of management at meetings as appropriate
- Have unrestricted access to employees and relevant entity information
- Meet with external auditors, independent legal counsel and other external advisers as necessary
- Engage independent legal counsel, accountants and other external advisers as it considers necessary to carry out its duties.

### **Composition**

The audit committee will consist of [insert number (at least three)] non-executive members of the board of directors, the majority being independent.

The board, on the recommendation of its nominating committee (where applicable), will appoint audit committee members and the audit committee chair.

Each audit committee member should have skills, knowledge and experience appropriate to the entity's business.

The committee, as a whole, should have a mix and balance of relevant skills, knowledge and experience.

Each audit committee member must be financially literate. At least one member must have accounting or related financial expertise.

### **Chair**

Preferably, the chair of the audit committee should be independent and not be the chair of the board. (If the entity is in the S&P/ASX 300 at the beginning of its financial year, then this is a requirement.)

The chair will carry out the following responsibilities:

- Promote effective communications between the audit committee and the board, CEO, CFO, CAE, other senior management and the external auditor
- Ensure audit committee meetings run smoothly, that the views of all audit committee members are heard, that adequate time is allowed for discussion of each issue and that the agenda and meeting papers properly reflect proceedings.

### **Meetings**

The audit committee will typically meet at least four times a year, with authority to convene additional meetings, if necessary to fulfil the audit committee charter. All audit committee members are expected to attend each meeting, in person or via teleconference or video conference.

Only audit committee members are entitled to attend meetings. The audit committee may invite other people (such as the other board members, CEO, CFO, CAE, internal legal counsel and the external auditor) to its meetings as it considers necessary.

An agenda and meeting papers will be prepared and provided in advance to members, along with appropriate briefing materials.

Agreed decision-making processes and voting protocols will be followed.

Minutes of meetings will be prepared and circulated to audit committee members and to the board at its next meeting.

### **Responsibilities**

The audit committee will carry out the following responsibilities:

#### ***Financial Reporting***

- Gain an understanding of the current areas of greatest financial risk and how they are managed
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports
- Review complex or unusual financial transactions and highly judgemental areas, and understand their effect on the financial report
- Oversee the periodic financial reporting process implemented by management and review the interim financial statements, annual financial statements, concise financial report, if any, and preliminary announcements before their release
- Meet with management and the external auditor to review the financial statements, key accounting policies and decisions, and the results of the audit, including significant adjustments, unadjusted differences and any difficulties encountered or unresolved disagreements with management
- Review all representation letters signed by management and assess for completeness and appropriateness
- With management and the external auditor, review all matters required to be communicated to the audit committee under Australian Auditing Standards
- Review the CEO and CFO declarations regarding the financial report and financial records, prepared in accordance with the requirements of the Corporations Act 2001
- Based on its review of the financial statements, note disclosures and other information, provide a recommendation to the board whether the financial report should be approved
- Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the entity and its operations, and is unbiased
- Review management's process for ensuring that information contained in analyst briefings, investor presentations and press announcements is consistent with published financial information, and is balanced and transparent.

#### ***Working with the external auditor***

- Provide a recommendation to the board on the appointment, reappointment or termination of the appointment of the external auditor
- Where appropriate, provide a recommendation to the board on extending the rotation period of the external audit engagement partner from five years up to a maximum of seven years
- Annually review the performance of the external auditor
- Consider the independence of the external auditor and any potential conflicts of interest
- Review the external auditor's proposed audit scope and approach for the current year in light of the entity's circumstances and changes in regulatory and other requirements

- Discuss with the external auditor any difficulties encountered in the audit, including any restriction on audit scope, access to information and any significant resolved or unresolved disagreements with management
- Discuss with the external auditor the appropriateness of the accounting policies applied by management in the entity's financial reports
- Discuss with the external auditor, and assess the appropriateness of, management's responses to significant findings and recommendations made by the external auditor
- At least once a year meet separately with the external auditor to discuss matters that the audit committee or auditor believes should be discussed privately. Ensure the external auditor has access to the chair of the audit committee when required
- Develop policies for the provision of non-audit services by the external auditor, including other assurance engagements, and, where applicable, pre-approve such services
- Monitor the relationship between internal and external auditors.

#### ***Working with the internal audit activity***

- Recommend to the board on the appointment, promotion or dismissal of the CAE
- Review the charter, activities, resources and organisational structure of the internal audit activity and ensure there are no unjustified restrictions or limitations
- Ensure the internal auditor reports to the audit committee for functional purposes and to the CEO for administrative purposes, and has access to all levels of management with the right to seek information relevant to the internal audit activity
- Review the internal audit plan to assess whether it addresses the material business risks of the entity and that there is appropriate coordination with the external auditor
- Review and approve the scope of the internal audit plan and work program
- Monitor the progress of the internal audit plan and work program, and the implementation of the findings and recommendations of the internal audit activity
- Consider the processes implemented by the entity for monitoring and assessing the effectiveness of the internal audit activity
- Without management being present, meet periodically with the CAE to discuss matters that the audit committee or internal auditor believes should be discussed privately.

#### ***Risk management and internal control***

- Consider whether the entity has an appropriate attitude towards controls and communicate the importance of risk management and internal control
- Ensure that management has appropriate processes for identifying, assessing and responding to risks in a manner that is in accordance with the entity's risk appetite, and that those processes are operating effectively
- Ensure that material business risks, including operational, financial, legal and compliance risks, are appropriately reflected in the risk profile and reported to the board at least annually
- Evaluate the overall effectiveness of the risk management and internal control framework, including activities undertaken by internal and external audit, and any other assurance providers, related to the framework
- Understand the internal control systems implemented by management for the approval of transactions, the recording and processing of financial data, and ensuring that financial statements comply with relevant standards and requirements, and are subject to appropriate management review
- Understand the internal control systems implemented by management for the security of computer systems and applications, and the contingency plans for

processing financial information in the event of a systems breakdown, or to protect against computer fraud or misuse

- Understand the processes management has implemented for managing insurable risks and, if applicable, self-insurance, including assessing the adequacy of insurance cover
- Meet periodically with the head of risk management without other management being present.

### ***Compliance with laws, regulations, ethical requirements, internal policies and industry standards***

- Review the effectiveness of the entity's systems for monitoring compliance with laws, regulations, internal policies and industry standards, and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance
- Obtain regular updates from management and the head of compliance about compliance matters that may have a material impact on the entity's financial statements, strategy, operations or reputation, including material breaches of laws, regulations, standards and company policies
- Review and liaise with management and/or regulators, as appropriate about the findings of any examinations by regulators
- Review and, where applicable, approve the policies, processes and framework for identifying, analysing and addressing complaints (including whistleblowing) and review material complaints and their resolution
- Review the entity's process for communicating the code of conduct to staff and assess the effectiveness of, and compliance with the code
- Discuss with management whether all regulatory compliance matters of the entity have been considered in the preparation of the financial statements
- Meet periodically with the head of compliance and legal counsel without other management being present.

### ***Fraud***

- Ascertain whether fraud risks have been included in the assessment of the risk profile of the entity
- Review management's anti-fraud strategies and programs
- Enquire of management, the internal auditor and the external auditor regarding their assessments of the risk of material misstatement in the financial report due to fraud, including the nature, extent and frequency of such assessments
- Enquire of management, the internal auditor and the external auditor whether they are aware of any actual, suspected or alleged fraud affecting the entity and how they responded to such instances, including any changes made to the internal control environment
- Obtain representations from management that all known instances of actual, suspected or alleged fraud, have been disclosed to the audit committee
- Ensure the entity has fulfilled its fraud reporting obligations, if any.

### ***Reporting responsibilities***

- Report regularly to the board about audit committee activities and make appropriate recommendations
- Ensure the board is aware of matters that may significantly affect the financial condition or affairs of the entity

- Prepare any reports requested by the board, such as a report on the audit committee's responsibilities and activities to be included in the corporate governance section in the annual report
- Facilitate open communication between internal auditor, the external auditor and the board.

### ***Evaluating performance***

- Evaluate the audit committee's own performance (that of individual members and collectively) on a regular basis
- Assess the committee's achievement of responsibilities specified in this charter and report the findings to the board.

### ***Review the audit committee charter***

- Annually review the audit committee charter and discuss required changes with the board
- Ensure that the charter is approved or re-approved by the board.

### ***Other responsibilities***

- Perform other activities related to this charter as requested by the board.

## **Appendix 2**

### **Self-assessment guide for audit committees**

This guide has been provided to illustrate the types of considerations against which the audit committee might assess its performance collectively. Similar considerations may be applied to the assessment of the performance of individual members of the audit committee.

The guide includes a large number of considerations and should be tailored by each audit committee to meet its own requirements. The audit committee may complete the guide as a whole or individually, and then collate individual responses. The chair of the audit committee and members may decide to weight certain aspects of the self-assessment guide more than others. The audit committee may also seek input from non-member attendees and separately assess the information received.

The results of the self-assessment should be used by the audit committee for discussion to identify areas for improvement and should be provided to the chair of the board.

The audit committee's self-assessment approach should be consistent with the committee's charter. For this reason, the considerations listed below reflect the structure and content of the sample charter provided in Appendix 1.

### **Assessing Audit Committee Performance**

In evaluating the performance of the audit committee, the following would typically be considered.

### **Authority**

- Has obtained authority from the board to perform the activities in its charter
- Has been able to require the attendance of management at audit committee meetings, as necessary
- Has had unrestricted access to management, employees and relevant information
- Has been able to meet with independent legal counsel and other external advisers as necessary
- Has been able to engage independent legal counsel, accountants and other external advisers as it considers necessary.

### **Composition**

- The size of the audit committee is appropriate to the entity and the responsibilities in the audit committee charter
- All audit committee members are non-executive directors
- The majority of audit committee members are independent
- The mix of skills, knowledge and experience of the audit committee as a whole has been reviewed and is appropriate
- All audit committee members have skills, knowledge and experience appropriate to the entity's business
- All audit committee members are financially literate and able to understand financial statements; at least one member has accounting or related financial expertise.

### **Chair**

- The chair of the audit committee is preferably independent and not the chair of the board (for S&P/ASX 300 entities, this is a requirement).

### **Meetings**

- The audit committee meets regularly throughout the year and the number of meetings is appropriate for the nature of the entity and the responsibilities of the audit committee
- Only audit committee members are entitled to attend meetings. The CEO, CFO, CAE, internal legal counsel, other senior management and the external auditor are invited to attend meetings as necessary
- Audit committee members attended every meeting or provided input, if unable to attend
- Decisions were made by the audit committee in accordance with agreed decision-making processes and voting protocols.

### ***Agenda, meeting papers and minutes***

- The agenda and meeting papers are provided in advance of meetings, with sufficient time allowed for members to prepare for meetings
- Minutes of meetings are prepared and circulated promptly to audit committee members, to the board at its next meeting and to internal and external auditors, as necessary.

### **Responsibilities**

#### ***Financial reporting***

- Gained an understanding of the current areas of greatest financial risk and how they are being managed

- Reviewed significant accounting and reporting issues, including recent professional and regulatory pronouncements, and gained an understanding of their impact on the financial report
- Reviewed complex or unusual financial transactions and highly judgemental areas, and understood their effect on the financial report
- Met with management and the external auditor to review and understand the interim financial statements, annual financial statements, concise financial report, if any, and preliminary announcements prior to their release. In particular, reviewed key accounting policies and decisions, and the results of the audit, including significant adjustments, unadjusted differences and any difficulties encountered or unresolved disagreements with management
- Reviewed all representation letters signed by management, for completeness and appropriateness
- Reviewed with management and the external auditor all matters required to be communicated to the audit committee under Australian Auditing Standards
- Reviewed the CEO and CFO declarations in respect of the financial report and financial records
- Reviewed the financial statements, note disclosures and other information and recommended to the board whether the financial report should be approved
- Reviewed other sections of the annual report before its release, for consistency with members' knowledge about the entity and its operations, is unbiased
- Reviewed management's process for ensuring that information contained in analyst briefings, investor presentations and press announcements was consistent with published financial information, and was balanced and transparent.

#### *Working with the external auditor*

- Recommended to the board on the appointment, reappointment or termination of the appointment of the external auditor
- Where appropriate, provided a recommendation to the board on extending the rotation period of the external audit engagement partner from five years to a maximum of seven years
- Considered the independence of the external auditor and any potential conflicts of interest
- Reviewed the external auditor's proposed audit scope and approach
- Discussed with the external auditor any difficulties encountered in the audit, including any restriction on audit scope, access to information and any disagreements with management (resolved or unresolved)
- Discussed with the external auditor the appropriateness of the accounting policies applied by management in the entity's financial reports
- Discussed with the external auditor the results of the audit and management's responses to significant findings
- Met privately with the external auditor at least once a year without management present and ensured that the external auditor had access to the chair of the audit committee when required
- Developed and reviewed the policies for the provision of non-audit services by the external auditor, including other assurance engagements and where applicable, pre-approved such services
- Monitored the relationship between the internal and external auditors.

#### *Working with the internal audit activity*

- Where appropriate provided recommendations to the board on the appointment, promotion and dismissal of the CAE

- Reviewed the internal audit charter, resources and the organisational structure of the internal audit activity and ensured there were no unjustified restrictions or limitations
- Ensured the internal auditor reports to the audit committee for functional purposes and to the CEO for administrative purposes
- Discussed with the internal auditor any difficulties encountered in the internal audit process, including any restrictions on access to information and any disagreements with management (resolved or unresolved)
- Ensured the internal audit plan is risk-based, addressing the material business risks of the entity
- Reviewed and approved the scope of the internal audit plan and work program, and monitored its progress throughout the year
- Considered the processes the entity had implemented for monitoring and assessing the effectiveness of the internal audit activity
- Met privately with the internal auditor at least once a year without management present.

#### ***Risk management and internal control***

- Assessed the entity's attitude towards controls and promoted the importance of risk management and internal control
- Reviewed and assessed the effectiveness of management's processes for identifying, assessing and responding to risks, ensuring that they are appropriate to the entity's risk appetite and these processes were operating effectively
- Ensured the material business risks, including operational, financial, legal and compliance risks, are appropriately reflected in the risk profile and reported at least annually to the board
- Evaluated the overall effectiveness of the risk management and internal control framework, including activities undertaken by internal and external audit, and any other assurance providers, related to the framework
- Obtained an understanding of the internal control systems implemented by management for the approval of transactions, the recording and processing of financial data, and ensuring that financial statements complied with relevant standards and requirements, and were subject to appropriate management review
- Reviewed the adequacy of controls for the security of computer systems and applications, and the contingency plans for processing financial information in the event of systems breakdown, or computer fraud or misuse
- Reviewed the processes management has implemented for managing insurable risks and, where applicable, self-assurance, and assessed the adequacy of insurance cover
- Met privately with the head of risk management without management being present.

#### ***Compliance and ethics***

- Reviewed the effectiveness of management's systems for monitoring compliance with law, regulations, internal policies and industry standards, and the results of management's investigations and follow-up of any instances of non-compliance
- Obtained regular updates from management and the head of compliance about compliance matters that may have a material impact on the entity's financial statements, strategy, operations or reputation, including material breaches of laws, regulations, standards and company policies
- Liaised with management and/or regulators, as appropriate, about the findings of any examinations by regulators

- Reviewed and approved the policies, processes and framework for identifying, analysing and addressing complaints (including whistleblowing) and reviewed material complaints and their resolution
- Reviewed the entity's process for communicating the code of conduct to staff and assessed the effectiveness of, and compliance with, the code
- Discussed with management whether all regulatory compliance matters of the entity were considered in the preparation of the financial statements
- Met privately with the head of compliance and legal counsel, without management being present.

### ***Fraud***

- Ensured fraud risks have been included in the assessment of the risk profile of the entity
- Reviewed management's anti-fraud strategies and programs
- Enquired of management, the internal auditor and the external auditor regarding their assessments of the risk of material misstatement in the financial report due to fraud, including the nature, extent and frequency of such assessments
- Enquired of management, the internal auditor and the external auditor whether they have any knowledge of actual, suspected or alleged fraud affecting the entity and how they responded, including any changes made to the internal control environment
- Obtained representations from management that all known instances of actual, suspected or alleged fraud have been disclosed to the audit committee
- Ensured that management has fulfilled the entity's fraud reporting obligations, if any.

### ***Reporting by the audit committee***

- Reported regularly to the board on the audit committee's activities and made recommendations where appropriate
- Ensured the board was aware of matters that may significantly affect the financial condition or affairs of the entity
- Prepared reports requested by the board
- Facilitated open communication between internal audit activity, the external auditor and the board.

### ***Evaluating performance***

- Evaluated the audit committee's performance, as a whole and for each member, at least once a year, including its achievement of the responsibilities specified in the audit committee charter
- Reported on the results of the evaluation of the audit committee's performance to the board.

### ***Review of the audit committee charter***

- Reviewed the charter to ensure it articulates the audit committee's responsibilities
- Ascertained that the charter facilitates and supports the effective operation of the audit committee.

### ***Other responsibilities***

- Performed other activities, as requested by the board.

## Appendix 3

### Management representation letter

#### Matters commonly included in management representation letter

Representation letters may be requested by ~~the external auditor~~, the board or the audit committee in relation to the audit of the financial report. In addition the external auditor requests written representations from management with appropriate responsibilities for the financial report.

Section 8 of APES GN 41 *Management Representations* prepared and issued by the Accounting Professional and Ethical Standards Board provides guidance in relation to management representation considerations at the audit committee level.

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**Comment [HR1]:** Should more detail be included – will be lengthy.

The following list is provided to assist audit committees to understand the types of representations included in a representation letter prepared and signed by management. It includes selected matters that are commonly included and may not include all representations provided by management to the external auditor. It is provided for information purposes only and is not definitive.

Management would ordinarily represent, or confirm, to the external auditor that:

#### Regarding the financial report

- Management has fulfilled its responsibilities for the preparation of the financial report in accordance with [the applicable reporting framework]
- All transactions have been recorded in the accounting records and are reflected in the financial report
- Significant assumptions used by management in making accounting estimates, including those measured at fair value, are reasonable
- Related party relationships and transactions have been appropriately accounted for and disclosed
- All events subsequent to the date of the financial report required to be adjusted or disclosed have been adjusted or disclosed
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial report as a whole. (A list of the uncorrected misstatements may be attached to the representation letter)

#### Regarding the information provided

- Management has provided the auditor with:
  - access to all information of which they are aware that is relevant to the preparation of the financial report such as records, documentation and other matters
  - additional information that the auditor has requested from them for the purpose of the audit
  - unrestricted access to persons within the entity from whom the auditor determined it necessary to obtain audit evidence
  - all information required to be provided by the law or regulations.
- Management has disclosed to the auditor:
  - the results of their assessment of the risk that the financial report may be materially misstated as a result of fraud

- all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial report communicated by employees, former employees, analysts, regulators or others
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial report
- all known actual or possible litigation and claims whose effects should be considered when preparing the financial report; and accounted for and disclosed in accordance with [the applicable financial reporting framework]
- the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- all the documents that they expect to issue that may comprise other information.

### Regarding other matters

- Management acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent, deter, detect and report on fraud.

## Glossary

### APRA-regulated entities

Entities that are regulated by the Australian Prudential Regulation Authority (APRA), including banks, building societies and credit unions (authorised deposit-taking institutions), life and general insurance and reinsurance companies, friendly societies and superannuation funds (excluding self-managed funds).

### Audit adjustments

Corrections made to misstatements in financial information or disclosures identified by the auditor in conducting an audit of the financial report.

### Audit engagement partner

The partner or other person in the audit firm who is responsible for the audit engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

### Business risks

All risks to the organisation including operational, financial, compliance and strategic risks.

### Chief audit executive (CAE)

A person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the *International Professional Practices Framework* (IPPF), which includes the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing*.

### Concise financial report

A report for a financial year prepared under Chapter 2M of the *Corporations Act 2001* in accordance with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

### **Continuous disclosure obligations**

Continuous disclosure is the timely advising of information to keep the market informed of events and developments as they occur. Under the ASX Listing Rules, once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell the ASX that information.

### **External auditor**

An individual auditor, an audit firm or an authorised audit company providing external audit services.

### **Financial report (as set out in the Corporations Act 2001)**

An annual financial report or a half-year financial report prepared under Chapter 2M of the *Corporations Act 2001*. An annual financial report contains the financial statements, notes to the financial statements and the directors' declaration about the financial statements and notes. The half-year financial report contains the financial statements and notes to the financial statements.

### **Financial statements**

A complete set of financial statements comprises:

1. A statement of financial position as at the end of the period
2. A statement of comprehensive income for the period
3. A statement of changes in equity for the period
4. A statement of cash flows for the period
5. Notes, comprising a summary of significant accounting policies and other explanatory information
6. A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

### **Internal audit activity**

The function, as defined by the *International Standards for the Professional Practice of Internal Auditing*, that is: "A department, division, team of consultants or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes".

### **Internal auditor**

The individual/s who perform the internal audit services as part of the internal audit activity

### **International Financial Reporting Standards (IFRS)**

Standards for accounting and financial reporting issued by the International Accounting Standards Board (IASB).

### Risk appetite

The level of risk that the entity is prepared to accept

### Risk profile

The description of the entity's set of risks.

### Representation letter

A written statement provided by management of an entity to confirm certain matters represented by them in the financial report, or in relation to the preparation of the financial report, or to support other audit evidence. Representation letters may be requested by those charged with governance, including the audit committee, or the external auditor.

### Those charged with governance

The person/s or organisation/s (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process and therefore may include the audit committee.

## List of Acronyms

AASB	Australian Accounting Standards Board
AICD	Australian Institute of Company Directors
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
AUASB	Australian Auditing and Assurance Standards Board
CAE	Chief Audit Executive
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COSO	Committee of Sponsoring Organisations of the Treadway Commission
Finsia	Financial Services Institute of Australasia
FRC	Financial Reporting Council
IFRS	International Financial Reporting Standards
IIA	The Institute of Internal Auditors Inc.
IIA-A	Institute of Internal Auditors-Australia
IPPF	International Professional Practices Framework

## Contact details

Auditing and Assurance Standards Board

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Australian Institute of Company Directors

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Fax: +61 2 8248 6633  
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The Institute of Internal Auditors-Australia  
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Fax: +61 2 9264 9240  
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Web: [www.iia.org.au](http://www.iia.org.au)

## AUASB International Update

**Subject:** AUASB International Update for recent developments up to 17 October 2016 inclusive.

### International Federation of Accountants (IFAC)

1. IFAC has published a brochure on [Choosing the Right Service: Comparing Audit, Review, Compilation, and Agreed-Upon Procedure Services](#). The brochure is designed for use by small and medium-sized practices (SMPs), the brochure explains and differentiates the range of audit, review, compilation, and agreed-upon procedures services SMPs can provide and tailor to meet the needs of their small and medium sized entity (SME) clients. It can help current and prospective clients understand the range of services available, as well as their benefits.
2. IFAC has released a press release in relation to being named as the *Accountancy Capacity Building Champion of the Year Award* at the 2016 The Accountant & International Accounting Bulletin awards. Further information in relation to this award is available via the following [link](#).
3. IFAC are calling on their members to submit a response to the [Largest Annual Global SMP Survey](#). Members have until 30 November to respond via the following [link](#).

### International Audit and Assurance Standards Board (IAASB)

1. The IAASB has released ISA 250 (Revised) *Consideration of Laws and Regulations in an Audit of Financial Statements*, and conforming amendments to other International Standards, which respond to new requirements in the International Ethics Standards Board for Accountants (IESBA)'s Code of Ethics for Professional Accountants addressing non-compliance with laws and regulations (NOCLAR). Further information and related guidance is available via the following [link](#).
2. The IAASB has released a podcast of highlights from the September 2016 meeting that was held in Hong Kong. Topics discussed included project updates for ISA 540, ISA 315, Audit Quality, Group Audits, Professional Scepticism, Agreed upon Procedures as well as the 2017-2018 Work Plan. The podcast is available via the following [link](#).
3. The IAASB's Integrated Reporting Working Group has released a Discussion Paper: [Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements](#). The Working Group is seeking input from all those involved in the external reporting supply chain to gain a better understanding of how the IAASB—as the global standard setter—can contribute to the quality of different engagements, in the public interest, and where others can or need to play a role.  
  
In addition to the Discussion Paper the IAASB has published an [article](#) on the paper written by Brett James (Deputy Director, IAASB) as well as a [video presentation](#) by Nancy Kamp (former Deputy Director, IAASB).
4. The IAASB's Data Analytics Working Group has released a Request for Input, [Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics](#) to further its work in understanding how the use of technology, and more specifically

data analytics, is able to enhance audit quality. The AUASB will seek stakeholder input in providing a response to this request.

5. The IAASB has published the third edition of the [Guide to Quality Control for Small and Medium Sized Practices](#). The guide features enhancements to the two sample manuals, as well as other refinements for clarity and consistency with the International Standard on Quality Control (ISQC) 1. The guide contains the requirements set out in ISQC 1 in addition to implementation guidance, including discussion material and an integrated case study that can be used as the basis for education and training.

### **Public Interest Oversight Board of IFAC (PIOB)**

1. The PIOB has published a [meeting summary](#) for the meeting held 14-16 September 2016 in New York.
2. The PIOB has published [Two shock waves - Reflections on international accounting and auditing in the early 21st Century](#) - written by former PIOB Member, Prof. Toshiharu Kitamura.

### **International Ethics Standards Board for Accountants (IESBA)**

1. The IESBA has published a podcast of highlights from the 26-30 September 2016 meeting held in New York. Topics discussed include project updates in relation to Safeguards, The Restructure of the IESBA Code, Professional Accountants in Business and Long Association. The podcast is available via the following [link](#).

### **International Integrated Reporting Council (IIRC)**

1. The International Integrated Reporting Council (IIRC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) have published an [Introductory Guide to Integrated Reporting \(<IR> in the public sector](#). The objective of the report is “to explain to public sector leaders and their teams how integrated thinking and reporting can help the sector consider how to make the most of resources, encourage the right behaviours and demonstrate to stakeholders how they are achieving the strategy and creating value over the short and longer term”.

### **International Organization of Securities Commissions (IOSCO)**

1. The Growth and Emerging Markets (GEM) Committee of the International Organization of Securities Commissions (IOSCO) has published a report that seeks to strengthen corporate governance frameworks. [The Report on Corporate Governance in Emerging Markets](#) identifies possible measures and regulatory approaches aimed at strengthening corporate governance in emerging market jurisdictions and aligning regulatory frameworks with internationally recognized standards in this area.

### **International Forum of Independent Audit Regulators (IFIAR)**

1. There have been no significant developments related to audit and assurance to report in the period.

## **New Zealand**

### **New Zealand Auditing and Assurance Standards Board (NZAuASB)**

1. The NZAuASB published on 23 September 2016 its [Communique No. 19](#) announcing the issuance of three revised auditing standards:
  - ISA (NZ) 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*;
  - ISA (NZ) 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
  - ISA (NZ) 810 (Revised), *Engagements to Report on Summary Financial Statements*.
2. The NZAuASB published on 19 September 2016 its [Communique No. 18](#) seeking comments on the Proposed Omnibus Standard *Annual Improvements 2016*. The proposed changes arise from local matters, rather than corrections to international standards.
3. The NZAuASB published on 9 September 2016 its [Communique No. 17](#) that describes the highlights of the NZAuASB meeting held on 8 September 2016.

## **United Kingdom**

### **UK Financial Reporting Council (UK FRC)**

1. The Institute of Chartered Accountants Scotland (ICAS) and the UK Financial Reporting Council (FRC) are calling for action to prevent a potential audit skills gap in the future, with the launch of a [new report](#) on 22 September 2016. The report calls for a debate on the future of audit and the skills needed as audit evolves, as expected, beyond the traditional financial statement audit.
2. The UK FRC has issued a [thematic review](#) on the subject of root cause analysis performed by audit firms relating to audit inspection findings. The report is intended to provide insights and aid understanding of firms' procedures, highlight areas of good practice and provide recommendations, to promote continuous improvement in audit quality.

### **The U.K Competition and Markets Authority (UK CMA)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **Institute of Chartered Accountants in England and Wales (ICAEW)**

1. The ICAEW has published a press release on [Audit Insights: Cyber Security](#) which focuses on why change here seems so difficult and highlights how organisations can get on top of their cyber risks.

### **Institute of Chartered Accountants in Scotland (ICAS)**

1. Refer point 1 above under UK FRC.

## United States

### American Institute of Certified Public Accountants (AICPA / CAQ)

1. The Center for Audit Quality (CAQ) has published a [survey on US capital markets](#). The survey found that investors display healthy levels of confidence in public company auditors (81 percent), independent audit committees (77 percent), audited financial statements (75 percent), and financial advisors (75 percent).
2. A link was published on 5 October 2016 to an article that appeared in the Journal of Accountancy titled [Top considerations for the 2016 audit cycle](#) which is based on feedback from the Center for Audit Quality (CAQ) which is affiliated with the AICPA.

### Public Company Accounting Oversight Board (PCAOB)

1. The PCAOB published on 18 August 2016 its fifth [annual report](#) on its interim inspection program (conducted in 2015) for auditors of broker and dealers registered with the SEC. The report found in summary high level of audit deficiencies, at levels similar to that reported in previous years.

## Canada

### Canadian Chartered Professional Accountants Canada (CPA Canada, formerly CICA)

1. There have been no significant developments related to audit and assurance to report in the period.

### Auditing and Assurance Standards Oversight Council (AASOC)

1. There have been no significant developments related to audit and assurance to report in the period.

### Canadian Auditing and Assurance Standards Board (CAASB)

1. The CAASB published on 3 October 2015 its [Decision Summary](#) from its meeting held on 12-13 September 2016. The main matters discussed included: Auditing Accounting Estimates, Auditor Reporting, Identifying and Assessing the Risks of Material Misstatement, Agreed-upon Procedures, Association, and Compilation Engagements.

### Canadian Public Accountability Board (CPAB)

1. There have been no significant developments related to audit and assurance to report in the period.

## Federation of European Accountants (FEE)

1. FEE has published their [response](#) to the IAASB's 2017-2018 work plan and strategic objectives.

# IAASB Survey on Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives

## Respondent Information

All questions marked with "\*" are required

Are you responding as  
an:

\*

- Individual
- Organization

---

1. If you are responding as an Organization, please name the organization: \*

AUASB

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2. Please select from the following which best describes the capacity in which you are responding to this questionnaire: \*

- Academia
- Accounting Firm
- IFAC Member Body or Other Professional Organization
- Investor/Analyst/User
- National Standard Setter
- Preparer of Financial Statements
- Public Sector

- Regulator or Audit Oversight Body
  - Those Charged with Governance
  - Other
- 

National standards same as, or based on, clarified International Standards on Auditing [Yes/No] \*

- Yes
  - No
- 

3. Are you any of the following? \*

- IAASB Consultative Advisory Group Member Organization / Representative
  - IAASB Official Observer
  - IAASB Member (current or former)
  - Member, Technical Advisor or Official Observer of International Ethics Standards Board for Accountants (IESBA), International Accounting Education Standards Board (IAESB), or International Public Sector Accounting Standards Board (IPSASB)
  - Member, Technical Advisor or Official Observer of the IFAC Board or Other IFAC Committee
  - Member of Forum of Firms
  - None of the above
- 

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# IAASB Survey on Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives

## Geographical Region

Please select the geographical region which best describes where you are based:

- Africa-Middle East
- Asia Pacific
- Europe
- South America
- North America
- Global Organization

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# IAASB Survey on Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives

## Section I: IAASB's Strategic Objectives for 2015-2019

As noted, in developing its *Strategy*, the IAASB articulated its strategic vision and what it is intending to achieve through three strategic objectives:

- i. **Ensuring that ISAs Continue to Form the Basis for High-Quality, Valuable and Relevant Audits Conducted Worldwide by Responding on a Timely Basis to Issues Noted in Practice and Emerging Developments**
- ii. **Ensuring the IAASB's Standards Evolve as Necessary to Adequately Address the Emerging Needs of Stakeholders for Services Other than Audits of Financial Statements**
- iii. **Strengthening Outreach and Collaboration with Key Stakeholders in the Reporting Supply Chain on Public Interest Issues Relevant to Audit, Assurance and Related Services**

These strategic objectives drive the IAASB's decisions about what to include on its future work plans. As agreed when finalizing the *Strategy*, the IAASB is giving priority attention to the first strategic objective, as stakeholders broadly agreed that it is essential that the IAASB take action to improve audit quality.

Both the IAASB and its CAG believe these strategic objectives remain relevant and should be retained as the basis for developing the Board's next work plan.

4. Do you agree that the three strategic objectives for the strategy

period 2015–2019 continue to remain relevant? \*

Yes

No

Why or why not?

The AUASB supports the three strategic objectives and believe they continue to remain relevant.

Based on feedback from our stakeholders we recommend that when pursuing these objectives the IAASB considers maintaining an appropriate balance between the expectations of regulators and the capacity of assurance practitioners to respond to increased requirements and whether these represent cost effective improvements to audit quality.

Consideration should also be given to linkages to the IAESB and whether further education and guidance may be more appropriate than amending standards.

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# IAASB Survey on Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives

## Section II: IAASB Work Plan for 2017-2018

### *Context for the IAASB's Work Plan for 2017-2018*

During 2015-2016, the IAASB commenced work on a number of projects as set out in the current Work Plan. The Board is investing significant effort to respond to some of the key implementation issues identified from its post-implementation review of the clarified ISAs (the [ISA Implementation Monitoring project](#)) and address auditing issues of importance to supporting global financial stability, including in relation to financial institutions. At the same time, while standard setting remains a priority for the IAASB, the Board also recognized the importance of preparing for the future, both in supporting the effective implementation of its new and revised Auditor Reporting standards and undertaking outreach and other activities to lay the foundation for important initiatives to be undertaken in the future.

### **A. Projects and Initiatives Underway in 2015-2016**

As set out in the current Work Plan, the IAASB has commenced work on the following in 2015 and 2016, which are described in more detail on the [IAASB's project page](#). The projects below set out the IAASB's priorities currently underway, in particular the standard-setting activities that have, or are expected to have, commenced by the end of 2016. The IAASB intends to continue with these priorities during 2017-2018, unless stakeholders are of the view that other topics should have a higher priority (which is explored further in the next section).

**Standard-Setting Activities (project proposals to be approved in 2016):** (*Note: For Current Status of the activity, hover cursor over text*)

Revision of the IAASB's standard dealing with accounting estimates, including fair values, (ISA 540) (previously characterized as the project regarding special audit considerations relevant to financial institutions)

Please use this space if you wish to share views on this topic:

The AUASB agrees that the revision of ISA 540 should be prioritised given the upcoming release of IFRS 9 (in Australia this standard will apply for periods beginning on or after 1 January 2018) and regulator concern about the application of the standard. The timing of this standard is vitally important.

Quality control (including revisions to the IAASB's quality control standards at the firm level (ISQC 1) and the engagement level (ISA 220))

Please use this space if you wish to share views on this topic:

The AUASB supports the IAASB's projects in relation to enhancing audit quality. The AUASB encourages the IAASB to carefully consider the cost of compliance relating to additional requirements versus a possible increase in audit quality.

In relation to ISQC 1 and its impact on Australia. It is noted that a Quality Management Approach ('QMA') has been adopted by the larger firms in applying the current principles contained in ISQC 1, whereas smaller firms have implemented ISQC 1 in a less systemised manner. The principles in ISQC 1 do not appear to have been interpreted as incomplete, misleading or unclear. The AUASB stakeholders do not view this project as being a high priority.

Additional application material in ISQC 1 that provides illustrations of what the key elements of a QMA approach might include (including clarification of the role of an EQCR) and how these may be adopted by SMPs would be welcomed.

Group audits / using the work of other auditors (including revision of the IAASB's standard addressing audits of group financial statements) (ISA 600)

Please use this space if you wish to share views on this topic:

Updates to ISA 600 have been identified as one of the key priorities by AUASB stakeholders. In relation to group audits, with the advent of ever-changing and more complex business landscapes and the way organisations are structured and operated since ISA 600 was first issued, the AUASB considers that ISA 600 requires broadening. This would include all situations where one auditor uses the work of another auditor (including outsourcing) and not only in a group audit scenario.

The AUASB would support the creation of ISA 221 to cover situations in relation to the role of "other auditors" not covered by ISA 600.

Revision of the IAASB's standard addressing the auditor's understanding of the entity and its environment and assessing risks (ISA 315 (Revised)) and consideration of the need for additional guidance

Please use this space if you wish to share views on this topic:

The AUASB agrees that this project should continue to be prioritised and linked with other key projects such as ISA 540. The scalability issue should be addressed and the use of the term "significant" risk clarified.

## Other Initiatives

### Professional skepticism

Please use this space if you wish to share views on this topic:

The AUASB supports further exploration with both the IESBA and the IAESB due to the multi-dimensional nature of the issue.

Feedback from our stakeholders indicates concerns, that the IAASB should be mindful of becoming overly prescriptive. The increased regulator focus on professional scepticism may risk promoting a "checklist mentality" and that this may affect how the concept is interpreted by both users and regulators.

The importance of senior personnel setting the "tone at the top", appropriate culture, and education/mentoring of junior auditors cannot be overstated.

The project should be linked with any project to revise ISA 500.

### Effects of technology on the audit (the Data Analytics project)

Please use this space if you wish to share views on this topic:

Given recent developments, data analytics has been identified by the AUASB as one of the key priorities for the IAASB, and needs to be given significantly higher priority than it has currently. This is important to ensure the development and maintenance of high quality standards around data analytics which reflect current and emerging assurance practice.

### Auditor Reporting Implementation

Please use this space if you wish to share views on this topic:

The AUASB is supportive of this project, especially given the wide reaching impact of changes to Auditor Reporting. We are encouraged by the approach taken by the IAASB to date in relation to the regular release of guidance (including the implementation toolkit and FAQ's).

So far, approximately 25 ASX listed entities have reported using the new format. Given the impending implementation date, the AUASB welcomes the release of further guidance in this area (especially in relation to KAMs).

### Integrated reporting and other emerging developments in external reporting

Please use this space if you wish to share views on this topic:

EER is another key project identified by AUASB stakeholders and we welcome its prioritisation by the IAASB. As the provision of non-financial information becomes more prevalent, it is vitally important that the IAASB continues to focus on the emerging developments in this area, as a high priority.

#### Agreed-upon procedures

Please use this space if you wish to share views on this topic:

The AUASB has maintained its own standard on Agreed-Upon Procedures since 1992. Whilst the current standard (reissued in 2013) is working well, the board would welcome enhancements and a renewed debate.

The AUASB supports this project and will monitor any IAASB developments in this area post the release of the discussion paper later in 2016. The AUASB stakeholders do not view this as a key priority, however, given this has been a work in progress for an extended period, this project needs to be completed in a reasonable time frame.

#### Innovation Working Group

Please use this space if you wish to share views on this topic:

The AUASB supports the work of the Innovation Working Group and believes it plays a vital role in supporting the IAASB's three strategic objectives.

**Do you agree with the IAASB's view that these topics should continue to be prioritized?**

- Yes
- No

In addition, in 2017–2018 when progressing the above standard-setting projects, the IAASB will enhance its focus on the following two areas:

**(i) Consideration of matters related to small and medium practices (SMPs) and audits of small- and medium-sized entities (SMEs)**—As part of each project and initiative, the IAASB will continue to focus on understanding the issues and implementation needs of SMPs, including consideration of the ability of the ISAs and the IAASB's standard addressing quality control at the firm level to be applied in a manner proportionate with the nature and size of the firm or engagement. At the same time, the IAASB will also continue to consider its International Standards that address services for entities that do not require an audit of financial statements. The IAASB intends to establish a Working Group, including national auditing standard setter representatives, to assist it in exploring these issues. An event will be held in early 2017 to gather stakeholders to share the

practical implications of applying the International Standards and explore how the IAASB and others might respond to the challenges and opportunities relating to this stakeholder group.

**(ii) Coordination with the International Ethics Standards Board for Accountants**—The IAASB has noted that there are issues in certain of its key projects that are likely to be of relevance to the IESBA, and could have potential implications to the Code of Ethics for Professional Accountants (the IESBA Code) (e.g., in relation to quality control and group audits). Similarly, matters under consideration by the IESBA may have implications for the ISAs or other IAASB International Standards. The IAASB and IESBA are therefore considering how best to coordinate in the context of specific topics, where necessary and appropriate. Although both Boards develop their work plans separately in consultation with their stakeholders and conduct their standard-setting activities independently, there are growing expectations from various stakeholders that the IAASB and IESBA will be well-coordinated due to the linkages between the ISAs and the IESBA Code.

Please indicate the relative importance of a focus on the following:

	Please choose one:			Please use this space if you wish to share views on this top
	Not important	Moderately important	Very important	
Coordination with the IESBA	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<p>The AUASB also supports an enhanced focus in relation to coordination with the IESBA, especially given the pervasive nature of ethical principles and terms in the auditing standards.</p> <p>Our stakeholders have also identified a desire for both the IAASB and IESBA to be cognisant of the impact of allowing significant and rapid change to occur without appropriate consultation from a broad range of participants in the audit community.</p>
Consideration of matters related to SMPs and SMEs	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<p>Based on consultation with our stakeholders the AUASB supports an enhanced focus in this area. We are especially interested in addressing issues in relation to the scalability of standards which is creating a tension between 'audit affordability' and 'audit quality'.</p>

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# IAASB Survey on Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives

## B. Other Topics Highlighted for Consideration for the 2017-2018 Work Plan

All of the projects and initiatives described above had been prioritized by the IAASB in finalizing its current Work Plan, recognizing that there was a need to establish a work plan that was both realistic and specific in terms of timing of deliverables. In agreeing to the number of projects and initiatives to commence, as well as the challenging nature and extent of issues to be explored in these topics, there was acknowledgement that (with the exception of the project to revise the auditing standard addressing accounting estimates) the projects would not be completed in an accelerated timeframe and would therefore extend over more than one work plan.

Work on all of these topics is expected to continue in the 2017–2018 period. Based on available current capacity and resources, it is unlikely that any significant new projects or initiatives can commence until at least 2018 without modifying the IAASB’s current work plan.

Other topics have been raised for the IAASB’s consideration in developing the Work Plan for 2017–2018, either through the previous consultation or in discussions on other projects, albeit with varying views about the need to further explore these topics and whether standard-setting or other actions are necessary. They are described below to solicit views from respondents about the importance of the topic to respondents and whether these or other topics need to be prioritized over one or more of the IAASB’s current topics listed above (and why they believe this to be the case). The IAASB will consider these views in developing the final work plan for 2017–2018.

For the topics below, please indicate the relative importance of the topic to yourself or your organization, and answer the questions that follow:

**Topics that have linkages to current projects or recently completed projects where it has been identified that revision of a specific standard may be needed (in no specific order)**

*(Note: Hover cursor over topic to see its description)*

Please choose one:

Not important      Moderately important      Very important

Materiality and evaluating misstatements (ISA 320 and ISA 450)

          

Please use this space if you wish to share views on this topic:

Materiality has been identified by AUASB stakeholders as a key priority. This topic is especially important given the emergence of EER and other initiatives such as Service Performance Reporting. Other issues identified in this area include KAMs and the increasing complexity of accounting standards.

Please choose one:

Not important      Moderately important      Very important

Going concern, including further actions related to auditor reporting

          

Please use this space if you wish to share views on this topic:

Given the recent introduction of the standard the AUASB is of the view that matters related to Going Concern should be initially addressed as part of the Auditor Reporting PIR project. Guidance in this area could be included in the broader Auditor Reporting work currently being undertaken by the IAASB (e.g. FAQ).

Please choose one:

Not          Moderately          Very  
important      important      important

Potential revision of the IAASB's standard dealing with the use of the work of an auditor's expert (ISA 620)

                                          

Please use this space if you wish to share views on this topic:

Given the challenges that the use of an expert can present, the AUASB recommends that the IAASB address this topic as part of the ISA 540 project on the audit of accounting estimates. This is an area that has been raised by the audit regulator (ASIC) as a focus of ongoing audit reviews.

Please choose one:

Not          Moderately          Very  
important      important      important

Exploring issues related to audit evidence, and potential revision of the IAASB's standard dealing with audit evidence (ISA 500)

Please use this space if you wish to share views on this topic:

The AUASB is supportive of updates in this area but recommend the inclusion of ISA 500 as part of other projects such as Audit Quality/Professional Scepticism and Data Analytics.

Please choose one:

Not important      Moderately important      Very important

Analytical procedures and audit sampling

          

Please use this space if you wish to share views on this topic:

The AUASB is supportive of updates in this area but recommend the inclusion of ISA 520 and ISA 530 as part of other projects (especially data analytics). Data analytics is seen as a high priority by the audit profession.

Please choose one:

Not important      Moderately important      Very important

Potential revision of the IAASB's standard addressing the auditor's responses to assessed risks (ISA 330)

          

Please use this space if you wish to share views on this topic:

The AUASB is supportive of updates in this area but recommend the inclusion of ISA 330 as part of the ISA 315 project.

Please choose one:

Not important      Moderately important      Very important

Potential revisions to the IAASB's standard dealing with the auditor's responsibilities relating to fraud in the audit of financial statements (ISA 240)

          

Please use this space if you wish to share views on this topic:

AUASB stakeholders are concerned with the large number of mandatory requirements and the practicality in relation to their implementation.  
The AUASB supports a move to a more principles based approach with improved guidance.

Please choose one:

Not important      Moderately important      Very important

Further revision to the IAASB's standard dealing with the auditor's consideration of laws and regulations in an audit of financial statements (ISA 250)

          

Please use this space if you wish to share views on this topic:

The AUASB is not aware of any significant issues in Australia in relation to the application of ISA 250. The AUASB will review this area in the final quarter of 2016 as we adopt the NOCLAR conforming amendments to ISA 250 (and other standards).

Please choose one:

Not important      Moderately important      Very important

Developing a process for post-implementation reviews of other standards, including the IAASB's standards on compilations (ISRS 4410 (Revised) and reviews (ISRE 2400) (Revised))

          

Please use this space if you wish to share views on this topic:

The AUASB is not aware of any significant issues in Australia in relation to this topic.

**Topics identified through outreach, inspection findings, previous IAASB consultations or other means**

Please choose one:

Not important      Moderately important      Very important

Potential revision of the IAASB's standard addressing external confirmations (ISA 505)

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Please use this space if you wish to share views on this topic:

The AUASB is not aware of any significant issues in Australia in relation to this topic.

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Please choose one:

Not important      Moderately important      Very important

Potential further revision of the IAASB's standard dealing with using the work of internal auditors (ISA 610 (Revised 2013))

---

Please use this space if you wish to share views on this topic:

The AUASB is not aware of any significant issues in Australia in relation to this topic.

---

Please choose one:

Not important      Moderately important      Very important

Potential revision of the IAASB's standard addressing the examination of prospective financial information (ISAE 3400)

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Please use this space if you wish to share views on this topic:

The AUASB developed ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information (issued in November 2012) that addresses this subject matter.  
 The AUASB is not aware of any significant issues in Australia in relation to this topic.

Please choose one:

Not important      Moderately important      Very important

Potential revision of the IAASB's standard dealing with the review of interim financial information performed by the independent auditor of the entity (ISRE 2410)

          

Please use this space if you wish to share views on this topic:

The AUASB is not aware of any significant issues in Australia in relation to this topic.

Please choose one:

Not important      Moderately important      Very important

Auditor involvement with earnings releases / preliminary announcements

Please use this space if you wish to share views on this topic:

The AUASB is not aware of any significant issues in Australia in relation to this topic.

Please choose one:

Not important      Moderately important      Very important

Exploring matters related to direct engagements (i.e., where the practitioner prepares the subject matter information in an assurance engagement)

          

Please use this space if you wish to share views on this topic:

The AUASB is currently revising our ASAE 3500 standard on Performance Engagements (which includes direct engagements). The AUASB will continue to monitor any IAASB developments in this area.

Please choose one:

Not important      Moderately important      Very important

Exploring matters relating to joint audits (i.e., where two or more auditors share responsibility for the audit and the auditor's report)

Please use this space if you wish to share views on this topic:

The AUASB is not aware of any significant issues in Australia in relation to this topic. Joint audits are extremely uncommon in Australia.

Please choose one:

Not important      Moderately important      Very important

Overarching considerations relevant to the International Framework for Assurance Engagements

Please use this space if you wish to share views on this topic:

Given the number and nature of emerging issues such as EER the AUASB supports further work being performed in this area.

Other – as identified by respondent

Topic

No other significant topics identified

Reason for including

The AUASB has not identified any other topic to be considered for inclusion in the IAASB 2017-2018 work plan.

You are invited to share any further views that you believe may be relevant to the IAASB as it seeks to finalize its Work Plan for 2017-2018.

The AUASB consulted with stakeholders on 12 and 13 September (at the AUASB meeting). Whilst there were no significant gaps identified, AUASB stakeholders agreed that the IAASB should prioritise the following:

- Data analytics
- Materiality
- ISA 540
- EER
- Group audits (emerging business models/use of another auditor)

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# IAASB Survey on Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives

## Thank You!

Thank you for taking our survey. Your response is very important to us.

If you have not already registered to receive updates from the IAASB and would like to, please [click here](#). Please also follow the IAASB on Twitter ([@IAASB\\_News](#)), and visit our website ([www.iaasb.org](#)) for more information.

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100%