

# AUASB Meeting

*7 June 2022*

## Agenda Item 4 – IAASB Deliberations



Australian Government

Auditing and Assurance Standards Board

# International Agenda IAASB Papers – June 2022

## Memo to the AUASB

1. The purpose of these slides is to highlight to the AUASB the main areas of consideration, due to be discussed by the IAASB at the upcoming June 2022 IAASB meeting; and to seek AUASB input on various elements of the proposals.
2. The ATG intends to talk through the slides at the June AUASB meeting.
3. Where the ATG is specifically seeking AUASB input, this is highlighted within a blue text box (some text boxes may contain questions / some may contain notes).
4. Depending on where a project is within the cycle, AUASB members have been provided with links to the draft standards. The ATG have specified where the links are for information purposes only, or where the ATG considers that the time is appropriate for AUASB members to review the draft standard. The level of detail of such review is up to each AUASB member. **For this meeting, the ATG encourages AUASB members to read the requirements of the draft ISA 500.**



# IAASB Topics – June 2022

1. PIE project – Exposure Draft phase 1 (transparency of independence) [Slide 3]
2. LCE – Summary of pervasive issues and path forward [Slides 4-9]
3. Going Concern – decisions on transparency in reporting and timeline (For information: initial drafting available, for info purposes [link provided](#)) [Slides 10-12]
4. Fraud – progression of issues (For information: initial drafting available, for info purposes [link provided](#)) [Slides 13-14]
5. Audit Evidence - progression of drafting (Time for AUASB review: progressed drafting available, **ATG encourages read of requirements**, [link provided](#)) [Slide 15]
6. Sustainability – Decisions on path forward [Slides 16-20]



# PIE Project

## Discussion Points

- Phase 1: Views regarding transparency in the auditor's report when a firm has applied independence requirements for PIEs (fast-tracked owing to the IESBA requirement of public disclosure for PIE independence)
- Phase 2: Definitions PIE/Listed, considerations of differential requirements for Listed Entities (proposals being brought to September 2022 meeting) – this is really the more substantive part of the project
- ED/EM 2 Options being canvassed for disclosure in the auditor's report
  - o Where IESBA/Local Ethical requires public disclosure – In ED
  - o Where local ethical or jurisdictional law doesn't require public disclosure – In EM•

### Questions for the AUASB:

1. While this is an ED – initial views about further transparency in auditor's report – is this the right option for public disclosure?
2. Initial views about further transparency where Local Ethical Code or jurisdictional law doesn't specifically require public disclosure – i.e. auditing standards then set the requirement.

[While a read is not required of AUASB members, for those members that would like to see the suggested drafting – we have included the IAASB's draft ED as a link [here](#)].



# LCE – Where are the responses to the IAASB coming from?

Extensive responses - 145 responses, breakdown below:

Stakeholder Group	Number
Monitoring Group	2
Investors and Analysts	1
Regulators and Audit Oversight Authorities (“regulators”)	11
National Standard Setters (“NSS”)	15
Accounting Firms	29
Public Sector Organizations	6
PAOs	69
Academics	4
Individuals and Others	8
<b>Total</b>	<b>145</b>

Stakeholder Group	Number
Global	25
Asia Pacific	25
Europe	54
Middle East and Africa	17
North America	12
Central & South America	12
<b>Total</b>	<b>145</b>

## Progress Standard

- Support: global solution, global fragmentation, improved AQ
- No Support: similar issues as raised in AUASB submission
- Task-force overall recommendation to progress standard:
  - concerns and challenges can be addressed
  - NSS and Paris Conference strongly supportive
  - Recognizing while not for all jurisdictions, strong need for developing nations
  - Communication / awareness campaigns - key to risk of market confusion

Considerations for the AUASB: Progression of this standard and issue/issuance in Australia?

## **Basis for the Design of the Standard**

- Differentiation from ISAs – less granular requirements/more focused on specific areas (not a rewrite holistically) – not sure how this will translate as this is the fundamental issue about audit effort
  - Risk identification
  - Estimates
  - QM
  - Documentation
- Consider Transparency in Reporting essential – continue to refer to ISA for LCE

## Standalone Nature

- Continue to be a stand-alone self contained standard BUT clarity that while ISAs don't apply, they may provide additional guidance BUT still can't refer to ISA for additional requirements where there's a complexity not covered in this separate standard (e.g. for top-up when a business is acquired in the year)
- Estimates (one area that isn't necessarily an indicator of wider complexity; and may arise during the audit) – an additional part to the **standard** (relevant requirements for obtaining sufficient appropriate audit evidence for these “more complex” accounting estimates)

Question for the AUASB: Thoughts on an additional part in relation to 'more complex' estimates?



# LCE – Pervasive Themes and Way Forward

## Authority of the Standard

- Continue with list of prohibited entities and qualitative characteristics – but revisit
- Group Audits
  - Scope should include group audits, as a separate part of the standard
  - Task force seeking IAASB input into how the involvement of component auditors may affect the use of the draft standard (including where relevant, any potential “cut-off” for their inclusion in the scope of the draft standard).
  - Progression on a separate timeframe (to ED specific part on group audits in 2023, while the draft of remaining standard is finalised)
- Intended scope clarification:
  - Revise qualitative characteristics
    - Describe what is less complex (rather than what is not less complex)
    - Better reflect ‘typical LCE’ (e.g. specifics around: business activities, org structure, nature finance function, IT system, financial reporting FW)
  - Exploration of quantitative thresholds at jurisdictional level (consideration if quantitative threshold should be more explicitly included in the Authority, and if so whether thresholds should be required or encouraged to be set.)



# LCE – Pervasive Themes and Way Forward

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## Authority of the standard

Questions for the AUASB:

- Quantitative thresholds at jurisdictional level
- Inclusion of group audits / component auditors (cut-off)



# Going Concern – Major Issues being Discussed at IAASB meeting

1. IASB update – not adding to its work plan GC disclosures
2. Timeline over which GC assessment is made
  - Period of at least twelve months from the **date of approval of the financial statements**
  - Additional new requirements where management is unwilling to make / extend its assessment when requested to do so by the auditor:
    - Auditor to consider whether the period used by management is reasonable
    - Strengthen dialogue between auditor and management/TCWG

Question for the AUASB: In Australia, ASA 570 is 12 months from the date of the auditor's report. Will the new requirement of 12 months from date of approval of the financial statements, be any cause for concern? [While not required of AUASB members, for those members that would like to see the suggested drafting – we have included the IAASB's mark up to ISA 570 as a link [here](#)]. All areas in grey shade have not been touched.]



# Going Concern – Transparency

- Communication with TCWG – enhancing communication requirements
- Reporting to an appropriate authority outside of the entity (where required by law, regulation or ethical)
- Transparency in the auditor's report - tiered approach (see next slide)

Question for the AUASB (with reference to table on next slide):

Views on the tiered approach to additional GC reporting (*including differential reporting for listed entities*):

- Explicit statements on GC
- Enhanced information content – close calls
- Enhanced information content - MURGC (is the detail sufficiently a step up from close call)

[While not required of AUASB members, for those members that would like to see the suggested drafting – we have included the IAASB's mark up to ISA 570 as a link [here](#)]. All areas in grey shade have not been touched.]



# Going Concern – Major Issues being Discussed at IAASB meeting

Basis of Accounting is Appropriate, and:	Description	Applicability
<b>No Material Uncertainty Exists</b>	<p>Providing explicit statements about Going Concern in the auditor's report (see paragraphs 51-54):</p> <ul style="list-style-type: none"> <li>A statement providing a conclusion that management's use of the going concern basis of accounting is appropriate.</li> <li>A statement that no material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been identified.</li> </ul>	All entities
<b>No Material Uncertainty Exists</b>  <i>Events or Conditions Have Been Identified that may Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern</i>	<p>Providing explicit statements about Going Concern in the auditor's report (see paragraphs 51-54):</p> <ul style="list-style-type: none"> <li>As for "No Material Uncertainty Exists" above.</li> </ul>	All entities
	<p>Enhanced informational content in the auditor's report when events or conditions have been identified (see paragraphs 55-66):</p> <ul style="list-style-type: none"> <li>Requiring the auditor to describe how the auditor addressed the events or conditions in the audit.</li> </ul>	Listed entities
<b>Material Uncertainty Exists</b>  <i>Adequate Disclosure is Made in the Financial Statements</i>	<p>Enhanced informational content for MURGC paragraphs in the auditor's report by providing an explicit statement– in addition to the extant requirements (see paragraphs 67-74):</p> <ul style="list-style-type: none"> <li>A statement providing a conclusion that management's use of the going concern basis of accounting is appropriate.</li> </ul>	All entities
	<p>In addition to the enhanced informational content for MURGC paragraphs applicable for audits of all entities (see paragraphs 67-74):</p> <ul style="list-style-type: none"> <li>Requiring auditors to describe how the auditor addressed the events or conditions in the audit.</li> </ul>	Listed entities

# Fraud – Major Issues being Discussed at IAASB meeting

## 1. Introductory material

- Emphasis and upfront focus on auditor's responsibilities (clear and affirmative articulation)

## 2. Considerations around need for specialist skills

- New requirement and AM (linkage to ISA 220) – determination if team requires specialist skills
- (ATG initial concern: reads like if you complex/large, hard to justify not using)

## 3. Linkages to ISA 315 – significantly strengthen risk I&A

- Developing explicit fraud considerations in risk assessment procedures
- Describing the auditor's specific considerations relating to fraud when obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control
- (ATG initial concern: reading like a 'how to guide' – very long and complex, scalability concern)

Note to the AUASB: The direction / themes of the proposed changes being discussed by the IAASB in June, were supported by the AUASB in the submission to the IAASB's discussion paper. The detail behind the direction is still at early stages and is expected to change after the June 2022 IAASB meeting. At this stage there is no specific input sought from the AUASB on the progression of the drafting of ISA 240. AUASB members that would like to see the progress of the drafting and would like to provide any specific input are directed to the IAASB's mark up to ISA 240 as a link [[here](#)]. All areas in grey shade have not been touched.



# Fraud – Major Issues being Discussed at IAASB meeting (cont)

## 4. Presumption of fraud risk in revenue recognition

- Revising the requirement to shift the focus from the auditor developing a rebuttal to emphasising the importance of performing robust risk identification and assessment
- Enhancing AM to highlight other account balances (besides revenue) that be particularly susceptible to material misstatement due to fraud
- Clarification as to when rebuttal of fraud for revenue may be appropriate.
- (ATG initial concern: other account balances in AM susceptible to fraud – so expansive, may not be helpful)

## 5. Communications with TCWG:

- enhanced requirements and AM for specific discussions with TCWG
- Enhanced requirements and AM to emphasise communications throughout
- AM: effective participation by TCWG is influenced by their independence from management

## 6. Transparency in auditor's report

- Targeted outreach underway – report back September 2022



# Audit Evidence

1. Input (information) + procedures = output (audit evidence)
2. Reference Framework
  - Overarching requirements
  - Considerations of all evidence throughout audit
3. Robustness around evaluation of relevance and reliability
  - Acknowledges not all attributes relevant – intended purpose
  - Separate conditional requirement about completeness and accuracy
4. Management Expert's work incremental
5. Overall Stand-back
  - Intended purpose of the procedures (at the assertion level)
  - Consideration consistent/inconsistent and corroborative/contradictory

Note to the AUASB: A link to the clean draft of ISA 500 is provided [[here](#)]. The IAASB is expected to finalise and approve an ED of proposed ISA 500 at the September 2022 IAASB meeting. While the ATG have no specific questions of the AUASB, the draft standard is in a progressed enough version that this is the time that AUASB members may want to review the draft ISA 500 and provide any feedback to the AUASB Chair as part of the AUASB's International Influencing Strategy.





## Feedback from March Breakout Groups

**All encapsulated within the scope of the IAASB's work**

**Topics**

**Information  
disclosed  
about the  
topics**

**Mechanism  
for reporting**

**Reporting  
standards**

**Users**

**Timely / responsive  
standard setting action**

**Sustainability branded  
standards**

**Leverage existing  
IAASB  
standards/guidance**

## Proposed Immediate Action: Overarching Standard

### Approach to Standard Development



## SAWGW Recommendations



**Pursue the development of standards for assurance on sustainability**



**Focus on the following priority challenges:**



**Limited versus  
reasonable  
assurance**

**Suitable  
reporting  
criteria**



**Scope of  
engagement**

**Evidence &  
Internal Controls**



**Practitioners'  
Materiality**

## ISAE 3000 (Revised) Linkage Options for Overarching Standard

	Material from ISAE 3000 (Revised)	Compliance with ISAE 3000 (Revised)	Material from other standards (e.g., ISAs, ISAE 3410 etc.)	Key features	Key Public Interest Framework Characteristics met
<b>Option 1:</b> “Greenfield” approach	Not constrained by ISAE 3000 (Revised)	Does not require compliance with ISAE 3000	Consider relevant material, modify/adapt for sustainability / ESG	Allows for innovation and new approaches	Relevant
<b>Option 2:</b> “Stand-alone” standard consistent with ISAE 3000 (Revised)	Relevant elements and principles of ISAE 3000 (Revised) incorporated	Does not require compliance with ISAE 3000	Consider relevant material, modify/adapt for sustainability / ESG	Enhancements and specificity for sustainability / ESG	Relevant Understandable
<b>Option 3:</b> “ISAE 3000 (Revised) plus” approach	Only includes requirements additional to ISAE 3000 (Revised)	Requires compliance with ISAE 3000 (Revised)	Consider relevant material, modify/adapt for sustainability / ESG	Similar approach to other subject-matter specific ISAEs	Timely

## Questions for the AUASB:

1. Limited and Reasonable Assurance or start with only Limited?
2. Key challenges: agree/disagree?
  - There are a number of key challenges not planned to be addressed in the foundational standard eg: experts, forward looking, completeness, controls
3. AUASB views on the options as presented – preference and why (ATG is not supportive of Option 3)?



# AUASB Agenda Paper

<b>Title</b>	ED 02/22 - Aligning terminology to the IAASB Other Standards	<b>Date:</b>	7 June 2022
<b>Strategic Objective:</b>	Issue Australian Auditing and Assurance Standards based on IAASB equivalent standards in accordance with AUASB functions and mandate from the Financial Reporting Council (FRC)	<b>Agenda Item:</b>	6.1
<b>ATG Staff:</b>	See Wen Ewe	<b>AUASB Sponsor:</b>	None

## Objective

- 1 The objective of this meeting agenda item is for the AUASB to **approve** to issue ED 02/22 *Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards* (Agenda Item 6.2).

## Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	Does the AUASB have any comments on Agenda Item 6.2?	N/A
<b>Question 2</b>	Does the AUASB support the issuance of ED 02/22? Does the AUASB support an exposure period of 60-days?	Approve to issue ED 02/22 <i>Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards</i> .

## Background and Previous Discussions on Topic

- 2 In April 2022, the AUASB considered the conforming and consequential amendments to AUASB Assurance Standards arising from the Quality Management Standards and deliberated on an existing wording difference between the IAASB's standards and AUASB standards (see [Agenda Item 5 of the April 2022 AUASB Agenda Papers](#)).
- 3 The AUASB considered further changes may be necessary to the wording relating to ASQM 1 to align wording with that of ISQM 1; and directed ATG reconsider the structure and content of proposed exposure drafts to ensure these changes are issued for further public comment.

## Matters for Discussion and ATG Recommendations

- 4 The ATG reviewed the suite of the IAASB's Other Standards for the terminology difference and noted the difference arises where reference is made to Quality Control Standards and ethical requirements.



For an explanation of the differences in terminology, the ATG draws the AUASB's attention to paragraphs 2 to 4 and Questions 1 and 2 of ED 02/22 (Agenda Item 6.2).

- 5 ASRE 2405 and ASRE 2410 are scoped out of this process due to the following:
- a) ASRE 2405 was last updated in 2008 (pre clarity) and has not been updated since. By changing the wording to align to IAASB other standards may give users the impression that the standard is more updated than what it is.
  - b) ASRE 2410 applies to a review of a financial report by the auditor of the entity and auditors are required to comply with ASQM 1 and ASA 102.
- 6 The ATG noted the wording used in SAE 3100 (Revised), which is the NZAuASB equivalent of ASAE 3100, refers to Professional and Ethical Standard 3 (Amended) **or requirements in law or regulation, that are at least as demanding related to assurance engagements**. The ATG proposes that ASAE 3100 wording to be consistent with ASAE 3000, which refers to **requirements in law or regulation, that are at least as demanding as ASQM 1**.
- 7 The ED is presented in tabular format and segregated into two tables. The ATG has aligned the references made to Quality Control Standards and ethical requirements in the international equivalent other AUASB standards to the IAASB Other Standards (presented in Table 1) and flowed through these references to Australian-specific AUASB standards (presented in Table 2).
- 8 The ATG proposed to issue the ED for a 60-day comment period. The AUASB is requested to approve the ED 02/22 for issue.

## Next steps/Way Forward

- 9 The ATG will incorporate feedback received from the AUASB and issue ED 02/22 on the AUASB website for public comment for a 60-day exposure period. The ATG will bring any comments back to the AUASB for consideration at a future AUASB meeting.

## Materials Presented

Agenda Item	Description
6.2*PP	Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards

\*PP: AUASB Primary Papers Pack

June 2022

# **Explanatory Memorandum**

## ***Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards***

Issued by the Auditing and Assurance Standards Board

Draft



**Australian Government**

**Auditing and Assurance Standards Board**



## Obtaining a Copy of this Explanatory Memorandum

This Explanatory Memorandum is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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ATTACHMENT 1: Exposure Draft 02/22 *Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards*

Draft

## **EXPLANATORY MEMORANDUM**

### ***Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards***

#### **Introduction**

1. The AUASB is seeking feedback from stakeholders on proposed conforming and consequential amendments to the other AUASB Standards in order to align the terminology used in the IAASB's other standards, which are detailed in the attachment – Exposure Draft 02/22 *Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards* (ED 02/22). The aim of this Explanatory Memorandum is to provide stakeholders with information about ED 02/22.

#### **Background**

2. Where reference is made to Quality Control Standards and ethical requirements, some of the language in the extant Australian Standards on Review Engagements (ASREs) and Standards on Assurance Engagements (ASAEs) differs to that of the equivalent international standards. The ASREs and ASAEs reference ASQC 1<sup>1</sup>, while the international standards reference ISQC 1<sup>2</sup> **or requirements that are at least as demanding**. Additionally, the ASREs and ASAEs reference relevant ethical requirements (which is described in ASA 102<sup>3</sup>), while the international standards reference the IESBA Code, **together with National requirements that are more restrictive**.
3. The difference from the IAASB standards highlighted in paragraph 2 above was deemed appropriate by the AUASB in the past to ensure Assurance Practitioners who were members of the Australian professional accounting bodies were required to adopt relevant AUASB Quality Control Standards (specifically ASQC 1) and ASA 102, in addition to the then relevant version of the Accounting Professional and Ethical Standards Board's (APESB's) APES 320<sup>4</sup>. However a recent revision of APES 320 means it only applies to non-assurance services, and accordingly the AUASB's Quality Management Standards<sup>5</sup> is the only relevant quality management framework for all assurance services.
4. Considering this revision to the scope of APES 320 and to ensure the AUASB's Assurance Standards can be applied by Assurance Practitioners who are not members of the Australian professional accounting bodies, the AUASB has determined that it is appropriate to realign with the language of the international standards. The impact of this alignment is that assurance practitioners may consider other quality management frameworks and other ethical codes to be appropriate, but only if they are at least as demanding as the AUASB's frameworks and ASA 102.
5. As part of the AUASB's strategic objective to develop and issue Australian Auditing and Assurance Standards that are in the public interest and meet the needs of stakeholders based on IAASB equivalents in accordance with AUASB functions and our direction from the Financial Reporting Council (FRC), the AUASB has undertaken a review of the other AUASB standards and proposed amendments to align with IAASB's other standards.

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<sup>1</sup> ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*

<sup>2</sup> ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, Other Financial Information, Other Assurance Engagements and Related Services Engagements*

<sup>3</sup> ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*

<sup>4</sup> APES 320 *Quality Management for Firms that provide Non-Assurance Services*

<sup>5</sup> Specifically Auditing Standard on Quality Management ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*

## **Overview**

6. This Explanatory Memorandum gives Australian stakeholders an overview of:
  - a) Exposure draft questions; and
  - b) How to provide comments and the comment date.
7. The AUASB is issuing this exposure draft covering the necessary conforming and consequential amendments to address inconsistencies between other AUASB standards and IAASB other standards. The purpose of making the amendments is solely to align the terminology with IAASB other standards.
8. The conforming and consequential amendments have a narrow scope and do not involve re-consideration of the objectives, requirements, and application material of the other AUASB Standards, in their own right.
9. The amendments are segregated into two tables:
  - a. Table 1: Proposed conforming amendments to international equivalent other AUASB standards to align with other IAASB standards
  - b. Table 2: Flowing through the proposed conforming amendments arising from Table 1 to Australian-specific AUASB standards
10. A tabular presentation format has been used to show the extant text, the proposed conforming and consequential amendments to the other AUASB standards, and the rationale of the proposed amendments.

## **Request for Comments**

11. The AUASB requests comments on all matters in relation to ED 02/22, but specifically in relation to the questions below. Stakeholders may address only specific questions relevant to them or raise matters not specifically addressed by a question.

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**Exposure Draft Questions**

1. Do respondents support the proposed amendments to align the terminology in AUASB Other Assurance Standards with that of the international equivalents? If not, why not?
2. Do respondents consider that Assurance Practitioners undertaking Assurance Engagements under the Australian Standards on Review Engagements (ASREs) and Standards on Assurance Engagements (SAEs) should be required to comply with ASQM 1 and ASA 102? If not, why not?
3. Do respondents support the proposed effective date?
4. Have applicable laws and regulations been appropriately addressed in the proposed conforming and consequential amendments to the other AUASB standards? Are there any references to relevant laws or regulations that have been omitted?
5. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed conforming and consequential amendments to the other AUASB standards, or may conflict with the proposed conforming and consequential amendments to the other AUASB standards?
6. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed conforming and consequential amendments to the other AUASB standards, or may conflict with the proposed conforming and consequential amendments to the other AUASB standards?
7. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed conforming and consequential amendments to the other AUASB standards? If significant costs are expected, the AUASB would like to understand:
  - (i) Where those costs are likely to occur;
  - (ii) The estimated extent of costs, in percentage terms (relative to audit fees); and
  - (iii) Whether expected costs outweigh the benefits to the users of audit services?
8. Are there any other significant public interest matters that stakeholders wish to raise?

**Application**

12. To align with the effective date of the revised QM standards, the AUASB proposed effective date of the amendments are for:
  - a) Reviews of financial reports for financial reporting periods commencing on or after 15 December 2022; and
  - b) Other assurance and related services engagements commencing on or after 15 December 2022.

**Comment Date**

13. Comments to the AUASB will close on Friday 12 August 2022.
14. At the completion of the exposure period, the AUASB will consider stakeholders' submissions.

**ATTACHMENT 1 – EXPOSURE DRAFT 02/22 PROPOSED  
CONFORMING AND CONSEQUENTIAL AMENDMENTS TO  
THE OTHER AUASB STANDARDS TO ALIGN TO THE  
IAASB OTHER STANDARDS**

*Draft*

**Table 1 – Aligning other AUASB Standards with other IAASB Standards**

Where this document inserts or deletes a paragraph or footnote, as a result of that insertion or deletion relevant paragraph numbers, cross-references and footnotes are updated.

1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
<b>ASRE 2400 <i>Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity</i></b>			
ASRE 2400 paragraph 4	<p><i>Relationship with ASQM 1<sup>2</sup></i></p> <p>The system of quality management and policies or procedures are the responsibility of the firm. ASQM 1 applies to firms in respect of a firm's engagements to review financial statements.<sup>3</sup> The provisions of this ASRE regarding quality management at the level of individual review engagements are premised on the basis that the firm is subject to ASQM 1. (Ref: Para. A3–A5)</p> <p><sup>2</sup> Standard on Quality Management ASQM 1, <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i>.</p> <p><sup>3</sup> See ASQM 1, paragraph Aus 0.1.</p>	<p><i>Relationship with ISQM 1<sup>2</sup></i></p> <p>The systems of quality management and policies or procedures are the responsibility of the firm. ISQM 1 applies to firms in respect of a firm's engagements to review financial statements.<sup>3</sup> The provisions of this ISRE regarding quality management at the level of individual review engagements are premised on the basis that the firm is subject to ISQM 1 or requirements that are at least as demanding. (Ref: Para. A3–A5)</p>	<p><i>Relationship with ASQM 1<sup>2</sup></i></p> <p>The system of quality management and policies or procedures are the responsibility of the firm. ASQM 1 applies to firms in respect of a firm's engagements to review financial statements.<sup>3</sup> The provisions of this ASRE regarding quality management at the level of individual review engagements are premised on the basis that the firm is subject to ASQM 1 <u>or requirements that are at least as demanding</u>. (Ref: Para. A3–A5)</p> <p><sup>2</sup> Standard on Quality Management ASQM 1, <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i>.</p> <p><sup>3</sup> See ASQM 1, paragraph Aus 0.1.</p>
ASRE 2400 paragraph Aus 17.1(p)	<p><i>Relevant ethical requirements</i>—relevant ethical requirements as described in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>, as amended.</p>	<p><i>Relevant ethical requirements</i> – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking reviews of financial statements. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' <i>International Code of Ethics for Professional Accountants (including</i></p>	<p><i>Relevant ethical requirements</i>—relevant ethical requirements as described in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>, as amended, <u>together with national requirements that are more restrictive</u>.</p>

**ED 02/22: Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards**

1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
		<i>International Independence Standards</i> ) (IESBA Code) related to reviews of financial statements, together with national requirements that are more restrictive.	
ASRE 2400 paragraph A3	<p><i>Relationship with ASQM 1</i> (Ref: Para. 4)</p> <p>ASQM 1 deals with the firm's responsibilities to design, implement and operate a system of quality management for assurance engagements including review engagements.<sup>8</sup> ASQM 1 also deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.<sup>9</sup> ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.<sup>10</sup></p> <p>A system of quality management addresses the following eight components:<sup>11</sup></p> <ul style="list-style-type: none"> <li>(a) The firm's risk assessment process;</li> <li>(b) Governance and leadership;</li> <li>(c) Relevant ethical requirements;</li> <li>(d) Acceptance and continuance of client relationships and specific engagements;</li> <li>(e) Engagement performance;</li> </ul>	<p><i>Relationship with ISQMs</i> (Ref: Para. 4)</p> <p>ISQM 1 deals with the firm's responsibilities to design, implement and operate a system of quality management for assurance engagements including review engagements.<sup>5A</sup> ISQM 1 also deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.<sup>5B</sup> ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.<sup>5C</sup></p> <p>A system of quality management addresses the following eight components:<sup>5D</sup></p> <ul style="list-style-type: none"> <li>(a) The firm's risk assessment process;</li> <li>(b) Governance and leadership;</li> <li>(c) Relevant ethical requirements;</li> <li>(d) Acceptance and continuance of client relationships and specific engagements;</li> <li>(e) Engagement performance;</li> <li>(f) Resources;</li> <li>(g) Information and communication; and</li> <li>(h) The monitoring and remediation process.</li> </ul> <p>Firms or national requirements may use different terminology or frameworks to</p>	<p><i>Relationship with ASQM 1</i> (Ref: Para. 4)</p> <p>ASQM 1 deals with the firm's responsibilities to design, implement and operate a system of quality management for assurance engagements including review engagements.<sup>8</sup> ASQM 1 also deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.<sup>9</sup> ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.<sup>10</sup></p> <p>A system of quality management addresses the following eight components:<sup>11</sup></p> <ul style="list-style-type: none"> <li>(a) The firm's risk assessment process;</li> <li>(b) Governance and leadership;</li> <li>(c) Relevant ethical requirements;</li> <li>(d) Acceptance and continuance of client relationships and specific engagements;</li> <li>(e) Engagement performance;</li> <li>(f) Resources;</li> </ul>



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1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
	<p>(f) Resources;</p> <p>(g) Information and communication; and</p> <p>(h) The monitoring and remediation process.</p> <p>Firms may use different terminology or frameworks to describe the components of the system of quality management.</p> <p><sup>8</sup> See ASQM 1, paragraph 1.  <sup>9</sup> See ASQM 1, paragraph 2(a).  <sup>10</sup> See ASQM 1, paragraph 2(b).  <sup>11</sup> See ASQM 1, paragraph 6.</p>	<p>describe the components of the system of quality management.</p> <p><sup>5A</sup> ISQM 1, paragraph 1  <sup>5B</sup> ISQM 1, paragraph 2(a)  <sup>5C</sup> ISQM 1, paragraph 2(b)  <sup>5D</sup> ISQM 1, paragraph 6</p>	<p>(g) Information and communication; and</p> <p>(h) The monitoring and remediation process.</p> <p>Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management.</p> <p><sup>8</sup> See ASQM 1, paragraph 1.  <sup>9</sup> See ASQM 1, paragraph 2(a).  <sup>10</sup> See ASQM 1, paragraph 2(b).  <sup>11</sup> See ASQM 1, paragraph 6.</p>
ASRE 2400 paragraph A5	<p>[Deleted by the AUASB. Refer Aus A5.1]</p> <p>Aus A5.1 ASQM 1 contains requirements which are at least as demanding as its international equivalent, ISQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i>,* as it addresses the requirements of ISQM 1 and imposes obligations on the firm to achieve the objective of ISQM 1.</p>	<p>National requirements that deal with the firm's responsibilities to design, implement and operate a system of quality management are at least as demanding as ISQM 1 when they address the requirements of ISQM 1, and impose obligations on the firm to achieve the objective of ISQM 1.</p>	<p>No change from extant.</p>

1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see ED 01/21 and ED 01/22	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
<b>ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information</b>			
ASAE 3000 paragraph 3	<p>This ASAE is premised on the basis that:</p> <p>(a) The members of the engagement team and the engagement quality reviewer (for those engagements where one has been appointed) are subject to the relevant ethical requirements<sup>#</sup> related to assurance engagements; and (Ref: Para. A30–A33)</p> <p>(b) The assurance practitioner who is performing the engagement is a member of a firm that is subject to ASQM 1,<sup>1</sup> regarding the firm’s responsibility for its system of quality management. (Ref: Para. A61–A66)</p> <p><sup>#</sup> Relevant ethical requirements are defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p> <p><sup>1</sup> See Auditing Standard ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i>.</p>	<p><b>Introduction</b></p> <p>...</p> <p>(a) The members of the engagement team and the engagement quality reviewer (for those engagements where one has been appointed) are subject to the provisions of the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A30–A34)</p> <p>(b) The practitioner who is performing the engagement is a member of a firm that is subject to ISQM 1,<sup>1</sup> or other professional requirements, or requirements in law or regulation, regarding the firm’s responsibility for its system of quality management, that are at least as demanding as ISQM 1. (Ref: Para. A61–A66)</p> <p><sup>1</sup> International Standard on Quality Management (ISQM) 1, <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i></p>	<p>This ASAE is premised on the basis that:</p> <p>(a) The members of the engagement team and the engagement quality reviewer (for those engagements where one has been appointed) are subject to the relevant ethical requirements<sup>#</sup> related to assurance engagements, <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding</u>; and (Ref: Para. A30–A33)</p> <p>(b) The assurance practitioner who is performing the engagement is a member of a firm that is subject to ASQM 1,<sup>1</sup> <u>or other professional requirements, or requirements in law or regulation, regarding the firm’s responsibility for its system of quality management, that are at least as demanding as ASQM 1.</u> (Ref: Para. A61–A66)</p> <p><sup>#</sup> Relevant ethical requirements are defined in ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p> <p><sup>1</sup> See Auditing Standard ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i>.</p>

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1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
ASAE 3000 paragraph 20	<p>[Deleted by the AUASB. Refer Aus 20.1.]</p> <p>Aus 20.1 The assurance practitioner shall comply with the relevant ethical requirements* related to assurance engagements. (Ref. Para.A30-A34, A60).</p> <p>* See ASA 102.</p>	<p><b>Ethical Requirements</b></p> <p>The practitioner shall comply with the provisions of the IESBA Code related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. (Ref: Para. A30–A34, A60)</p>	<p>[Deleted by the AUASB. Refer Aus 20.1.]</p> <p>Aus 20.1 The assurance practitioner shall comply with the relevant ethical requirements* related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.</u> (Ref. Para.A30-A34, A60).</p> <p>* See ASA 102.</p>
ASAE 3000 paragraph 31	<p><b>Quality Management</b></p> <p><i>Characteristics of the Lead Assurance Practitioner</i></p> <p>The lead assurance practitioner shall:</p> <p>(a) Be a member of a firm that applies ASQM 1*; (Ref: Para. A60–A66)</p> <p>(b) ...</p> <p>* The term the “lead assurance practitioner” is referred to in ASQM 1 as the “engagement partner”.</p>	<p><b>Quality Management</b></p> <p><i>Characteristics of the Engagement Partner</i></p> <p>The engagement partner shall:</p> <p>(a) Be a member of a firm that applies ISQM 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1;</p> <p>...</p>	<p><b>Quality Management</b></p> <p><i>Characteristics of the Lead Assurance Practitioner</i></p> <p>The lead assurance practitioner shall:</p> <p>(a) Be a member of a firm that applies ASQM 1, <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1;</u> (Ref: Para. A60–A66)</p> <p>(b) ...</p> <p>* The term the “lead assurance practitioner” is referred to in ASQM 1 as the “engagement partner”.</p>
ASAE 3000 paragraph 69	<p><b>Assurance Report Content</b></p> <p>The assurance report shall include at a minimum the following basic elements:</p>	<p><b>Preparing the Assurance Report</b></p> <p><i>Assurance Report Content</i></p> <ul style="list-style-type: none"> <li>The assurance report shall include, at a minimum, the following basic elements:</li> </ul>	<p><b>Assurance Report Content</b></p> <p>The assurance report shall include at a minimum the following basic elements:</p>

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	<p>(a) A title that clearly indicates the report is an independent assurance report. (Ref: Para. A162)</p> <p>(b) ...</p> <p>(i) A statement that the firm of which the assurance practitioner is a member applies ASQM 1. (Ref: Para. A172)</p> <p>(j) A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements. (Ref: Para. A173)</p>	<p>• ...</p> <p>(i) A statement that the firm of which the practitioner is a member applies ISQM 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQM 1. (Ref: Para. A172)</p> <p>(j) A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. (Ref: Para. A173) (Ref: Para. A172)</p>	<p>(a) A title that clearly indicates the report is an independent assurance report. (Ref: Para. A162)</p> <p>(b) ...</p> <p>(i) A statement that the firm of which the assurance practitioner is a member applies ASQM 1, <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQM 1.</u> (Ref: Para. A172)</p> <p>(j) A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as ASA 102.</u> (Ref: Para. A173)</p>
ASAE 3000 paragraph A34	[Deleted by the AUASB.]	Professional requirements, or requirements imposed by law or regulation, are at least as demanding as the provisions of the IESBA Code related to assurance engagements when	<p>[Deleted by the AUASB.]</p> <p><u>Professional requirements, or requirements imposed by law or regulation, are at least as</u></p>

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		they address all the matters referred to in paragraphs A30–A33 and impose obligations that achieve the aims of the requirements set out in the IESBA Code related to such engagements.	<u>demanding as ASA 102 related to assurance engagements when they address all the matters referred to in paragraphs A30–A33 and impose obligations that achieve the aims of the requirements set out in ASA 102 related to such engagements.</u>
ASAE 3000 paragraph A61	<p><i>Firm Level Quality Management</i> (Ref: Para. 3(b), 31(a))</p> <p>ASQM 1 deals with the firm’s responsibilities to design, implement and operate a system of quality management for assurance engagements.<sup>5</sup> It sets out the responsibilities of the firm for establishing quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. ASQM 1 also deals with the firm’s responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.<sup>6</sup> ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.<sup>7</sup></p> <p>A system of quality management addresses the following eight components:<sup>8</sup></p> <ul style="list-style-type: none"> <li>(a) The firm’s risk assessment process;</li> <li>(b) Governance and leadership;</li> </ul>	<p><i>Firm Level Quality Management</i> (Ref: Para. 3(b), 31(a))</p> <p>ISQM 1 deals with the firm’s responsibilities to design, implement and operate a system of quality management for assurance engagements.<sup>3A</sup> It sets out the responsibilities of the firm for establishing quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. ISQM 1 also deals with the firm’s responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.<sup>3B</sup> ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.<sup>3C</sup></p> <p>A system of quality management addresses the following eight components:<sup>3D</sup></p> <ul style="list-style-type: none"> <li>(a) The firm’s risk assessment process;</li> <li>(b) Governance and leadership;</li> <li>(c) Relevant ethical requirements;</li> <li>(d) Acceptance and continuance of client relationships and specific engagements;</li> <li>(e) Engagement performance;</li> </ul>	<p><i>Firm Level Quality Management</i> (Ref: Para. 3(b), 31(a))</p> <p>ASQM 1 deals with the firm’s responsibilities to design, implement and operate a system of quality management for assurance engagements.<sup>5</sup> It sets out the responsibilities of the firm for establishing quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. ASQM 1 also deals with the firm’s responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.<sup>6</sup> ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.<sup>7</sup></p> <p>A system of quality management addresses the following eight components:<sup>8</sup></p> <ul style="list-style-type: none"> <li>(a) The firm’s risk assessment process;</li> <li>(b) Governance and leadership;</li> <li>(c) Relevant ethical requirements;</li> </ul>

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	<p>(c) Relevant ethical requirements;</p> <p>(d) Acceptance and continuance of client relationships and specific engagements;</p> <p>(e) Engagement performance;</p> <p>(f) Resources;</p> <p>(g) Information and communication; and</p> <p>(h) The monitoring and remediation process.</p> <p>Firms may use different terminology or frameworks to describe the components of the system of quality management.</p> <p><sup>5</sup> See ASQM 1, paragraph 1.  <sup>6</sup> See ASQM 1, paragraph 2(a).  <sup>7</sup> See ASQM 1, paragraph 2(b).  <sup>8</sup> See ASQM 1, paragraph 6.</p>	<p>(f) Resources;</p> <p>(g) Information and communication; and</p> <p>(h) The monitoring and remediation process.</p> <p>Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management.</p> <p><sup>3A</sup> ISQM 1, paragraph 1  <sup>3B</sup> ISQM 1, paragraph 2(a)  <sup>3C</sup> ISQM 1, paragraph 2(b)  <sup>3D</sup> ISQM 1, paragraph 6</p>	<p>(d) Acceptance and continuance of client relationships and specific engagements;</p> <p>(e) Engagement performance;</p> <p>(f) Resources;</p> <p>(g) Information and communication; and</p> <p>(h) The monitoring and remediation process.</p> <p>Firms <u>or national requirements</u> may use different terminology or frameworks to describe the components of the system of quality management.</p> <p><sup>5</sup> See ASQM 1, paragraph 1.  <sup>6</sup> See ASQM 1, paragraph 2(a).  <sup>7</sup> See ASQM 1, paragraph 2(b).  <sup>8</sup> See ASQM 1, paragraph 6.</p>
ASAE 3000 paragraph A62	[Deleted by the AUASB.]	Other professional requirements, or requirements in law or regulation that deal with the firm's responsibilities to design, implement, and operate a system of quality management, are at least as demanding as ISQM 1 when they address the requirements of ISQM 1 and impose obligations on the firm to achieve the objective of ISQM 1.	<p><del>[Deleted by the AUASB.]</del></p> <p><u>Other professional requirements, or requirements in law or regulation that deal with the firm's responsibilities to design, implement, and operate a system of quality management, are at least as demanding as ASQM 1 when they address the requirements of ASQM 1 and impose obligations on the firm to achieve the objective of ASQM 1.</u></p>



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ASAE 3000 paragraph A124	<p>The assurance practitioner's firm's quality management policies or procedures</p> <p>An assurance practitioner's internal expert may be a partner or staff, including temporary staff, of the assurance practitioner's firm, and therefore subject to the firm's system of quality management, including its policies or procedures, in accordance with ASQM 1. Alternatively, an assurance practitioner's internal expert may be a partner or staff, including temporary staff, of a network firm, which may share common quality management policies or procedures with the assurance practitioner's firm. An assurance practitioner's external expert is not a member of the engagement team.</p>	<p>The practitioner's firm's quality management policies or procedures</p> <p>A practitioner's internal expert may be a partner or staff, including temporary staff, of the practitioner's firm, and therefore subject to the firm's system of quality management, including its policies or procedures, in accordance with ISQM 1 or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1. Alternatively, a practitioner's internal expert may be a partner or staff, including temporary staff, of a network firm, which may share common quality management policies or procedures with the practitioner's firm. A practitioner's external expert is not a member of the engagement team.</p>	<p>The assurance practitioner's firm's quality management policies or procedures</p> <p>An assurance practitioner's internal expert may be a partner or staff, including temporary staff, of the assurance practitioner's firm, and therefore subject to the firm's system of quality management, including its policies or procedures, in accordance with ASQM 1 <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1</u>. Alternatively, an assurance practitioner's internal expert may be a partner or staff, including temporary staff, of a network firm, which may share common quality management policies or procedures with the assurance practitioner's firm. An assurance practitioner's external expert is not a member of the engagement team.</p>
ASAE 3000 paragraph A205	<p><i>Assembly of the Final Engagement File</i></p> <p>ASQM 1 requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>11</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.<sup>12</sup></p> <p><sup>11</sup> See ASQM 1, paragraph 31(f).  <sup>12</sup> See ASQM 1, paragraph A83.</p>	<p><i>Assembly of the Final Engagement File</i></p> <p>ISQM 1 (or other professional requirements, or requirements in law or regulation that are at least as demanding as ISQM 1) requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>11</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.<sup>12</sup></p> <p><sup>11</sup> ISQM 1, paragraph 31(f)  <sup>12</sup> ISQM 1, paragraph A83</p>	<p><i>Assembly of the Final Engagement File</i></p> <p>ASQM 1 <u>(or other professional requirements, or requirements in law or regulation that are at least as demanding as ASQM 1)</u> requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>11</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.<sup>12</sup></p> <p><sup>11</sup> See ASQM 1, paragraph 31(f).</p>

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1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
			<sup>12</sup> See ASQM 1, paragraph A83.
ASAE 3000 paragraph A207	<p>ASQM 1 requires firms to establish a quality objective that addresses the maintenance and retention of engagement documentation to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.<sup>13</sup> The retention period for assurance engagements ordinarily is no shorter than five years from the date of the assurance report.<sup>14</sup></p> <p><sup>13</sup> See ASQM 1, paragraph 31(f).  <sup>14</sup> See ASQM 1, paragraph A85.</p>	<p>ISQM 1 (or national requirements that are at least as demanding as ISQM 1) requires firms to establish a quality objective that addresses the maintenance and retention of engagement documentation to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.<sup>13</sup> The retention period for assurance engagements ordinarily is no shorter than five years from the date of the assurance report.<sup>14</sup></p> <p><sup>13</sup> ISQM 1, paragraph 31(f)  <sup>14</sup> ISQM 1, paragraph A85</p>	<p>ASQM 1 (or national requirements that are at least as demanding as ASQM 1) requires firms to establish a quality objective that addresses the maintenance and retention of engagement documentation to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.<sup>13</sup> The retention period for assurance engagements ordinarily is no shorter than five years from the date of the assurance report.<sup>14</sup></p> <p><sup>13</sup> See ASQM 1, paragraph 31(f).  <sup>14</sup> See ASQM 1, paragraph A85.</p>
<b>ASAE 3402 Assurance Reports on Controls at a Service Organisation</b>			
ASAE 3402 paragraph Aus 6.1	<p>Compliance with ASAE 3000 requires, among other things, compliance with the relevant ethical requirements* related to assurance engagements. It also requires the lead assurance practitioner<sup>#</sup> to be a member of a firm that applies ASQM 1.<sup>†</sup></p> <p>* See ASAE 3000, paragraph 3(a), Aus 20.1 and 34. ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p> <p><sup>#</sup> The term “lead assurance practitioner” is referred to in ASQM 1 as the “engagement partner”.</p> <p><sup>†</sup> See ASAE 3000, paragraphs 3(b) and 31(a).</p>	<p>Compliance with ISAE 3000 (Revised) requires, among other things, compliance with the provisions of the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) related to assurance engagements, or other professional requirements, or requirements imposed by law and regulation, that are at least as demanding.<sup>5</sup> It also requires the engagement partner to be a member of a firm that applies ISQM 1,<sup>6</sup> or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1.</p> <p><sup>5</sup> ISAE 3000 (Revised), paragraphs 3(a), 20 and 24  <sup>6</sup> ISAE 3000 (Revised), paragraphs 3(b) and 31 (a). International Standard of Quality Management (ISQM) 1,</p>	<p>Compliance with ASAE 3000 requires, among other things, compliance with the relevant ethical requirements* related to assurance engagements, <u>or other professional requirements, or requirements imposed by law and regulation, that are at least as demanding.</u> It also requires the lead assurance practitioner<sup>#</sup> to be a member of a firm that applies ASQM 1,<sup>†</sup> <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1.</u></p> <p>* See ASAE 3000, paragraph 3(a), Aus 20.1 and 34. ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p>



**ED 02/22: Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards**

1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
		<i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Service Engagements</i>	# The term “lead assurance practitioner” is referred to in ASQM 1 as the “engagement partner”.  † See ASAE 3000, paragraphs 3(b) and 31(a).
ASAE 3402 paragraph 11	[Deleted by the AUASB. Refer Aus 11.1.]  Aus 11.1 The service auditor shall comply with relevant ethical requirements related to assurance engagements.* (Ref: Para. Aus A5.1)  * See ASA 102.	<b>Ethical Requirements</b>  The service auditor shall comply with the provisions of the IESBA Code relating to assurance engagements or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. (Ref: Para. A5)	[Deleted by the AUASB. Refer Aus 11.1.]  Aus 11.1 The service auditor shall comply with relevant ethical requirements related to assurance engagements* <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.</u> (Ref: Para. Aus A5.1)  * See ASA 102.
ASAE 3402 paragraph 53	<b>Preparing the Service Auditor’s Assurance Report</b>  <i>Content of the Service Auditor’s Assurance Report</i>  The service auditor’s assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A47)  (a) ...  (h) [Deleted by the AUASB. Refer Aus 53.1(h).]  Aus 53.1(h) A statement that the firm of which the assurance practitioner is a member applies ASQM 1.	<b>Preparing the Service Auditor’s Assurance Report</b>  <i>Content of the Service Auditor’s Assurance Report</i>  The service auditor’s assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A47)  ...  (h) A statement that the firm of which the practitioner is a member applies ISQM 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements	<b>Preparing the Service Auditor’s Assurance Report</b>  <i>Content of the Service Auditor’s Assurance Report</i>  The service auditor’s assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A47)  (a) ...  (h) <del>[Deleted by the AUASB. Refer Aus 53.1(h).]</del>  <del>Aus 53.1(h)</del> A statement that the firm of which the assurance practitioner is a member applies ASQM 1, <u>or other professional requirements, or</u>

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1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
	<p>(i) [Deleted by the AUASB. Refer Aus 53.2(i).]</p> <p>Aus 53.2 (i) A statement that the assurance practitioner complies with the independence and other ethical requirements related to assurance engagements.*</p> <p>* See ASA 102.</p>	<p>in law or regulation, applied that are at least as demanding as ISQM 1.</p> <p>(i) A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements.</p>	<p><u>requirements in law or regulation, that are at least as demanding as ASQM 1. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQM 1.</u></p> <p>(i) [Deleted by the AUASB. Refer Aus 53.21(i).]</p> <p>Aus 53.21 (i) A statement that the assurance practitioner complies with the independence and other ethical requirements related to assurance engagements: <u>* or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as ASA 102 related to assurance engagements.</u></p> <p>* See ASA 102.</p>

1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see ED 01/21 and ED 01/22	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
ASAE 3402 paragraph A5	<p><b>Ethical Requirements</b> (Ref: Para. 11)</p> <p>[Deleted by the AUASB. Refer Aus A5.1.]</p> <p>Aus A5.1 The service auditor is subject to relevant independence requirements, which comprise the requirements referenced in ASA 102. In performing an engagement in accordance with this ASAE, relevant independence requirements do not require the service auditor to be independent from each user entity.</p>	<p><b>Ethical Requirements</b> (Ref: Para. 11)</p> <p>The service auditor is subject to relevant independence requirements, which ordinarily comprise the <i>International Independence Standards</i> of the IESBA Code together with national requirements that are more restrictive. In performing an engagement in accordance with this ISAE, the IESBA Code does not require the service auditor to be independent from each user entity.</p>	<p><b>Ethical Requirements</b> (Ref: Para. 11)</p> <p>[Deleted by the AUASB. Refer Aus A5.1.]</p> <p>Aus A5.1 The service auditor is subject to relevant independence requirements, which comprise the requirements referenced in ASA 102 <u>together with national requirements that are more restrictive</u>. In performing an engagement in accordance with this ASAE, relevant independence requirements do not require the service auditor to be independent from each user entity.</p>
ASAE 3402 paragraph A46	<p><b>Documentation</b> (Ref: Para. 51)</p> <p>ASQM 1 requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>15</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the service auditor's report.<sup>16</sup></p> <p><sup>15</sup> See ASQM 1, paragraph 31(f).  <sup>16</sup> See ASQM 1, paragraph A83.</p>	<p><b>Documentation</b></p> <p>ISQM 1 (or professional requirements, or requirements in law or regulation that are at least as demanding as ISQM 1) requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>15</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the service auditor's report.<sup>16</sup></p> <p><sup>15</sup> ISQM 1, paragraph 31(f)  <sup>16</sup> ISQM 1, paragraph A83</p>	<p><b>Documentation</b> (Ref: Para. 51)</p> <p>ASQM 1 <u>(or professional requirements, or requirements in law or regulation that are at least as demanding as ASQM 1)</u> requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>15</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the service auditor's report.<sup>16</sup></p> <p><sup>15</sup> See ASQM 1, paragraph 31(f).  <sup>16</sup> See ASQM 1, paragraph A83.</p>

1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
<b>ASAE 3410 Assurance Engagements on Greenhouse Gas Statements</b>			
ASAE 3410 paragraph Aus 10.1	<p>Compliance with ASAE 3000 requires, amongst other things, that the assurance practitioner comply with relevant ethical requirements related to assurance engagements.* It also requires the lead assurance practitioner<sup>#</sup> to be a member of a firm that applies ASQM 1.<sup>†</sup> (Ref: Para. A5–A6)</p> <p>* ASAE 3000, paragraphs 3(a), Aus 20.1 and 34. ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>, paragraph 5.</p> <p><sup>#</sup> The term “lead assurance practitioner” is referred to in ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> as the “engagement partner”.</p> <p><sup>†</sup> ASAE 3000, paragraphs 3(b) and 31(a).</p>	<p>Compliance with ISAE 3000 (Revised) requires, among other things, compliance with the provisions of the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. It also requires the engagement partner to be a member of a firm that applies ISQM 1,<sup>7</sup> or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1. (Ref: Para. A5–A6)</p> <p><sup>7</sup> ISAE 3000 (Revised), paragraphs 3(b) and 31 (a). International Standard on Quality Management (ISQM) 1, <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Service Engagements</i></p>	<p>Compliance with ASAE 3000 requires, amongst other things, that the assurance practitioner comply with relevant ethical requirements related to assurance engagements,<sup>*</sup> <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.</u> It also requires the lead assurance practitioner<sup>#</sup> to be a member of a firm that applies ASQM 1,<sup>†</sup> <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1.</u> (Ref: Para. A5–A6)</p> <p>* ASAE 3000, paragraphs 3(a), Aus 20.1 and 34. ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>, paragraph 5.</p> <p><sup>#</sup> The term “lead assurance practitioner” is referred to in ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> as the “engagement partner”.</p> <p><sup>†</sup> ASAE 3000, paragraphs 3(b) and 31(a).</p>
ASAE 3410 paragraph 76	<p><b>Assurance Report Content</b></p> <p>The assurance report, at a minimum, shall include the following basic elements: (Ref: Para. A134)</p> <p>(a) ...</p>	<p><b>Assurance Report Content</b></p> <p>The assurance report shall include, at a minimum, the following basic elements: (Ref: Para. A134)</p> <p>...</p> <p>(i) A statement that the firm of which the practitioner is a member applies ISQM</p>	<p><b>Assurance Report Content</b></p> <p>The assurance report, at a minimum, shall include the following basic elements: (Ref: Para. A134)</p> <p>(a) ...</p>

**ED 02/22: Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards**

1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
	<p>(i) [Deleted by the AUASB. Refer Aus 76.1(i).]</p> <p>Aus 76.1(i) A statement that the firm of which the assurance practitioner is a member applies ASQM 1.</p> <p>(j) [Deleted by the AUASB. Refer Aus 76.2(j).]</p> <p>Aus 76.2(j) A statement that the assurance practitioner complies with relevant ethical requirements related to other assurance engagements.*</p> <p>...</p> <p>* Relevant ethical requirements are contained in ASA 102.</p>	<p>1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQM 1.</p> <p>(j) A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements.</p> <p>...</p>	<p>(i) <del>[Deleted by the AUASB. Refer Aus 76.1(i).]</del></p> <p><del>Aus 76.1(i)</del> A statement that the firm of which the assurance practitioner is a member applies ASQM 1, <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQM 1.</u></p> <p>(j) [Deleted by the AUASB. Refer Aus 76.2(j).]</p> <p>Aus 76.21(j) A statement that the assurance practitioner complies with relevant ethical requirements related to other assurance engagements-<u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or</u></p>

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1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
			<p><u>requirements imposed by law or regulation, applied that are at least as demanding as ASA 102 related to assurance engagements.</u></p> <p>...</p> <p>* Relevant ethical requirements are contained in ASA 102.</p>
ASAE 3410 paragraph A129	<p><i>Assembly of the Final Engagement File</i> (Ref: Para. 69)</p> <p>[Deleted by the AUASB. Refer Aus A129.1.]</p> <p>Aus A129.1 ASQM 1 requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>25</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.<sup>26</sup></p> <p><sup>25</sup> See ASQM 1, paragraph 31(f).  <sup>26</sup> See ASQM 1, paragraph A83.</p>	<p><i>Assembly of the Final Engagement File</i> (Ref: Para. 69)</p> <p>ISQM 1 (or other professional requirements, or requirements in law or regulation that are at least as demanding as ISQM 1) requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>11</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.<sup>12</sup></p> <p><sup>11</sup> ISQM 1, paragraph 31(f)  <sup>12</sup> ISQM 1, paragraph A83</p>	<p><i>Assembly of the Final Engagement File</i> (Ref: Para. 69)</p> <p>[Deleted by the AUASB. Refer Aus A129.1.]</p> <p><del>Aus A129.1</del> <u>ASQM 1 (or other professional requirements, or requirements in law or regulation that are at least as demanding as ASQM 1)</u> requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>25</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.<sup>26</sup></p> <p><sup>25</sup> See ASQM 1, paragraph 31(f).  <sup>26</sup> See ASQM 1, paragraph A83.</p>



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1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
<b>ASAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document</b>			
ASAE 3420 paragraph Aus 8.1	<p>Compliance with ASAE 3000 requires, among other things, compliance with relevant ethical requirements related to assurance engagements.* It also requires the lead assurance practitioner<sup>#</sup> to be a member of a firm that applies ASQM 1.<sup>†</sup></p> <p>* See ASAE 3000, paragraphs 3(a), Aus 20.1 and 34. See also ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p> <p><sup>#</sup> The term “lead assurance practitioner” is referred to as “lead engagement partner” in ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i>.</p> <p><sup>†</sup> See ASAE 3000, paragraphs 3(b) and 31(a). See also Auditing Standard ASQM 1.</p>	<p>Compliance with ISAE 3000 (Revised) requires, among other things, compliance with the provisions of the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.<sup>3</sup> It also requires the engagement partner to be a member of a firm that applies ISQM 1,<sup>4</sup> or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1.</p> <p><sup>3</sup> ISAE 3000 (Revised), paragraphs 3(a), 20 and 34</p> <p><sup>4</sup> ISAE 3000 (Revised), paragraphs 3(b) and 31(a). International Standard on Quality Management (ISQM) 1, <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i></p>	<p>Compliance with ASAE 3000 requires, among other things, compliance with relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.</u>* It also requires the lead assurance practitioner<sup>#</sup> to be a member of a firm that applies ASQM 1,<u> or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1.</u></p> <p>* See ASAE 3000, paragraphs 3(a), Aus 20.1 and 34. See also ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p> <p><sup>#</sup> The term “lead assurance practitioner” is referred to as “lead engagement partner” in ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i>.</p> <p><sup>†</sup> See ASAE 3000, paragraphs 3(b) and 31(a). See also Auditing Standard ASQM 1.</p>
ASAE 3420 paragraph 35	<p>The assurance practitioner’s report shall, at a minimum, include the following basic elements: (Ref: Para. A57-Aus A57.1)</p> <p>(a) ...</p>	<p>The practitioner’s report shall include, at a minimum, the following basic elements: (Ref: Para. A57)</p> <p>...</p> <p>(g) A statement that the firm of which the practitioner is a member applies ISQM</p>	<p>The assurance practitioner’s report shall, at a minimum, include the following basic elements: (Ref: Para. A57-Aus A57.1)</p> <p>(a) ...</p>

1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
	<p>(g) [Deleted by the AUASB. Refer Aus 35.1 (g).]</p> <p>Aus 35.1(g) A statement that the firm of which the assurance practitioner is a member, applies ASQM 1;</p> <p>(h) [Deleted by the AUASB. Refer Aus 35.2 (h).]</p> <p>Aus 35.2 (h) A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;</p> <p>(i) ...</p>	<p>1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQM 1.</p> <p>(h) A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law and regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements.</p> <p>(i) ...</p>	<p>(g) <del>[Deleted by the AUASB. Refer Aus 35.1 (g).]</del></p> <p><del>Aus 35.1(g)</del> A statement that the firm of which the assurance practitioner is a member, applies ASQM 1, <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQM 1;</u></p> <p>(h) [Deleted by the AUASB. Refer Aus 35.1<del>2</del> (h).]</p> <p>Aus 35.1<del>2</del> (h) A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements imposed by law and regulation, applied that are at least as demanding. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or</u></p>



1. AUASB Standard Para No.	2. Wording in AUASB Standards after QM Conforming Amendments see <a href="#">ED 01/21</a> and <a href="#">ED 01/22</a>	3. Extant Wording in IAASB Standards	4. Amendments proposed by AUASB
			<p><u>requirements imposed by law or regulation, applied that are at least as demanding as ASA 102 related to assurance engagements;</u></p> <p>(i) ...</p>

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Table 2 – Flowing through the changes from Table 1 to Australian-specific AUASB Standards

Where this document inserts or deletes a paragraph or footnote, as a result of that insertion or deletion relevant paragraph numbers, cross-references and footnotes are updated.

1. Paragraph No.	2. Extant Wording	3. Proposed Change	4. Reason
<b>Other AUASB Standards in harmonisation with NZAuASB</b>			
<b>ASAE 3100 Compliance Engagements</b>			
ASAE 3100 Paragraph 10	This ASAE requires the assurance practitioner to apply the ASAE 3000 requirement to comply with relevant ethical requirements related to assurance engagements. It also requires the lead assurance practitioner to be a member of a firm that applies ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> .	This ASAE requires the assurance practitioner to apply the ASAE 3000 requirement to comply with relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding</u> . It also requires the lead assurance practitioner to be a member of a firm that applies ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> <u>or requirements in law or regulation, that are at least as demanding as ASQM 1</u> .	Change consistent with ASAE 3000 paragraph 3
ASAE 3100 paragraph 19	As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements. <sup>7</sup> (Ref: Para. A6)  <sup>7</sup> See ASAE 3000, paragraphs Aus 20.1 and ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other assurance Engagements</i> .	As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding</u> . <sup>7</sup> (Ref: Para. A6)  <sup>7</sup> See ASAE 3000, paragraphs Aus 20.1 and ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other assurance Engagements</i> .	Change consistent with ASAE 3000 paragraph 31

ASAE 3100 paragraph 56	<p><i>Assurance Report Content</i></p> <p>For both attestation and direct engagements, the assurance practitioner shall include in the assurance report the basic elements required by ASAE 3000,<sup>25</sup> which are at a minimum:</p> <p>(a) ...</p> <p>(l) A statement that the firm of which the assurance practitioner is a member applies ASQM 1;</p> <p>(m) A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;</p> <p>(n) ...</p>	<p><i>Assurance Report Content</i></p> <p>For both attestation and direct engagements, the assurance practitioner shall include in the assurance report the basic elements required by ASAE 3000,<sup>25</sup> which are at a minimum:</p> <p>(a) ...</p> <p>(l) A statement that the firm of which the assurance practitioner is a member applies ASQM 1, <u>or other professional requirements, or requirements in law and regulation, that are at least as demanding as ASQM 1. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law and regulation, applied that are at least as demanding as ASQM 1;</u></p> <p>(m) A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;</u></p> <p>(n) ...</p>	Change consistent with ASAE 3000 paragraph 69
<b>ASAE 3150 Assurance Engagements on Controls</b>			
ASAE 3150 paragraph 10	Compliance with ASAE 3000 requires, among other things, that the assurance practitioner complies with relevant ethical requirements related to assurance engagements. <sup>11</sup> (Ref: Para. 19) It also requires the lead assurance practitioner <sup>12</sup> to be a member of a firm that applies ASQM 1. <sup>13</sup>	Compliance with ASAE 3000 requires, among other things, that the assurance practitioner complies with relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding.</u> <sup>11</sup> (Ref: Para. 19) It also requires the lead assurance practitioner <sup>12</sup> to be a member of a firm that applies ASQM 1 <u>or other professional requirements, or</u>	Change consistent with ASAE 3000 paragraph 31

	<p><sup>12</sup> The term “lead assurance practitioner” is referred to in ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> as the “engagement partner”.</p>	<p><u>requirements in law or regulation, that are at least as demanding as ASQM 1.</u><sup>13</sup></p> <p><sup>12</sup> The term “lead assurance practitioner” is referred to in ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> as the “engagement partner”.</p>	
ASAE 3150 paragraph 19	<p>As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements.<sup>19</sup> (Ref: Para. A10)</p> <p><sup>19</sup> See ASAE 3000, paragraphs Aus 20.1 and ASA 102.</p>	<p>As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.</u><sup>19</sup> (Ref: Para. A10)</p> <p><sup>19</sup> See ASAE 3000, paragraphs Aus 20.1 and ASA 102.</p>	Change consistent with ASAE 3000 paragraph 31
ASAE 3150 paragraph 89	<p><i>Assurance Report Content</i></p> <p>For both attestation and direct engagements, the assurance practitioner shall include in the assurance report the basic elements required by ASAE 3000,<sup>42</sup> which are at a minimum: (Ref: Para. A139)</p> <p>(a) ...</p> <p>(k) a statement that the firm of which the assurance practitioner is a member applies ASQM 1;</p> <p>(l) a statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;</p> <p>(m) ...</p>	<p><i>Assurance Report Content</i></p> <p>For both attestation and direct engagements, the assurance practitioner shall include in the assurance report the basic elements required by ASAE 3000,<sup>42</sup> which are at a minimum: (Ref: Para. A139)</p> <p>(a) ...</p> <p>(k) a statement that the firm of which the assurance practitioner is a member applies ASQM 1 <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQM 1;</u></p> <p>(l) a statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to</p>	Change consistent with ASAE 3000 paragraph 69

		assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;	
		(m) ...	
<b>Other AUASB Standards (Domestic Standards)</b>			
<b>ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information</b>			
ASAE 3450 paragraph 18	<p>The assurance practitioner shall comply with relevant ethical requirements relating to assurance engagements, including those pertaining to independence, and implement the firm's policies or procedures applicable to the individual engagement in accordance with ASA 102.<sup>22</sup></p> <p><sup>22</sup> See ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>, paragraph 5.</p>	<p>The assurance practitioner shall comply with relevant ethical requirements relating to assurance engagements, including those pertaining to independence, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding and implement the firm's policies or procedures applicable to the individual engagement in accordance with ASA 102.<sup>22</sup></p> <p><sup>22</sup> See ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>, paragraph 5.</p>	Change consistent with ASAE 3000 paragraph 3
ASAE 3450 paragraph 19	<p>The assurance practitioner shall design, implement and operate a system of quality management in accordance with ASQM 1.<sup>23</sup></p> <p><sup>23</sup> See ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i>.</p>	<p>The assurance practitioner shall design, implement and operate a system of quality management in accordance with ASQM 1 or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1.<sup>23</sup></p> <p><sup>23</sup> See ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i>.</p>	Change consistent with ASAE 3000 paragraph 31

ASAE 3500 Performance Engagements			
ASAE 3500 paragraph 10	<p>This ASAE requires the assurance practitioner to apply the ASAE 3000 requirement to comply with relevant ethical requirements related to assurance engagements. It also requires the Audit Office of the Auditor-General to apply ASQM 1<sup>2</sup> or the lead assurance practitioner to be a member of a firm that applies ASQM 1.</p> <p><sup>2</sup> ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements.</i></p>	<p>This ASAE requires the assurance practitioner to apply the ASAE 3000 requirement to comply with relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.</u> It also requires the Audit Office of the Auditor-General to apply ASQM 1<sup>2</sup> or the lead assurance practitioner to be a member of a firm that applies ASQM 1 <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1.</u></p> <p><sup>2</sup> ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements.</i></p>	Change consistent with ASAE 3000 paragraph 31
ASAE 3500 paragraph 20	<p>As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements.<sup>4</sup> (Ref: Para A5)</p> <p><sup>4</sup> See ASAE 3000, paragraphs Aus 20.1 and ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements.</i></p>	<p>As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.</u><sup>4</sup> (Ref: Para A5)</p> <p><sup>4</sup> See ASAE 3000, paragraphs Aus 20.1 and ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements.</i></p>	Change consistent with ASAE 3000 paragraph 3
ASAE 3500 paragraph 45 (e)	<p>A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;</p> <p>...</p>	<p>A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;</u></p> <p>...</p>	Change consistent with ASAE 3000 paragraph 3

ASAE 3610 Assurance Engagements on General Purpose Water Accounting Reports			
ASAE 3610 paragraph 12	<p>Compliance with ASAE 3000 requires, among other things, that the assurance practitioner comply with relevant ethical requirements<sup>8</sup> related to assurance engagements. It also requires the lead assurance practitioner to be a member of a firm that applies ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> (ASQM 1).<sup>9,10</sup></p> <p><sup>8</sup> ASAE 3000, paragraphs 3(a), Aus 20.1 and 34 and ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p> <p><sup>9</sup> ASAE 3000, paragraphs 3(b) and 31(a).</p> <p><sup>10</sup> The term “lead assurance practitioner” is referred to in ASQM 1 as “engagement partner”.</p>	<p>Compliance with ASAE 3000 requires, among other things, that the assurance practitioner comply with relevant ethical requirements<sup>8</sup> related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding</u>. It also requires the lead assurance practitioner to be a member of a firm that applies ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> (ASQM 1) <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1</u>.<sup>9,10</sup></p> <p><sup>8</sup> ASAE 3000, paragraphs 3(a), Aus 20.1 and 34 and ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>.</p> <p><sup>9</sup> ASAE 3000, paragraphs 3(b) and 31(a).</p> <p><sup>10</sup> The term “lead assurance practitioner” is referred to in ASQM 1 as “engagement partner”.</p>	Change consistent with ASAE 3000 paragraph 31
ASAE 3610 paragraph 103	<p>The assurance report shall include, at a minimum, the following basic elements:</p> <p>(a) ...</p> <p>(h) A statement that the firm of which the assurance practitioner is a member applies ASQM 1.</p> <p>(i) A statement that the assurance practitioner complies with relevant ethical requirements</p>	<p>The assurance report shall include, at a minimum, the following basic elements:</p> <p>(a) ...</p> <p>(h) A statement that the firm of which the assurance practitioner is a member applies ASQM 1, <u>or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1. If the assurance practitioner is not a professional accountant, the</u></p>	Change consistent with ASAE 3000 paragraph 69

	<p>related to assurance engagements.<sup>21</sup></p> <p>(j) ...</p> <p><sup>21</sup> Relevant ethical requirements are contained in ASA 102.</p>	<p><u>statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQM 1.</u></p> <p>(i) A statement that the assurance practitioner complies with relevant ethical requirements related to assurance engagements, <u>or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.</u><sup>21</sup></p> <p>(j) ...</p> <p><sup>21</sup> Relevant ethical requirements are contained in ASA 102.</p>	
ASAE 3610 paragraph A166	<p>ASQM 1 requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>33</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.<sup>34</sup></p> <p><sup>33</sup> ASQM 1, paragraph 31(f). <sup>34</sup> ASQM 1, paragraph A83.</p>	<p>ASQM 1 (or other professional requirements, or <u>requirements in law or regulation that are at least as demanding as ASQM 1</u>) requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report.<sup>33</sup> An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.<sup>34</sup></p> <p><sup>33</sup> ASQM 1, paragraph 31(f). <sup>34</sup> ASQM 1, paragraph A83.</p>	Change consistent with ASAE 3000 paragraph A205





# AUASB Agenda Paper

<b>Title</b>	Post Implementation Review - ASAE 3100 <i>Compliance Engagements</i>	<b>Date:</b>	7 June 2022
<b>Strategic Objective:</b>	Standards and Guidance - Develop and maintain Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required	<b>Agenda Item:</b>	7.0
<b>ATG Staff:</b>	Marina Michaelides	<b>AUASB Sponsor:</b>	Klynton Hankin

## Objective

- 1 To provide the feedback statement to the AUASB on the Post Implementation Review (PIR) on ASAE 3100 *Compliance Engagements* (ASAE 3100). From the feedback received by the ATG propose a recommendation to the AUASB from the options available under the AUASB Due Process Framework and AUASB PIR Methodology.

## Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	Does the AUASB have any comments / questions in relation to the feedback statement on the PIR for ASAE 3100?	N/A
<b>Question 2</b>	Does the AUASB agree with the recommendation proposed by the ATG in paragraph 15 of the feedback statement at <b>Agenda Item 7.1</b> ?	The ATG recommend no standard setting activities are required at this time on ASAE 3100 after undertaking the PIR process under the AUASB Due Process Framework and AUASB PIR Methodology.

## Background and Previous Discussions on Topic

- 2 The AUASB should refer to the feedback statement at **Agenda Item 7.1** paragraphs 1-13 for the objective, background, scope and respondents to the PIR ASAE 3100.



## Matters for Discussion and ATG Recommendations

- 3 Please refer to the feedback statement at **Agenda Item 7.1** which also references the AUASB PIR Methodology (**Agenda Item 7.2**) and the PIR ASAE 3100 Project Plan (**Agenda Item 7.3**) that was approved by the Chair, Technical Director and Board Sponsor in February 2022.

## Collaboration with NZAuASB and other standard setters

- 4 Consultation with NZAuASB – ASAE 3100 was developed in collaboration with the NZAuASB and adopted by the NZAuASB as NZ SAE 3100 (February 2017) effective from 1 January 2018 in line with ASAE 3100. The NZAuASB were briefed on the AUASB PIR AAE 3100 activities in February 2022 and were provided with the approved project plan prior to their March 2022 meeting where an update on these activities were provided. The NZAuASB are to commence a PIR on SAE (NZ) 3100 in the 2022/23 year.

## Next steps/Way Forward

- 5 Based on the evidence gathered through the PIR process in line with the AUASB Due Process Framework and PIR Methodology, the ATG is not recommending any changes to ASAE 3100 *Compliance Engagements* (2017) at this time. Refer to Paragraph 15 of the ASAE 3100 *Compliance Engagements* PIR Feedback Statement at **Agenda Item 7.1** for further details.

## Materials Presented

Agenda Item	Description
7.1	Post Implementation Review – ASAE 3100 <i>Compliance Engagements</i> – Feedback Statement
7.2 (SP*)	AUASB PIR Methodology
7.3 (SP*)	PIR ASAE 3100 Project Plan

\*SP: AUASB Supplementary Papers Pack



# Feedback Statement

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**Project Title:** Post Implementation Review – ASAE 3100 *Compliance Engagements*

## Objective

1. To conduct a post implementation review (PIR) in accordance with the AUASB due process framework to gather information about the application of ASAE 3100 *Compliance Engagements* (ASAE 3100) issued by the AUASB in February 2017.
2. To evaluate the effectiveness and efficiency of implementation since ASAE 3100 became operative on 1 June 2018. The ATG engaged with stakeholders on specific implementation issues to understand the impact and effect of the standard including whether benefits have been achieved. These findings will then be shared with other jurisdictions that have also adopted a compliance standard. If any issues come to the ATG's attention during the PIR, that may require consideration or potential revision to the standard, these will be considered by the AUASB as part of an overall revision project.

## Background

3. ASAE 3100 was issued by the AUASB in February 2017 in clarity format. The standard replaced ASAE 3100, issued by the AUASB in October 2008. This standard is explicitly linked to the current ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the AUASB in May 2017 which is based on the revised International equivalent standard issued by the IAASB in 2013.
4. A PIR for ASAE 3100 was previously conducted by the AUASB in 2013 prior to its revision and reissuance in 2017.
5. The AUASB ATG developed an internal AUASB PIR Methodology (attachment 1) which was approved by the Chair and Technical Director (TD) in December 2021. This methodology has been applied to the PIR on ASAE 3100. Under this methodology a PIR Project Plan (attachment 2) was developed and approved by the Chair and TD and shared with the AUASB project sponsor for input.

## Scope / Approach

6. This project specifically targets consultation with key stakeholders on the implementation and use of ASAE 3100. The targeted stakeholders were provided with six questions on the technical aspects of the standard and feedback was sought on these areas from each of the participants to the PIR as well as a general discussion.
7. The ATG also posted a news item to its website and quarterly newsletter at the start of April 2022 asking all stakeholders that undertake ASAE 3100 engagements for insights on the use of the standard.
8. The feedback from the PIR outreach is outlined below and has been the basis for the ATG in determining what recommendations will be proposed to the AUASB under the options outlined in the AUASB Due Process Framework and PIR methodology.



## **Overview of Respondents**

9. Key respondents included in the targeted outreach included:
- Assurance Practitioners (APs) undertaking compliance engagements, including the big 4 and 2 mid-tier accounting firms.
  - Industry Groups e.g. Superannuation National Audit Consultative Committee (SNACC) and SMSF Industry Association Groups auditor members etc.
  - Regulatory bodies requiring compliance assurance through regulation, including Australian Securities and Investments Commission (ASIC), Australian Prudential Regulation Authority (APRA) and Australian Tax Office (ATO).
  - Auditors General, conducting compliance engagements in conjunction with financial report assurance or as part of their mandates.
10. In total 6 firms, 2 industry groups (includes multiple RSE and SMSF auditors), 3 regulatory bodies and all Auditor General offices encapsulated under the ACAG Secretariat were asked to participate in the PIR.
11. Discussions and feedback was provided by 5 professional services firms, 2 industry groups (audit practitioners from each), 2 regulators and 2 Auditor General Offices that undertake compliance engagements under their mandates.
12. No feedback was elicited from the general public via the news item on the AUASB website or the quarterly newsletter issued in April 2022.

## **Collaboration with NZAuASB**

13. Consultation with NZAuASB – ASAE 3100 was developed in collaboration with the NZAuASB and adopted by the NZAuASB as NZ SAE 3100 (February 2017) effective from 1 January 2018 in line with ASAE 3100. The NZAuASB were briefed on the AUASB PIR AAE 3100 activities in February 2022 and were provided with the approved project plan prior to their March 2022 meeting where an update on these activities were provided. The NZAuASB are to commence a PIR on SAE (NZ) 3100 in the 2022/23 year.



## Key Findings from PIR ASAE 3100 Compliance Engagements

14. There was overall general support from respondents for the application and use of ASAE 3100 in practice as intended in its current form.

Respondent Comments		Commentary	Change to be made to Doc? Y/N	Para No.
Assurance Practitioners	<ul style="list-style-type: none"><li>• ASAE 3100 is widely used across many industry specific compliance engagements.</li><li>• ASAE 3100 is clear and logical to follow to meet the objectives of the standard. This assists in the ease of the implementation of the standard.</li><li>• ASAE 3100 provides the overarching framework for compliance engagements which then supports the industry specific guidance statements (GSs) e.g. APRA regulated industries – GS 002, GS 004, GS 012 and GS 017<sup>1</sup>. The GSs provide a further level of specificity and granularity for consideration by an approved auditor for the Australian regulatory environment.</li><li>• ASAE 3100 provides more specificity in its requirements that pertain to compliance areas/matters e.g. compliance frameworks, compliance engagement risk and compliance deficiencies which is useful for practitioners.</li><li>• ASAE 3100 provides more application material on materiality than ASAE 3000 which is useful to APs</li></ul>	Comments noted by AUASB.	N	N/A

<sup>1</sup> The AUASB has a suite of Guidance Statements that address APRA regulated industries that require compliance engagements - GS 002 *Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities*, GS 004 *Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups*, GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups* and GS 017 *Audit Implications for Prudential Reporting Requirements of a Life Company*.



Respondent Comments		Commentary	Change to be made to Doc? Y/N	Para No.
	<ul style="list-style-type: none"> <li>Reporting under ASAE 3100 allows flexibility with the ability to provide long form reports which allow for better communication of issues found, evidence collected to support this position and why there is an impact on the conclusion/opinion provided by the AP.</li> <li>ASAE 3100 - Tables in the Appendices 2 and 3 which outline the Nature of Assurance Engagements on Compliance and the Standards Applicable to Example Engagements on Compliance are very widely used and helpful to both assurance practitioners undertaking these engagements and the practice management areas of the firms when undertaking training of staff in specific compliance engagement matters or areas of focus.</li> </ul>			
Regulators	<ul style="list-style-type: none"> <li>Materiality in a compliance engagement is somewhat different to that of a financial statement audit. How does the AP determine if a deficiency in compliance is material – is it linked to a systemic lack of controls or more one off in nature and are there any risk mitigation processes/controls to counter act the impact/deficiencies? High level of application of professional judgement in this area.</li> <li>It was noted that the standard takes a risk-based approach which provides direction to the AP depending on whether they are undertaking an Reasonable Assurance (RA) or Limited Assurance (LA) engagement<sup>2</sup>. As a response to the risk assessment an RA requires an understanding of relevant internal controls – evaluate design and</li> </ul>	<p>Comments noted by AUASB.</p> <p>This point is well made however the current ASAE 3100 deals with materiality in the compliance engagement context in para A24 to A29 and the areas noted in the comments are specifically noted for consideration by the AP in the application material.</p> <p>The AUASB standards (ASAs) including the ASAE suite apply a risk-based approach with a professional judgement overlay because they are principles-based standards. The outcomes of the risk</p>	<p>N</p> <p>N</p>	N/A

<sup>2</sup> Refer paragraph 32L and 32R of ASAE 3100 *Compliance Engagements*.



Respondent Comments		Commentary	Change to be made to Doc? Y/N	Para No.
	implementation and for an LA only a response to the material risks identified as a basis for designing and performing assurance procedures. The standard is not explicit about whether the assurance procedures to be performed under an LA are controls based or substantive in nature. This is based on professional judgement applied by the AP. It has been observed that this has resulted in some inconsistencies in approach in practice for compliance engagements.	assessment performed should always provide the basis for the approach when determining the assurance procedures to undertake and as such the approach may be different from one LA engagement to the next. The AUASB are not proposing any changes to ASAE 3100 at this time.		
Other Areas for Consideration by the AUASB	<ul style="list-style-type: none"> <li>• APs within the firms (APs), regulators (users) and the responsible party are often looking for guidance on the differences between LA and RA requirements<sup>3</sup>. This includes differences between the work effort, assurance procedures and the reporting and reliance on the assurance opinion or conclusion when procuring these engagements. A number of APs noted the <a href="#">IAASB Non-Authoritative Guidance on Applying ISAE 3000 to Sustainability and Other EER Assurance</a> as being useful in this regard as it provides a table that depicts the types of procedures that might be undertaken for LA vs RA and how an AP might move between an LA and RA engagement if there is a rational purpose and suitable criteria. It was also noted this guidance was useful for thinking about criteria and materiality in relation to not only compliance engagements but also performance engagements and sustainability/ESG engagements.</li> <li>• Types of compliance engagements being undertaken are on the increase in Australia and seem to cover many and varied areas of legislation or regulation. This seems somewhat driven through assurance requirements specified by Treasury and other Government departments and this is likely to only continue to increase e.g. Department of HomeLand Affairs – Significant Investor Visa (SIV) audit and compliance requirements and other</li> </ul>	<p>Comment noted by AUASB.</p> <p>The AUASB could assist in raising awareness for this market segment procuring and undertaking compliance engagements or any engagements under the ASAE 3000 suite by bringing together an update/reminder for the newsletter or providing a landing page for resources on the AUASB website. This could help educate, inform and assist understanding of these fundamental concepts around RA and LA, key differences between the types of procedures for each (assurance practitioners) and what those procuring this type of assurance (users or responsible parties or both) need to consider when engaging these services. This also provides an opportunity for the AUASB to more widely promote the <a href="#">Guide for Prescribing Assurance and Related Services</a></p>	N	N/A

<sup>3</sup> Refer ASAE 3100 Compliance Engagements for definitions of Limited Assurance paragraph 17(O) and Reasonable Assurance paragraph 17(V).



Respondent Comments		Commentary	Change to be made to Doc? Y/N	Para No.
	<p>RA and LA engagements in areas that are looking to advance Australian entities to support growth in the Australian economy. There is also the cost vs benefit considerations for requiring new compliance engagements under regulation and who absorbs those costs notwithstanding the broader perceived benefits in the market. There needs to be consideration of any unintended consequences for APs, procuring parties and users and responsible parties of this lack of understanding and potential over reliance of these types of engagements.</p> <ul style="list-style-type: none"><li>• Use of sampling and the interpretation / expectation of regulators on sample size and error evaluation and how this links to materiality is seen as a challenge in a compliance engagement. This is an area that the APs apply the most professional judgement.</li></ul>	<p>issued in March 2021 which assists in the understanding of terminology and meaning.</p> <p>The AUASB could also link this through to other work/publications of the IAASB, other NSS or other Authoritative bodies.</p> <p>Comment noted by the AUASB. The IAASB does not have ISA 530 <i>Audit Sampling</i> on its forward agenda. However the IAASB are currently undertaking their ISA 500 <i>Audit Evidence</i> Project which will assist in clarifying for the auditor key areas regarding audit evidence e.g. definition, information to be used as evidence, concept of sufficient and appropriate, persuasiveness of audit evidence, concept of detection risk and designing and performing procedures and modernising ISA 500 through incorporating technology which should assist with some of the concepts around audit evidence and audit procedures.</p>	N	N/A





## Recommendation/Way Forward from PIR – ASAE 3100 Compliance Engagements

15. Based on the evidence gathered through the PIR process in line with the AUASB Due Process Framework and PIR Methodology the ATG is not recommending any changes to ASAE 3100 *Compliance Engagements* (2017) at this time under the options provided below:

- (a) Narrow scope amendments to the standard - NO
- (b) Major revision to the standard - NO
- (c) No revision to the standard but further guidance on the subject matter that may be beneficial to assurance practitioners undertaking these engagements - NO (refer comment below); or
- (d) No revision to the standard required at this time as the PIR determined that the standard is fit for purpose and being applied as intended - YES.

The AUASB could look to further its communications to assist all participants in the financial eco-system by raising awareness on the concepts and principles of limited and reasonable assurance engagements under the ASAE suite of standards. This could be done through promoting a landing page of current resources available (AUASB, IAASB other NSS and other Authorities) to assist in improving the understanding of key terms, definitions, types of engagements and procedures undertaken in line with the principles in the Framework for Assurance Engagements when either being engaged to undertake these engagements or procuring these types of engagements in the Australian market.



# AUASB Agenda Paper

<b>Title</b>	GS 016 <i>Bank Confirmation Requests</i>	<b>Date:</b>	7 - 8 June 2022
<b>Strategic Objective:</b>	Develop/maintain Australian specific guidance for topics not addressed by IAASB	<b>Agenda Item:</b>	8
<b>ATG Staff:</b>	Tim Austin	<b>Board Sponsor:</b>	Klynton Hankin

## Objective

1. To provide an update to the AUASB on the project to revise GS 016 *Bank Confirmation Requests* and obtain approval of the revised version of GS 016 at **Agenda Item 8.1**.

## Recommendations and Questions for the Board

Question	Questions for the Board	ATG Recommendation Overview
<b>Question 1</b>	Do AUASB Members have any feedback on draft GS 016?	The ATG recommend the AUASB review draft GS 016, and consider the questions raised in paragraph 3 of this AUASB Board Paper.
<b>Question 2</b>	Do AUASB Members approve GS 016 for issue?	The ATG recommend the AUASB approve the updated version of GS 016 at <b>Agenda Item 8.1</b> .

## Background and Previous Discussions on the Topic

2. At the April 2022 AUASB Meeting ([Agenda Item 4](#)), the AUASB discussed the proposed revisions to modernise GS 016 *Bank Confirmation Requests*. The ATG presented to the AUASB a project plan and an analysis of the relevant standards and requirements for an electronic confirmation process, in particular the new requirements in the suite of Quality Management Standards addressing the approval and use of technological resources in audit engagements.
3. At the April 2022 AUASB and subsequent to the meeting, the ATG requested feedback from AUASB members on the following questions related to technological resources:
  - How are firms addressing “resources” in line with ASQM 1?
  - How are technological resources currently being deployed by firms? Has this changed with ASQM 1?
  - What do firms do to ensure a technological resource is appropriate?
  - For technological resources which are Software as a Service (SaaS) or Platform as a Service (PaaS), are controls report being obtained by firms to evaluate the resource?
  - If yes, what types of controls reports are being obtained (ISO, SOCs, ASAE 3402)



4. The ATG did not receive any specific feedback and have therefore drafted a revised version of GS 016 for discussion and approval at this AUASB Meeting.

## Matters for Discussion and ATG Recommendations

5. To avoid repetition of content, the ATG has structured the draft GS 016 to have a single section relevant for both electronic and paper-based confirmations, these common sections address the confirmation process in AUASB Standards, the auditor's responsibilities for the confirmation process and evaluating the results of the confirmation process.
6. In drafting the guidance around the electronic confirmation process, the ATG used as a basis the PCAOB staff publication [Observations and Reminders on the Use of a Service Provider in the Confirmation Process](#) issued in March 2022.

## Collaboration with NZAuASB and other standard setters

7. The ATG have notified NZAuASB and other National Standard-Setters that this project is underway and, and we have not been made aware of any equivalent guidance, other than the PCAOB guidance.
8. The ATG has provided a draft version of the guidance for comment to staff at Confirmation.com, an electronic confirmation service provider. The ATG have also contacted the Australian Bankers' Association (ABA) to obtain feedback but the ABA was unable to provide feedback before the June AUASB Meeting.

## Next steps/Way Forward

9. Subject to any final AUASB feedback, the ATG will finalise GS 016 following approval and update the Guidance Statement on the AUASB Website. Should additional amendments to GS 016 be necessary these will be provided to AUASB members for approval out of session.

## Materials Presented

Agenda Item	Description
8.0	Agenda paper
8.1 (*SP)	Revised GS 016

\* Supplementary Papers Pack



# AUASB Agenda Paper

<b>Title:</b>	Public Sector Audit Issues: GS 023 - Review and Approval of proposed ASA 570 supplementary guidance	<b>Date:</b>	20 May 2022
<b>Strategic Objective:</b>	Develop/maintain Australian specific guidance for topics not addressed by IAASB	<b>Agenda Item:</b>	9.0
<b>ATG Staff:</b>	Johanna Foyster	<b>AUASB Sponsor:</b>	Julie Crisp

## Objective

1. To consider and approve proposed new ASA 570 *Going Concern* supplementary application and explanatory guidance, for inclusion in AUASB Guidance Statement GS 023 *Special Considerations – Public Sector Engagements* (GS 023).

## Action Required and Recommendation for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	Does the AUASB support the proposed new ASA 570 Going Concern supplementary application and explanatory guidance in paragraphs 70 to 129, for inclusion in GS 023.  <i><u>Note:</u> AUASB Members are not required to review paragraphs 1-69 which were approved by the AUASB in December 2021. These paragraphs have not been amended.</i>	That the AUASB approve to issue the updated version of GS 023 included in <b>Agenda Item 9.1</b> .

## Background and Previous Discussions on Topic

2. The AUASB received its last update on the activities of the Public Sector Audit Issues Project Advisory Group (PAG)<sup>1</sup> at its April 2022 meeting. Refer to [Agenda Item 7](#) of this meeting for background information on the project and previous Board discussions.

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<sup>1</sup> The PAG is made up of representative from Offices of Australian Auditors-General of all jurisdictions in Australia and chaired by the Deputy Chair of the AUASB.



3. The Agenda Paper for the April 2022 meeting includes a summary of the key issues identified by the PAG as presenting challenges in applying ASA 570 in the public sector (Appendix 1). It also outlines the activities of the PAG and AUASB Technical Staff in developing the new ASA 570 guidance.
4. A preliminary draft of the proposed ASA 570 section was included in the April meeting papers for the Board's information, to provide an indication of the direction the PAG and Technical Staff were heading with the project.

## **Matters for Consideration: Proposed ASA 570 Supplementary Guidance**

5. PAG feedback on the preliminary April Draft was used to prepare an updated final Draft and to identify any unresolved issues that would require further PAG deliberation.
6. In May, PAG members were asked to review the final Draft in full. PAG members were also asked for specific feedback about the minimum evidence/documentation requirement to support the appropriateness of the going concern assumption for a continuing public sector entity that is reliant on government appropriations/grants and where, for example, the government may have a policy of not providing letters of support and the Budget or Appropriation Bill may not have been approved.
7. In order to capture any potential issues early, AUASB Technical Staff also requested that AUASB member Ms Michelle Shafizadeh, who has extensive public sector experience, review the final Draft and provide early feedback, for the PAG to consider before finalising the guidance at its May 2022 meeting.
8. The PAG met on 18 May 2022 to consider and agree on a final Draft to be presented at the AUASB's 7-8 June 2022 meeting for consideration and approval to issue. At this PAG meeting, PAG members considered in detail the feedback provided by AUASB member Ms Shafizadeh and from representatives of the NZAuASB which was facilitated by the NZAuASB Chair (see paragraph 12 below).
9. Ms Shafizadeh's and the NZ comments on the final Draft were considered and discussed with the PAG as part of the final deliberations on the updated Guidance Statement. Where agreed with the PAG their feedback has been addressed in the final version of GS 023 presented at **Agenda Item 9.1**.
10. The final version of the updated going concern content in GS 023 was shared with PAG members for final 'fatal flaw' review prior to the finalisation of the June 2022 AUASB board papers.



## Collaboration with NZAuASB and other standard setters

11. In developing the new ASA 570 guidance materials, AUASB Technical Staff considered various international publications that provide guidance to public sector auditors on the topic of going concern, including:
  - the UK Financial Reporting Council's Statement of Recommended Practice – Practice Note 10 *Audit of Financial statements of public sector bodies in the United Kingdom* (2020).
  - INTOSAI Guidance GUID 2900 *Guidance to the Financial Auditing Standards* (2021).
  - Office of the Auditor-General (OAG) NZ: Auditing Statement AG ISA (NZ) 570 *The Auditor-General's Statement on Going Concern* (2020).
12. As mentioned at the April 2022 AUASB meeting, AUASB member and NZAuASB Chair Robert Buchanan shared the April preliminary Draft with NZAuASB members who are public sector experts for their comment. Overall, they expressed support for the proposed Guidance Statement, noting that the document provided useful additional guidance on public sector aspects of going concern. They provided specific feedback on several paragraphs which was reviewed by the PAG and resulted in some minor changes to the final Guidance Statement. However, acknowledging that the New Zealand and Australian public sector reporting environments are somewhat different not all the feedback from NZ was incorporated into the final AUASB version of GS 023.

## Next steps/Way Forward

13. Once approved, the updated GS 023 will be published on the AUASB website (June 2022).
14. The next priority for the PAG, as identified in the PAG's Terms of Reference (updated April 2021), will be 'Engagement Leader Responsibilities' - planned to commence July 2022.

## Materials Presented

Agenda Item	Description
9.1 (SP*)	Revised GS 023: proposed ASA 570 Supplementary Guidance

\*SP: AUASB Supplementary Papers Pack



# AUASB Agenda Paper

<b>Title</b>	ASAE 3450 <i>Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information</i> – Considerations for the AUASB	<b>Date:</b>	7 June 2022
<b>Strategic Objective:</b>	Standards and Guidance - Develop and maintain Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required	<b>Agenda Item:</b>	10
<b>ATG Staff:</b>	Marina Michaelides	<b>AUASB Sponsor:</b>	Bill Edge

## Objective

- 1 To update the AUASB on preliminary discussions on ASAE 3450 [\*Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information\*](#) with five of the professional service firms on the current use and application of the standard in the Australian market. From this initial feedback the ATG have proposed a recommendation for consideration by the AUASB.

## Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	Does the AUASB have any comments on the initial feedback on ASAE 3450 from the firms?	N/A
<b>Question 2</b>	Does the AUASB agree with the ATG recommendation with regard to ASAE 3450 for the Australian market?	ATG recommend no further outreach activities or changes required to ASAE 3450 at this time.  ASAE 3450 should remain on the inactive AUASB project list for future consideration dependent on feedback on consultation and work agenda priorities.



## Background and Previous Discussions on Topic

### 2 NZAuASB

The NZAuASB are undertaking a project to develop an Assurance standard over *Financial Information Prepared in Connection with a Capital Raising*. This project commenced in October 2017 however was delayed in most part until 2019. This is a new SAE standard for the NZAuASB and the NZ market. The proposed ED SAE 3450 will go to the NZAuASB 1 June 2022 meeting for approval.

The directive of the Board at the commencement of the project was to use ASAE 3450 as a base and that the proposed standard would deal with both assurance for engagements involving corporate fundraisings as well as prospective financial information for more general purposes.

Following discussions at the NZAuASB September 2019 meeting, the scope of the project was narrowed to deal only with assurance over financial information prepared in connection with a capital raising.

### AUASB

The AUASB issued ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* in November 2012 and the standard is operative for engagements commencing on or after 1 July 2013.

The proposed NZ SAE 3450 standard and ASAE 3450 are consistent in the information that is reported under these types of engagements (para 8 and 9 of the standard) however ASAE 3450 also allows for prospective financial information prepared for any other purpose even if this is not the primary use of the standard in practice. Another key difference being ASAE 3450 allows for reasonable assurance and limited assurance or a mixture of the two depending on the type or combination of information to be reported under the scope of the engagement. This approach was adopted to accommodate the types of Corporate Fundraising and/or Prospective Financial Information assurance engagements being required or procured in the Australian capital markets at the time.

The AUASB sought some informal feedback in 2019 from the firms who primarily undertake these engagements about the use and application of ASAE 3450 at that time. It was determined by the ATG that ASAE 3450 was being used and applied as intended in the Australian market and that no further outreach or standard setting activity would occur at that time.

## Matters for Discussion and ATG Recommendations

3 Since the April 2022 AUASB meeting the ATG have undertaken some initial discussions with the Big 4 firms plus 1 mid-tier firm on the current use and application of ASAE 3450 in Australia. From these discussions the following feedback was provided:

- There is overall support for the use and application of ASAE 3450 in its current form.
- The standard is working well in practice and is understood by others involved in these types of engagements (e.g., lawyers, preparers, directors, and investors). If fundamental





changes were made to ASAE 3450 to limit its application this may in result in unintended consequences to current practice in the Australian market.

- Independence requirements in Australia are linked to APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* in Australia and this is seen as imperative for the Australian market.
- All engagements currently being undertaken by the firms under ASAE 3450 are limited assurance.
- On average the firms are undertaking about 15 ASAE 3450 engagements a year (excluding aborted IPO's or undocumented rights issues and capital raising etc) however that number has decreased significantly in 2022 with the volatility in the market seen since the start of the Ukraine/Russian war.
- ASIC requirements under RG 230 *Disclosing non-IFRS financial Information* (December 2011), RG 170 *Prospective Financial Information* (2011) and RG 228 *Prospectus: Effective Disclosure for retail investors* (August 2019) have not changed substantively since ASAE 3450 was issued.
- Areas the AUASB may consider looking at if ASAE 3450 were to be updated could include: inclusions in the Directors responsibility section of the engagement letter in Appendix 1, reference to NOCLAR APES 110 provisions, written representations and inclusion of a multi-scope example report in Appendix 3. However, none of these suggested amendments are considered critical to the ongoing viability and use of the existing version of ASAE 3450.

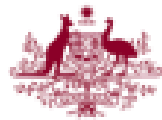
- 4 Whilst the ATG acknowledge the scope and approach adopted for proposed SAE 3450 by the NZAuASB for the NZ market, based on the initial feedback received from Australian assurance practitioners applying ASAE 3450 **the ATG are not recommending that further outreach activities or changes to ASAE 3450 are warranted at this time.** It should also be acknowledged that changes to ASAE 3450 primarily limiting the scope of the standard may have unintended consequences on current practice in Australia. The ATG also recommends that ASAE 3450 should remain on the inactive AUASB project list for future consideration, where limited scope amendments may be considered subject to further feedback from users and/or any regulatory changes.

## Collaboration with NZAuASB and other standard setters

- 5 The AUASB has been liaising with the NZAuASB as their SAE 3450 project has progressed. The ATG will continue to review the NZAuASB proposed ED SAE 3450 to provide any relevant feedback to the AUASB Chair in his role on the NZAuASB.

## Next steps/Way Forward

- 6 The ATG will monitor any further feedback on consultation on the use and application of ASAE 3450 and determine if any further action may be required.



## AUASB DUE PROCESS POST-IMPLEMENTATION REVIEW (PIR) METHODOLOGY

### Introduction

1. The *AUASB Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications* (due process framework) sets out in paragraphs 250 to 254 the high-level steps that the AUASB must follow when undertaking a PIR.
2. A PIR also supports the AUASB in achieving its strategic objectives by maintaining Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required.
3. The *AUASB's Evidence-Informed Standard Setting (EISS) Strategy* identifies various post-implementation phase activities aimed at understanding the specific implementation issues of Australian stakeholders, understanding the impact/effect of the issued or revised standards, including whether intended benefits have been achieved, and interpreting and communicating findings to contribute to and influence nationally and internationally.
4. **A PIR is a process that:**
  - (a) outlines the original problem a pronouncement was intended to address, including the objectives of a pronouncement;
  - (b) gathers evidence about the impacts of a pronouncement, including evidence from research and consultations with stakeholders;
  - (c) analyses the effects of a pronouncement, including regulatory cost impacts where possible; and
  - (d) based on available evidence, concludes on the overall effectiveness and efficiency of a pronouncement in meeting its original objectives, including whether a pronouncement remains appropriate.
5. A PIR is not intended to be a reconsideration of an entire underlying pronouncement. Instead, it acknowledges that consultation and due process during the development of a pronouncement are not a substitute for the practical application of new requirements. For example, when new requirements are applied in practice, unexpected issues may arise, such as a pronouncement being more difficult or costly to apply than what was expected. There might also be situations where a pronouncement unintentionally gives rise to divergence in practice. New or emerging practices or assurance engagements may be increasing in prevalence and these types of practices/engagements may not have been contemplated when a pronouncement was developed.

### Objective and Timing of a PIR

6. The *AUASB Due Process Framework* outlines that the AUASB is to perform a PIR of each new domestic standard or major revision(s) to a standard.
7. For standards that are based on international equivalents the AUASB will coordinate its PIR activities with the IAASB. The AUASB generally issues the request for information relating to the international standard PIR locally at the same time as the IAASB and contributes to the IAASB's process where the issues are considered significant to Australia



8. A PIR is undertaken to evaluate the effectiveness and efficiency of implementation of a standard since its application date. The AUASB will engage with stakeholders on specific implementation issues and obtain evidence to understand the impact and effect of the standard including whether benefits have been achieved. These findings can then be shared with other jurisdictions that have also adopted a similar standard.
9. A PIR is usually performed after the new requirements have been applied for two to three years. This generally allows enough time for the standard to be used and tested in practice.
10. A PIR generally involves:
  - (a) review of any relevant evidence including research undertaken by AUASB technical group (ATG), academics, and other stakeholders;
  - (b) collation of any issues notified to, or identified by, the AUASB prior to the PIR commencing;
  - (c) early identification of the questions relating to the introduction of a new standard for which answers are sought;
  - (d) consultation seeking implementation issues and views on the pronouncement; consideration of any feedback received; and
  - (e) publication of the findings of the PIR.
11. The outcome of a PIR is the recommendation(s) made to the AUASB by the ATG for changes to a pronouncement as a result of the findings from PIR.

### **Consultation Options for the AUASB when undertaking the PIR:**

12. The PIR consultation activities could comprise, a number of information-gathering and research workstreams:
  - (a) reviewing any relevant academic research
  - (b) initial survey – information gathering on implementation issues and to assist in determining what possible further actions if any, may need to be undertaken;
  - (c) public consultation – outreach as part of a planned AUASB Strategy and Workplan consultation process or a broader stakeholder exercise on a specific subject matter; and
  - (d) targeted consultation – outreach activities with particular stakeholder groups depending on the subject matter.
13. The option(s) adopted for each Standard is likely to be impacted by the following:
  - (a) nature of the subject matter of the standard,
  - (b) the breadth and depth of its use and application in practice; and
  - (c) feedback received by the AUASB directly or informally from stakeholders about issues encountered with the adoption of the standard or the unintended consequences of the requirements of the standard on the assurance engagement or report.
14. It is likely that each standard that meets the criteria for a PIR will need to be considered on its merits and a one size fits all approach to the PIR consultation process is unlikely to be effective and efficient.



## Communications Plan

15. As part of the PIR methodology a communications plan is to be developed. This is likely to include consideration of the following by the ATG:
- (a) Who are the key stakeholder groups e.g. assurance practitioners, industry groups, regulators etc
  - (b) How the communication with these groups will occur e.g. direct email pushing out PIR survey or an open invitation to a roundtable via a newsletter
  - (c) When will the communication occur and how often and if there is any follow up required; and
  - (d) What tools might be used to communicate e.g. direct email, survey monkey, LinkedIn, AUASB and AASB newsletters and Accounting Bodies fortnightly assurance and reporting updates.

## AUASB Oversight of PIR Process

16. An AUASB Board sponsor will be assigned to a PIR prior to its commencement. The Board sponsor will ideally be a subject matter expert on the pronouncement and, where possible, have been involved the development or update of the original pronouncement. The Board sponsor will provide feedback to the ATG on options for consultation under the PIR and assist with subject matter expertise throughout the project.
17. The PIR project plan developed by the ATG will be prepared in consultation with the Board sponsor and reviewed and agreed by the Technical Director and Chair.
18. Information and issues raised in the PIR through first round of consultation with stakeholders will then be considered by the ATG to determine if a second round of consultation may be required.
19. The AUASB will receive a report back on steps undertaken in the PIR, feedback received and recommendations from the ATG as to whether standard setting activities are appropriate and required at this time.
20. Any recommendations for changes to a pronouncement as a result of the outcomes from the PIR will follow a separate consultation and standard-setting development process in accordance with the AUASB's standard-setting process under the due process framework.
21. Recommendations for change to a pronouncement determined through the PIR may include consideration by the AUASB of the following options:
- (a) Narrow scope amendments to the standard
  - (b) Major revision to the standard
  - (c) No revision to the standard but further guidance on the subject matter that may be beneficial to assurance practitioners undertaking these engagements; or
  - (d) No revision to the standard required at this time as the PIR determined that the standard is fit for purpose and being applied as intended.



# Project Plan

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**Project Title:** Post Implementation Review – ASAE 3100 *Compliance Engagements*

## Objective

To conduct a post implementation review in accordance with the AUASB due process framework to gather information about the application of ASAE 3100 *Compliance Engagements* issued by the AUASB in February 2017.

To evaluate the effectiveness and efficiency of implementation since ASAE 3100 was applicable, the ATG will engage with stakeholders on specific implementation issues to understand the impact and effect of the standard including whether benefits have been achieved. These findings can then be shared with other jurisdictions that have also adopted a compliance standard. If any issues come to the ATG's attention during the PIR, that may require consideration of changes to the standard, these will be considered by the AUASB as part of an overall revision project.

## Background

ASAE 3100 *Compliance engagements* standard (ASAE 3100) was issued by the AUASB in February 2017 in clarity format. The standard replaces ASAE 3100, issued by the AUASB in October 2008. This standard is explicitly linked to the current ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the AUASB in May 2017 which is based on the revised International equivalent standard issued by the IAASB in 2013.

A PIR for ASAE 3100 was previously conducted by the AUASB in 2013 prior to its revision and reissuance in 2017.

## Scope

This project specifically covers consultation with key stakeholders on the implementation and use of ASAE 3100. The consultation is likely to take two forms being a survey and targeted outreach with key stakeholders.

Information and issues raised in this PIR will then be considered by the ATG to determine next steps that may be required by the AUASB. The AUASB will receive a report back on steps undertaken in the PIR, feedback received and recommendations as to whether standard setting activities are appropriate and required at this time.

Key stakeholders include:

- Assurance practitioners providing compliance and performance engagements, including big 4, mid-tier and small accounting firms.
- Industry Groups e.g. SNACC and SMSF Industry Association Groups etc.
- Professional bodies representing practitioners, including CAANZ and CPA Australia.



- Regulatory bodies requiring compliance assurance through regulation, including Australian Securities and Investments Commission and Australian Prudential Regulation Authority and Australian Tax Office.
- Auditors General, conducting compliance and performance engagements in conjunction with financial report assurance or as part of their mandates.

### **Risks/Issues**

1. Lack of engagement with the relevant stakeholders to gather effective and timely feedback via the survey and/or targeted outreach on practical implementation of the standards.
2. Targeted outreach does not illicit stakeholder engagement and useful feedback which will assist in improving the standard for all assurance practitioners.

In order to manage these risks the Board sponsor, Chair and Technical Director will agree on the project plan and consultation steps to be undertaken for ASAE 3100.

### **Collaboration with NZAuASB**

1. Consultation with NZAuASB – ASAE 3100 was developed in collaboration with the NZAuASB and adopted by the NZAuASB as NZ SAE 3100 (February 2017) effective from 1 January 2018 in line with ASAE 3100. There will need to be further discussions with NZAuASB about whether we undertake this PIR as a collaboration project or separately in each jurisdiction.

### **Communications Plan**

1. Determine which stakeholder groups are the focus of the targeted outreach for example SMSF and RSE auditors through the ATO and APRA industry groups and potentially ASIC surveillance areas that use ASAE 3100 as part of their monitoring activities.
2. Directly invite these stakeholders to participant in smaller targeted outreach sessions through the regulators that convene these groups.
3. The AUASB will concurrently undertake public outreach. The communication to a broad range of stakeholders could be undertaken through a news item on AUASB website/newsletter, promote it on LinkedIn and/or through the Professional Accounting bodies newsletters and updates.

### **Recommendation for PIR – ASAE 3100 Compliance Engagements (February 2017)**

Based on limited feedback received to date from stakeholders around the use and application of ASAE 3100 in practice and any current issues with the standard, the ATG recommend the following steps:

1. Adoption of targeted and public outreach on ASAE 3100 to occur concurrently. Agree with Board sponsor, AUASB Chair and Technical Director the targeted stakeholder groups that will be included.
2. Commence targeted and public outreach activities concurrently and depending on the feedback from both levels of outreach the ATG will determine what recommendations will be proposed to the AUASB under the options outlined in the AUASB PIR methodology. This may include further outreach in the form of a survey if deemed necessary. See Appendix 1 for some suggested survey questions.





**AUASB Post Implementation Review ASAE 3100 (2022)**

**Draft Survey Questions**

1. Please provide the name of your organisation. Can you advise what types of compliance engagements you are conducting under ASAE 3100 *Compliance Engagements*?
2. In conducting a compliance engagement applying ASAE 3100 *Compliance Engagements*, the objectives of the assurance practitioner are:
  - a. To obtain reasonable or limited assurance, about whether the entity has complied in all material respects, with compliance requirements as evaluated against the suitable criteria;
  - b. To express a conclusion through a written report on the matters in (a) above which expresses either a reasonable or limited assurance conclusion and describes the basis for the conclusion; and/or
  - c. To communicate further as required by this ASAE and any other relevant ASAEs.

Do you believe the objective of a compliance engagement as outlined in ASAE 3100 is clearly stated and readily applied in practice? (Please provide brief details to support your answer).

3. Do the requirements of ASAE 3100 specifically help to achieve the overall objective of the engagement? (Please provide brief details to support your answer).
4. Are there any specific requirements that need further clarification, or amendment to improve their understanding and to meet the standards objectives? (Please provide brief details to support your answer).
5. Are the concepts of materiality and assessment of compliance engagement risk adequately explained in the standard? If not please provide comments on how this may be improved.
6. Is the requirement for assessing the elements of an entity's compliance framework clear? Does the standard provide sufficient and appropriate application material for carrying out the requirements by the assurance practitioner? (Please provide brief details to support your answer)
7. Are the requirements specific to determining, evaluating, and communicating material deficiencies and breaches in an entity's compliance framework clearly? Does the standard provide sufficient and appropriate application material for carrying out the requirements by the assurance practitioner? (Please provide brief details to support your answer)
8. Are there any additional requirements that should be considered in the standard?
9. Are there any existing requirements in the standard that you think may not be needed or are not useful in meeting the standard's overall objective? (Please provide brief details to support your answer).
10. Are there any additional considerations specific to public sector and smaller entity engagements that should be considered for inclusion within the "Application and Other Explanatory Material" section of the Standard or that should be addressed by the AUASB in targeted industry specific guidance?
11. Are there any other areas or comments you would like to raise regarding the current standard and its application?

# **Guidance Statement GS 016**

## ***Bank Confirmation Requests***

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

Draft



**Australian Government**

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**Auditing and Assurance Standards Board**



## Obtaining a Copy of this Guidance Statement

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

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*Important Note*

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

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

Guidance Statement GS 016 *Bank Confirmation Requests* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

*Draft*

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### **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 016 *Bank Confirmation Requests* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

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

This Guidance Statement does not prescribe or create new requirements.

Dated: 7 June 2022

W R Edge  
Chair – AUASB

## **CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS**

This Guidance Statement has been formulated for Australian public interest purposes and accordingly there is no equivalent Internal Auditing Practice Note (IAPN) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

In developing the Guidance Statement, the AUASB considered relevant guidance issued by other standard-setters such as the Public Company Accounting Oversight Board (PCAOB).

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# GUIDANCE STATEMENT GS 016

## *Bank Confirmation Requests*

### **Application**

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors on meeting the requirements of relevant AUASB Standards when external confirmation procedures are performed regarding an entity's banking activities, including treasury operations.

### **Issuance Date**

2. This Guidance Statement is issued on **7 June 2022** by the AUASB and replaces GS 016 *Bank Confirmation Requests*, issued in June 2010.

### **Introduction**

3. This Guidance Statement, in addition to providing guidance for auditors when performing paper-based external confirmations, addresses the impact of the use of technological resources by the auditor on the external confirmation process, including technological resources from a service provider.

### **Scope of this Guidance Statement**

4. This Guidance Statement provides supplementary guidance for auditors in meeting their responsibilities in ASA 505 *External Confirmations* where the auditor has determined, in accordance with ASA 330 *The Auditor's Responses to Assessed Risks*, that external bank confirmation procedures are to be performed as part of the audit.

### **Definitions**

5. For definitions refer to the AUASB Glossary.

### **The Confirmation Process in AUASB Standards**

#### **Deciding Whether to Request a Bank Confirmation**

6. ASA 330 requires the auditor to design and implement overall responses to address the risks of material misstatement identified and assessed by the auditor in accordance with ASA 315 *Identifying and Assessing the Risks of Material Misstatement* in an audit of a financial report. In particular, ASA 330 requires the auditor to consider whether external confirmation procedures are to be performed.<sup>1</sup>
7. The auditor may determine that bank confirmation procedures are to be performed when the entity's banking activities, including treasury operations, are:
  - (a) significant;
  - (b) complex;
  - (c) unusual;
  - (d) have a heightened risk of fraud; or

<sup>1</sup> See ASA 330, paragraphs 19 and A50-A53.

- (e) there are deficiencies in the entity's control environment that may impact the assertions and disclosures regarding the entity's banking activities.
8. In other instances, when:
- (a) an entity's banking activities are simple and straightforward;
  - (b) the auditor has considered the entity's control environment and assessed the risk of material misstatement of bank-related account balances and disclosures as low; and
  - (c) there are other means to obtain sufficient appropriate audit evidence in respect of banking activities;
- the auditor may decide not to request a bank confirmation.
9. The information to be confirmed may relate to:
- (a) normal banking activities, such as:
    - (i) account balances at the period end for current accounts, interest bearing deposit accounts, foreign currency accounts, money market deposits, overdraft accounts, bank loans and term loans;
    - (ii) interest rates and terms of other liabilities to the bank, such as bills of exchange, forward exchange contracts, letters of credit, guarantees and indemnities undertaken by the bank;
    - (iii) items held as security for the entity's liabilities to the bank;
    - (iv) accounts opened or closed by the entity during the period; and
    - (v) unused limits and facilities; and/or
  - (b) treasury operations, such as:
    - (i) forward rate agreements;
    - (ii) foreign currency contracts;
    - (iii) interest rate swaps;
    - (iv) options;
    - (v) treasury futures contracts; and
    - (vi) other contractual arrangements.
10. Although external confirmations may provide relevant audit evidence relating to certain assertions, there are assertions for which external confirmations provide less relevant audit evidence. For example, external confirmation procedures may provide audit evidence for the existence assertion but not the accuracy, valuation and allocation or completeness assertions. In such circumstances, it may be necessary to consider performing alternative or additional audit procedures to address these assertions.

#### **The Nature and Reliability of Evidence Obtained from a Bank Confirmation**

11. ASA 500 *Audit Evidence* requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit

evidence<sup>2</sup>, and consider the relevance and reliability of information to be used as audit evidence in an audit of a financial report.<sup>3</sup>

12. The reliability of audit evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained<sup>4</sup>. The reliability of the evidence obtained from information contained in a response to a bank confirmation request, is influenced by the circumstances in which the request is made and the response received.
13. Whilst exceptions may exist, the reliability of audit evidence is generally increased when it is obtained from independent sources outside the entity, and obtained directly by the auditor.<sup>5</sup> However, even when audit evidence, such as a bank confirmation, is obtained from sources external to the entity, circumstances may exist that could affect the reliability of the information obtained. For example, all confirmation responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or through electronic or other medium.
14. ASA 200 requires the auditor to plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial report to be materially misstated<sup>6</sup>. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine<sup>7</sup>. If there is any indication that a confirmation response may not be reliable, ASA 505 *External Confirmations* emphasises the need for the auditor to consider the response's reliability and to perform audit procedures to dispel any concern (for example, the auditor may choose to verify the source and contents of the response in a telephone call to the purported sender).<sup>8</sup>

#### **Remaining Alert to the Possibility of Fraud**

15. While the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management,<sup>9</sup> the auditor, in exercising professional scepticism, remains alert to the possibility of fraud in the bank confirmation process.
16. When determining whether to use bank confirmation requests, the auditor may consider the entity's circumstances and its environment, the circumstances surrounding the confirmation process, and the information obtained from the confirmation process that may indicate a risk of material misstatement.
17. Being alert to the possibility of fraud may be particularly important when an external confirmation is the primary audit evidence for a material financial report item, particularly if the item itself is susceptible to fraud. This risk may arise, for example, when requesting confirmation of the existence of liquid funds and investments held by the entity in an offshore bank. In such circumstances, it may be necessary to consider performing alternative or additional audit procedures.
18. Professional scepticism is necessary to the critical assessment of audit evidence. For example, when dealing with unusual or unexpected responses to confirmation requests, such as a significant change in the number or timeliness of responses to bank confirmation requests relative to prior audits, or a non-response when a response would be expected.

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<sup>2</sup> See ASA 500, paragraph 6.

<sup>3</sup> See ASA 500, paragraphs 7 and A30–A44.

<sup>4</sup> See ASA 500, paragraph A9.

<sup>5</sup> See ASA 500, paragraph A35 and ASA 505, paragraph 2.

<sup>6</sup> See ASA 200 paragraph 15.

<sup>7</sup> See ASA 200, paragraph A24.

<sup>8</sup> See ASA 505, paragraph 10.

<sup>9</sup> See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraph 4.



## **The Auditor's Responsibility for the Confirmation Process**

19. Whilst there are a range of ways in which a confirmation may be performed, regardless of the method, the auditor remains responsible for meeting the requirements of the ASAs. In particular, the auditor is responsible for maintaining control of the confirmation process<sup>10</sup>.
20. Maintaining control over the confirmation process mitigates (but does not eliminate) the risk of interception, alteration or fraud. Where the auditor has maintained control of the confirmation process the reliability of the results of the confirmation are increased.
21. The auditor's approach to supporting that they have maintained control over the confirmation process depends on whether they have used an electronic or paper-based confirmation process. This guidance statement provides guidance on the auditor's responsibilities where the auditor has used:
  - (a) An electronic confirmation process (paragraphs 22-38); or
  - (b) A paper-based confirmation process (paragraphs 39-42).

## **Electronic Confirmation Process**

22. To make the external confirmation process more efficient and effective, auditors and banks have been increasingly relying on new technologies to facilitate the bank confirmation process. ASA 505 does not preclude the use of an electronic confirmation process or the acceptance of electronic confirmations as audit evidence.
23. Electronic confirmations in the context of this Guidance Statement, refers to the auditor using a technological resource which automates the entire, or part of, the confirmation process. Examples of these technologies include, service providers who establish a secure platform through which the confirming party and auditor communicate directly or other technological resource which directly interfaces with the confirming party's systems such as an Application Programming Interface (API).
24. Email and facsimile are largely paper-based confirmation processes using technology, they have been excluded from electronic confirmations in the context of this Guidance Statement and are captured under paper-based confirmations.

## **Maintaining Control of an Electronic Confirmation Request**

25. When an electronic confirmation process is used, the auditor may be relying on the processes and controls of an external party or the firm to maintain control over the external confirmation process.
26. The procedures the auditor performs to maintain control over the confirmation process may be dependent on whether the electronic confirmation resource is a technological resource that has been approved for use by the firm. Where the technological resource is not approved for use by the firm, additional procedures may need to be performed to evidence that the auditor has maintained control over the confirmation process.

### *Electronic Confirmation Resources Approved by the Firm*

27. An electronic confirmation resource whether developed or obtained by the firm, or from a service provider, is a technological resource that is used directly by the engagement team in the performance of the engagement. Where the auditor is using an electronic confirmation resource approved for use by the firm, the firm, in accordance with the quality objective of

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<sup>10</sup> See ASA 505, paragraph 7.

- ASQM 1<sup>11</sup>, has been through a quality management process so that the technological resource is appropriate for the use in the performance of engagements.
28. When making a technological resource available to engagement teams, a firm may consider a number of matters including<sup>12</sup>:
- (a) The technological resource operates as designed and achieves the purpose for which it is intended;
  - (b) Confidentiality of the data is preserved;
  - (c) The need to develop procedures that set out how the IT application operates.
29. Where the technological resource made available to the engagement team for use in the performance of engagements comes from a service provider, there are further considerations that the firm may consider, including<sup>13</sup>:
- (a) The nature and scope of the use of the resource;
  - (b) The extent to which the resource is used;
  - (c) How the service provider intends to maintain the resources.
30. In meeting the quality objective that appropriate technological resources are used in the performance of engagements, the firm may consider obtaining control reports<sup>14</sup> for the technological resource and reviewing areas that address relevant areas to maintaining control of the confirmation process.
31. Where a report is expected to be used as audit evidence, the requirements of ASA 402<sup>15</sup> may provide an appropriate framework for the firm's evaluation of the appropriateness of the resource.
32. Once a firm considers that the technological resource is appropriate for use in the performance of engagements, the firm may monitor for changes in the environment since the report was issued and consider whether those changes in the environment would impact on the firm's ability to rely on the report.
33. Where a report is not able to be provided or is not sufficiently reliable for the intended purpose, as an alternative the firm may perform direct testing of the design and operating effectiveness of the technological resource's relevant controls.
34. Once the technological resource is approved by the firm, the firm may establish policies and procedures for the engagement team's use of the technological resource. For example the firm may have a policy limiting use to specifically approved personnel, or have a policy that only resources on a firm approved list can be used.

*The Engagement Partner's Responsibility where the Technological Resource is Approved by the Firm*

35. ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*<sup>16</sup> addresses the engagement partner's responsibility to use the resources provided by the firm, including technological resources.

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<sup>11</sup> See ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, paragraph 32 (f) and 32 (h)

<sup>12</sup> See ASQM 1, paragraphs A100.

<sup>13</sup> See ASQM 1, paragraph A107.

<sup>14</sup> For example, ASAE 3402 *Assurance Reports on Controls at a Service Organisation* reports or Independent Service Auditor's Reports on Service Organisation Controls (SOC reports).

<sup>15</sup> See ASA 402 *Auditing Considerations Relating to an Entity Using a Service Organisation*.

<sup>16</sup> See ASA 220, paragraphs 25–28.

36. When using technological resources approved by the firm, the engagement partner is ordinarily able to rely on the firm's policies and procedures to approve that resource for use. To be able to rely on the firm's approval of the resource, the engagement team follows the firm's policies and procedures around the use of the technological resource, including whether specialist expertise is required and remains alert for any information throughout the engagement that may indicate that the firm's policies and procedures related to the resource are not operating effectively.

*The Engagement Partner's Responsibility Where the Technological Resource Is Not Approved by the Firm*

37. Not all technological resources used by the engagement team in the performance of an engagement will be a resource approved by the firm. Where a technological resource is used in the confirmation process and it is not approved by the firm, the engagement partner is responsible for performing procedures to obtain sufficient appropriate evidence that the technological resource is appropriate for use in the circumstances.
38. The engagement team may perform procedures based on paragraphs 29-33.

**Paper-Based Confirmation Process**

39. In the context of this Guidance Statement, paper-based confirmations refers to confirmation procedures which do not use a specific technological resource to perform confirmation procedures. Whilst they may use technology in the confirmation process, they are not considered an electronic confirmation process.
40. In consultation with the Australian Bankers' Association (ABA), the AUASB previously developed three standard paper-based bank confirmation request forms. The forms are:
- (a) Appendix 1 – Bank Confirmation—Audit Request (General) – the information to be confirmed or requested relates to normal banking activities and is substantially the same for a range of entities; and
  - (b) Appendix 2 – Bank Confirmation—Audit Request (Treasury and Other Operations) – the information to be confirmed or requested relates to the entity's treasury operations and use of treasury management instruments.
  - (c) Appendix 3 – Example letter: Customer request and authority to disclose.

These forms are also available as separate documents on the AUASB website<sup>17</sup>, to facilitate their use in the confirmation process, if required.

41. While the standard bank confirmation request forms will generally provide the information required by the auditor in a range of audit engagements, there may be instances where the standard forms are not appropriate. For example, the auditor may require confirmation of matters not covered by the standard bank confirmation request forms and may write a separate letter requesting confirmation of specific matters.

**Maintaining Control of a Paper-Based External Confirmation Request**

42. When using paper-based bank confirmations, the auditor maintains control over the process through:<sup>18</sup>
- (a) determining the bank information to be requested;

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<sup>17</sup> See [www.auasb.gov.au](http://www.auasb.gov.au)

<sup>18</sup> See ASA 505, paragraph 7.

- (b) selecting the appropriate confirming party(parties);
- (c) designing the bank confirmation request, ensuring that it:
  - (i) is properly addressed;
  - (ii) is clear, accurate and sufficiently detailed; and
  - (iii) contains an accurate return address, for responses to be sent directly to the auditor.
- (d) considering the timing of the lodgement of the request and the date by which a response is required; and
- (e) taking follow-up action when a response is overdue.

### **Results of the Bank Confirmation Process**

- 43. The auditor evaluates the bank's response to a bank confirmation request, whether electronic or paper-based, and determines whether the response provides relevant and reliable audit evidence, or whether further audit evidence is required.<sup>19</sup>
- 44. The auditor may need to carry out additional audit procedures. For example, it is generally unwarranted for the auditor to place sole reliance on the information obtained through a bank confirmation request to satisfy the completeness assertion. This may be due to various factors such as:
  - (a) other audit procedures indicate doubt as to the completeness of the information provided by the bank;
  - (b) a question on the bank confirmation request remains unanswered by the bank;
  - (c) the auditor considers there is a risk that material accounts, agreements or transactions exist, that have not been disclosed in the bank confirmation;
  - (d) the bank's disclaimer regarding the information provided; or
  - (e) limitations arising from the bank's ability to gather all information in respect of an entity's banking activities.
- 45. The auditor may consider performing additional audit procedures to obtain audit evidence over the completeness of information about the entity's banking activities, including treasury operations. The appropriateness of performing such procedures is dependent on the entity's circumstances and the assessed level of risk, and may include:
  - (a) requesting separate confirmation of the completeness of the information directly from the entity's relationship manager at the bank;
  - (b) contacting the bank separately about specific issues of concern;
  - (c) performing additional journal entry test work around cash and disbursements and reviewing cash transactions for unusual flows of funds;
  - (d) asking the entity to include a paragraph in the management representation letter confirming that the bank information is complete;

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<sup>19</sup> See ASA 505, paragraphs 10-11 and 16.

- (e) reviewing minutes of meetings where new bank accounts or arrangements may have been agreed; or
  - (f) enquiring of the entity's treasury department, or other appropriate personnel in the entity, whether they are aware of any additional banking arrangements.
46. On its own, an oral response to a bank confirmation request does not meet the definition of an external confirmation because it is not a direct written response to the auditor in paper form or by electronic or other medium<sup>20</sup>. However, upon obtaining an oral response to a bank confirmation request, the auditor may, depending on the circumstances, request the bank to respond in writing directly to the auditor in paper form, or by electronic or other medium. If no such response is received, in accordance with ASA 505,<sup>21</sup> the auditor seeks other audit evidence to support the information in the oral response.

### **Disclaimers or Restrictive Language**

47. The auditor may receive a confirmation response containing a disclaimer or restrictive language. Such restrictions do not necessarily invalidate the reliability of the response as audit evidence<sup>22</sup>. In general, the auditor may reasonably rely upon information given by the bank provided it corroborates the assertions made by management and is not clearly wrong, suspicious, inconsistent in itself, ambiguous, or in conflict with other evidence gathered during the course of the audit, even where the response includes a standard disclaimer of liability.
48. However, certain restrictive language may cast doubt on the completeness or accuracy of the information contained in the response, or the auditor's ability to rely on that information. Examples of such restrictive language include statements such as:
- (a) Information is obtained from electronic data sources, which may not contain all information in the bank's possession.
  - (b) Information is not guaranteed to be accurate nor current and may be a matter of opinion.
  - (c) The recipient may not rely upon the information in the bank confirmation.
49. Whether the auditor may rely on the information confirmed and the degree of such reliance depends on the nature and substance of the restrictive language. Where the practical effect of the restrictive language is difficult to ascertain in the particular circumstances, the auditor may consider it appropriate to seek clarification from the bank or seek legal advice.
50. If restrictive language limits the extent to which the auditor can rely on the bank confirmation response as audit evidence, the auditor may need to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures accordingly, in accordance with ASA 315. The nature and extent of such procedures depends on factors such as the nature of the item being confirmed, the assertion being tested, the nature and substance of the restrictive language, and relevant information obtained through other audit procedures. If the auditor is unable to obtain sufficient appropriate audit evidence through alternative or additional audit procedures, the auditor is required to consider the implications for the auditor's report in accordance with ASA 705<sup>23</sup>.

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<sup>20</sup> See ASA 505, paragraph 6(a).

<sup>21</sup> See ASA 505, paragraph 12.

<sup>22</sup> See ASA 505, paragraph A16.

<sup>23</sup> See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

## Appendix 1 Bank Confirmation – Audit Request (General)

(Ref: Para. 40a)

### Instructions

#### Auditor

- Complete all known details in the shaded areas of this form before forwarding to the bank, including all known account names and the corresponding BSB and account numbers.
- If the space provided on the form is inadequate, attach a separate request giving full details of the information required.

#### Bank

- Confirm that the details provided in the shaded areas are correct as at the confirmation date shown below, and highlight any variation/s. Also add any relevant information that may have been omitted by the customer/auditor.
- Complete the unshaded areas in sections 1-10.
- Sign the completed form and return the original direct to the auditor, and a duplicate to the customer, in the stamped addressed envelopes provided. A copy may be retained by the bank.

Bank (Name & Address)	Customer/Entity (Name & Address)
	"Entity" includes companies, companies in a parent-subsidiary relationship, joint ventures, partnerships, trusts, and unincorporated associations.

Auditor (Name & Address)	Confirmation Date (DD/MM/YYYY)
Contact Name:	Authority to Disclose Information attached Yes/No
Telephone Number:	Third Party Authority attached Yes/No/ Not applicable
Fax Number:	
Email Address:	
Date of Audit Request (DD/MM/YYYY)	Request for Acknowledgement attached Yes/No

### 1. CREDIT ACCOUNT BALANCES

Provide details of all account balances in favour of the bank customer as at the confirmation date, in respect of current accounts, interest bearing deposits, foreign currency accounts, convertible certificates of deposit, money market deposits, cash management trusts and any other credit balances. Provide details for the accounts listed below and for any other accounts not listed.

Provide details of any account or balance that is subject to any restriction(s) whatsoever and indicate the nature and extent of the restriction, e.g. garnishee order.

Account Name	BSB Number	Account Number	Currency	Balance
Auditor/customer to complete known details in shaded areas			Bank to complete unshaded areas	
Bank to provide information on other accounts not identified by auditor/customer				

### 2. DEBIT ACCOUNT BALANCES

Provide details of all account balances owed to the bank by the bank customer as at the confirmation date, in respect of overdraft accounts, bank loans, term loans, credit cards and any other debit balances.

## Guidance Statement GS 016 Bank Confirmation Requests

Provide details of any account or balance that is subject to any restriction(s) whatsoever and indicate the nature and extent of the restriction, e.g. garnishee order.

Account Name	BSB Number	Account Number	Currency	Balance
Auditor/customer to complete known details in shaded areas			Bank to complete unshaded areas	
Bank to provide information on other accounts not identified by auditor/customer				

### 3. PROMISSORY NOTES/BILLS OF EXCHANGE HELD FOR COLLECTION ON BEHALF OF THE CUSTOMER

(Bank to complete)

Maker/Acceptor	Due Date	Balance

### 4. CUSTOMER'S OTHER LIABILITIES TO THE BANK (Bank to complete)

Provide details of the following as at the confirmation date:

- Acceptances, bills discounted with recourse to the customer or any subsidiary or related party of the customer, endorsed drafts/notes, forward exchange contracts, letters of credit, liability in respect of shipping documents where customer's account not yet debited.
- Bonds, guarantees, indemnities or other undertakings given to the bank by the customer in favour of third parties (including separately any such items in favour of any subsidiary or related party of the customer). Give details of the parties in favour of whom guarantees or undertakings have been given, whether such guarantees or undertakings are written or oral and their nature.
- Bonds guarantees, indemnities or other undertakings given by you, on your customer's behalf, stating whether there is recourse to your customer and/or any other related entity.
- Other liabilities—give details.

Nature of Liability	Terms of Liability	Currency	Name of Beneficiary	Balance

### 5. ITEMS HELD AS SECURITY FOR CUSTOMER'S LIABILITIES TO THE BANK (Bank to complete)

With respect to items held as security for customer's liabilities to the bank indicate whether the security:

- relates to particular borrowings or liabilities to the bank and whether it is lodged in the customer's name or by a third party. (If lodged by a third party, that party's authority to disclose details must be attached).
- is formally charged (provide details of date, ownership and type of charge);
- supports facilities granted by the bank to the customer or to another party.
- is limited in amount or to a specific borrowing or, if to your knowledge, there is a prior, equal or subordinate charge;

Provide details of any arrangements for set-off of balances or compensating balances e.g., back to back loans. Include details of date, type of document and account covered, any acknowledgement of set-off, whether given by specific letter of set-off or incorporated in some other document;

Provide details of any negative pledge arrangements that exist.

Provide details here

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### 6. LEASES (Bank to complete)

Provide details of all known finance leasing commitments

Leased Item	Restrictions / Special Arrangements	Lease Term	Currency	Implicit Interest Rate	Repayment Terms	Balance

### 7. ACCOUNTS OPENED/CLOSED (Bank to complete)

List details of any accounts opened or closed during the twelve months prior to confirmation date.

Account Name	BSB Number	Account Number	Open or Closed?	Date opened/closed

### 8. UNUSED LIMITS/FACILITIES (Bank to complete)

Please confirm details of all available unused limits/facilities at confirmation date.

Types of Facility	Facility Limit	Unused Limit	Terms of Facility Use

### 9. DEFAULTS AND BREACHES (Bank to complete)

With reference to the customer's accounts with the bank, provide details of any defaults or breaches during the period and full details of such defaults and breaches. Include details, for example, of:

- (a) loans payable in default at the confirmation date and whether they have since been re-negotiated, and
- (b) bank covenants breached during the twelve months up to the confirmation date and whether the breach was remedied.

Provide details here

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### 10. OTHER INFORMATION

Please confirm (see shaded area below) and/or provide any other details (unshaded area below) relating to any financial relationships not dealt with under sections to 1-9 above.

Auditor/customer to complete known details in shaded area
Bank to provide other information not identified by customer



## Guidance Statement GS 016 *Bank Confirmation Requests*

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### **11. BANK AUTHORISATION** (Bank to complete)

This certificate has been completed from our records at .....(bank details).

The Bank and its staff are unable to warrant the correctness of that information and accordingly hereby disclaim all liability in respect of the same. The information contained herein is confidential and provided for private use in confirmation of our customer accounts for audit purposes only. It may not be used for any other purpose or by any other persons. In particular this is not a credit reference.

<b>AUTHORISED BY:</b>	<b>Other authorisation details (where applicable)</b>
Signature: _____	
Name (print name) _____	
Title _____	
Telephone Number _____	
Email Address _____	
Date Completed _____	

## Appendix 2 Bank Confirmation – Audit Request (Treasury and Other Operations)

(Ref: Para. 40b)

### Instructions

#### Auditor

- Complete all known details in the shaded areas of this form before forwarding to the bank, including all known account names and the corresponding account numbers.
- If the space provided on the form is inadequate, attach a separate request giving the full details of the information required.

#### Bank

- Confirm that the details provided in the shaded areas are correct as at the confirmation date shown below, and highlight any variation/s. Also add any relevant information that may have been omitted by the customer/auditor.
- Complete the unshaded areas in sections 1-9.
- Sign the completed form and return the original direct to the auditor, and a duplicate to the customer, in the stamped addressed envelopes provided. A copy may be retained by the bank.

Bank (Name & Address)	Customer/Entity (Name & Address)
	"Entity" includes companies, companies in a parent-subsidiary relationship, joint ventures, partnerships, trusts, and unincorporated associations.
Auditor (Name & Address)	Confirmation Date (DD/MM/YYYY)
Contact Name:	Authority to Disclose Information attached Yes/No
Telephone Number:	Third Party Authority attached Yes/No/ Not applicable
Fax Number:	
Email Address:	
Date of Audit Request (DD/MM/YYYY)	Request for Acknowledgement attached Yes/No

#### 1. BALANCES OF ACCOUNTS (DEPOSIT& ADVANCES), SECURITIES HELD

- Please confirm details of all account balances as at the confirmation date.
- Include details of: nostro accounts, vostro accounts, current accounts, interest bearing deposits, foreign currency accounts, convertible certificates of deposit, money market deposits, etc. Confirm details of any securities held for payment, e.g., Promissory Notes.
- Confirm details of direct liabilities (bank & term loans etc), indicating the collateral lodged by the customer in respect to each outstanding loan. Details of repayment terms should also be confirmed.

Account Name	Account Number	Balance DR/CR	Currency	Interest Rate	Interest Accrued	Date Paid	Other Charges	Maturity Date	Collateral Lodged
Auditor/customer to complete		Bank to complete unshaded areas							
Bank to provide information on other accounts not identified by auditor/customer									

#### 2. FORWARD RATE AGREEMENTS (FRAs) (Bank to complete)

Please confirm details of all outstanding forward rate agreement contracts at the confirmation date.

## Guidance Statement GS 016 Bank Confirmation Requests

Name and Number of contract	Period of Contract		Notional Principal Amount	Currency	Contract/Hedge Rate	Fixed/Floating	Contract Borrower/Contract Lender
	Start Date	Maturity Date					

### 3. FOREIGN EXCHANGE CONTRACTS (Bank to complete)

Please confirm details of all outstanding foreign exchange contracts at the confirmation date. Obligations to purchase/sell currency should be confirmed in terms of the bank's indebtedness.

Purchase Currency	Amount	Sell Currency	Amount	Exchange Rate	Deal Date	Maturity Date

### 4. SINGLE CURRENCY INTEREST RATE SWAPS (Bank to complete)

Please confirm details of outstanding single currency interest rate swaps.

Start Date	Maturity Date	Notional Principal Amount	Currency	Receive				Pay			
				Fixed/Floating	Payment Frequency	Interest Rate	Last Received	Fixed/Floating	Payment Frequency	Interest Rate	Last Paid

### 5. CROSS CURRENCY INTEREST RATE SWAPS (Bank to complete)

Please confirm details of outstanding cross-currency interest rate swaps.

Start Date	Maturity Date	Received/Purchase Currency					Pay/Sell Currency				
		Notional Principal Amount	Currency	Payment Frequency	Interest Rate	Last Received	Notional Principal Amount	Currency	Payment Frequency	Interest Rate	Last Paid

### 6. OPTIONS CONTRACTS (e.g., INTEREST, CURRENCY AND COMMODITIES) (Bank to complete)

Please confirm details listed of outstanding options contracts as at the confirmation date. Indicate the nature of each option contract e.g., Interest Rate Options (cap, collar etc).

Nature of Option Contract	Option Type American/European	Premium	Strike Price	Currency	Expiry Date	Put/Call Option	Buy/Sell	Contracts Outstanding (No.)

### 7. TREASURY FUTURES CONTRACTS (Bank to complete)

Please confirm details listed of outstanding Treasury Futures Contracts e.g., BABs, Bonds.

Type of Futures Contract	Value Month	Number of Contracts	Funds on Deposit & Margin Calls	Long/Short	Contracted Sales Price

## Guidance Statement GS 016 *Bank Confirmation Requests*

### 8. NETTING (OFFSET) ARRANGEMENTS (Bank to complete)

Please confirm the details of any arrangements for offset of compensating balances e.g., back to back loans. Give particulars of any acknowledgement of offset, whether given by specific letter of offset or incorporated in some other document (i.e., date, type of document and accounts covered).

Item Subject to Netting Arrangements	Conditions of Netting

### 9. OTHER CONTRACTUAL ARRANGEMENTS (Bank to complete)

Provide details of any other contractual arrangement(s) between the customer and the bank e.g., forward bank bills/bonds, repurchase agreements, transactions packaged as a unique product for the customer, bullion contracts, commodity contracts, swap arrangements (near and far dates), credit derivatives including collateralised debt obligations (CDOs), and others (indicate their nature).

Nature of Contract	Deal Date	Maturity Date	Value Date	Face Value	Consideration	Coupon

### 10. BANK AUTHORISATION (Bank to complete)

This certificate has been completed from our records at .....(bank details).

The Bank and its staff are unable to warrant the correctness of that information and accordingly hereby disclaim all liability in respect of the same. The information contained herein is confidential and provided for private use in confirmation of our customer accounts for audit purposes only. It may not be used for any other purpose or by any other persons. In particular this is ~~not~~ a credit reference.

<b>AUTHORISED BY:</b>	Other authorisation details (where applicable)
Signature: _____	
Name (print name) _____	
Title _____	
Telephone Number _____	
Email Address _____	
Date Completed _____	

## Appendix 3 Example Letter - Authority to Disclose Information

(Ref: Para. 40c)

Addressee

Name of Bank

Address of Bank

Date

Dear .....

### **[Entity's (ies') Name(s)]<sup>24</sup>—Bank Confirmation Request and Authority to Disclose Information**

I/We<sup>25</sup> authorise you, [Name of Bank], including all branches and subsidiaries of the bank, to provide to our auditor [Name of Auditor] any information that the auditor may request from you regarding all and any of our accounts and dealings with you.

More specifically, it would be appreciated if you would complete and return, for audit purposes, the information requested in the attached form(s) by (insert date):

- Bank Confirmation—Audit Request (General)
- Bank Confirmation—Audit Request (Treasury and Other Operations)

Please mail the original of the completed form(s) direct to our auditor as named in the form(s) and the duplicate(s) to us in the stamped, addressed envelopes enclosed for this purpose.

Any charge for providing this information is to be debited to the following account: [insert account details]

Yours faithfully

(Authorising Officer' Signature)

(Authorising Officer' Signature)

(Authorising Officer's Name)

(Authorising Officer's Name)

(Authorising Officer's Title)

(Authorising Officer's Title)

---

<sup>24</sup> The entity's (ies') name(s) on the Authority to Disclose letter should match the name(s) shown in the bank confirmation request.

<sup>25</sup> The person(s) signing this Authority to Disclose letter should be duly authorised to do so as the entity's representative.

**GS 023**  
(Revised June 2022)

# **Guidance Statement GS 023**

## ***Special Considerations – Public Sector Engagements***

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

Draft



**Australian Government**

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**Auditing and Assurance Standards Board**

## Obtaining a Copy of this Guidance Statement

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

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Draft

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*Important Note*

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on the application of AUASB Standards and, where relevant, legislation, regulation or other authoritative publication, to assist auditors and assurance providers to comply with Standards. Guidance Statements are intended to assist auditors and assurance practitioners in applying an existing standard or standards of general application to particular circumstances or specialised industries/sectors.

Guidance Statements are designed to provide guidance to auditors and assurance practitioners to achieve the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of, a specific AUASB Standard(s); and, where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement.

Guidance Statements, whilst formally approved and issued by the AUASB, do not establish new principles or amend existing standards. Guidance Statements therefore do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards and are not legally enforceable.

Guidance Statement GS 023 *Special Considerations – Public Sector Engagements* provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying AUASB Standards in the public sector. It is not, and is not intended to be, a substitute for compliance with relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.



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## **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 023 *Special Considerations – Public Sector Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist auditors and assurance practitioners to achieve the objective(s) of the audit or other assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. Auditors and assurance practitioners exercise professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: 7 June 2022

W R Edge  
Chair - AUASB

## **Conformity with International Pronouncements**

This Guidance Statement has been formulated for Australian public interest purposes and accordingly there is no equivalent International Auditing Practice Note (IAPN) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

In developing the Guidance Statement, the AUASB considered relevant guidance provided to public sector auditors in INTOSAI Guidance GUID 2900 *Guidance to the Financial Auditing Standards*, issued by the International Organisation of Supreme Audit Institutions (INTOSAI), as part of the INTOSAI Framework of Professional Pronouncements.

*Draft*

## **GUIDANCE STATEMENT GS 023**

### ***Special Considerations – Public Sector Engagements***

#### **Application**

1. This Guidance Statement (GS) has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide supplementary guidance to public sector auditors and assurance practitioners in implementing and applying AUASB Standards<sup>1</sup> to audits, reviews, other assurance and related services engagements in the public sector (public sector engagements).
2. The aim of the AUASB in issuing this GS is to promote consistent application of AUASB Standards in the public sector to enhance the quality of public sector audit and assurance engagements and their resulting reports.
3. This GS is to be read and applied in conjunction with applicable AUASB Standards, which set out the minimum requirements and related application and other explanatory material that are to be applied in conducting public sector engagements. This GS does not establish or extend the requirements (or basic principles or essential procedures) under existing AUASB Standards for public sector engagements.
4. Auditors and assurance practitioners should exercise professional judgement when using this GS.

#### **Issuance Date**

5. This Guidance Statement is issued on **7 June 2022** by the AUASB and replaces GS 023 *Special Considerations – Public Sector Engagements*, issued in December 2021.

#### **Introduction**

##### **Structure and Scope of this GS**

6. This GS comprises two parts:
  - (a) **Introductory guidance material**

The purpose of the introductory guidance material is to explain the purpose, status and authority of this GS and how the topic specific guidance material included in this GS is to be understood and applied to public sector engagements.

The introductory guidance material also provides the necessary context for the topic specific guidance material and outlines the unique challenges faced by public sector auditors and assurance practitioners in complying with AUASB Standards.

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<sup>1</sup> AUASB Standards comprise Australian Auditing Standards (ASAs), Australian Standards on Quality Management (ASQMs), Standards on Assurance Engagements (ASAEs), Standards on Review Engagements (ASREs) and Standards on Related Services (ASRSs). See Auditing Standard ASA 101 *Preamble to AUASB Standards*, paragraphs 7 and 10.

**(b) Topic specific guidance material**

Topic specific guidance material is developed and issued when a need for specific supplementary guidance relating to public sector engagements is identified in practice, and will be incrementally added to the GS in response to emerging issues.

7. Whilst the AUASB generally does not set industry or sector specific standards, the AUASB may from time to time produce industry or sector specific guidance materials in the form of authoritative AUASB GSs and/or other non-authoritative materials. The AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications* (AUASB Due Process Framework) outlines the circumstances that may lead to the AUASB issuing guidance materials and identifies factors the AUASB will consider in determining the form of guidance that will be appropriate in the circumstances.<sup>2</sup>
8. AUASB GSs are authoritative AUASB pronouncements<sup>3</sup> that are formally approved and issued by the AUASB. GSs are developed, issued and maintained in accordance with the AUASB's Due Process Framework.<sup>4</sup> Refer to the *Foreword to AUASB Pronouncements* for further information on the purpose, authority and legal status of GSs.<sup>5</sup>
9. The topic specific guidance included in this GS aims to support public sector auditors and assurance practitioners in implementing and applying the AUASB Standards in practice by providing supplementary guidance in relation to the definitions, objectives, requirements and application and explanatory material contained in the standards.
10. The main objective is to provide additional guidance to support public sector auditors and assurance practitioners to either comply with the requirements in AUASB Standards or identify appropriate alternative procedures which will enable the auditor/assurance practitioner to achieve the objective of a standard.
11. This GS covers only selected issues identified as presenting challenges in applying AUASB Standards to public sector engagements. It includes application and explanatory material on specific matters for the purposes of understanding and complying with the relevant requirements in AUASB Standards. In particular, guidance may:
  - explain more precisely what a requirement means or is intended to cover;
  - provide background information on matters addressed in an AUASB Standard, for example, to explain circumstances that may need further consideration in the public sector;
  - include examples that illustrate how the requirements might be applied and/or provide examples of procedures that may be appropriate in the circumstances; and
  - include illustrative examples of auditor reports or other documents.

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<sup>2</sup> See AUASB Due Process Framework, Sections IV, IX and X.

<sup>3</sup> See *Foreword to AUASB Pronouncements*, paragraphs 10-23.

<sup>4</sup> See AUASB Due Process Framework, Section IX.

<sup>5</sup> See *Foreword to AUASB Pronouncements*, paragraphs 20-23.

## Public Sector Engagements

12. Law or regulation governing public sector engagements generally mandate the appointment of a public sector auditor/assurance practitioner and commonly set out the public sector auditor's/assurance practitioner's responsibilities, functions and powers. Law or regulation may also prescribe other aspects of the terms of the engagement, including the objective and scope of the engagement and the responsibilities of management. There may be instances where the mandate or authority to perform an engagement and the public sector auditor's/assurance practitioner's powers reside in different pieces of legislation. AUASB Standards do not override law or regulation in such matters.
13. Where a public sector engagement is mandated by legislation, the public sector auditor/assurance practitioner cannot avoid such an obligation and, consequently, may not be in a position to not accept (that is, to decline) or not continue (that is, to withdraw from) the engagement. A public sector auditor/assurance practitioner may be required to perform these types of engagements whether or not the preconditions for the engagement exist and whether or not management's agreement on the terms of the engagement has been obtained. Consequently, the acceptance and continuance requirements of AUASB Standards may not be applicable to the public sector for legislatively mandated engagements.
14. In addition to legislatively mandated audits and assurance engagements in the public sector, the appointment of a public sector auditor/assurance practitioner may also be included as a requirement of an agreement, such as a Commonwealth agreement for the provision and acquittal of funding by the States and Territories or grant agreements from governments to Non-Government Organisations (NGO) service providers.
15. In Australia, Commonwealth, State or Territory Auditors-General are responsible for undertaking the majority of public sector engagements. Engagements at local government level are the responsibility of State or Territory Auditors-General in some jurisdictions, while in others, local government engagements are conducted by private sector auditors or audit firms, with or without the Auditor-General having an oversight role. Statutory bodies may be audited by private sector auditors or audit firms but this will depend on the specific legislation under which these entities operate.
16. Auditors-General exercise their public sector audit function within their specific jurisdictional legislative mandate, which governs the independence of their role and power of discretion in performing certain duties.
17. The responsibility to form an opinion or conclusion and to report outcomes is usually the domain of the respective Auditor-General. Depending on the legislative mandate in each jurisdiction, an Auditor-General may in some cases:
  - (a) engage a private sector auditor or audit firm under contract to assist and/or undertake certain functions of the Auditor-General; and/or
  - (b) delegate to a person employed in the Auditor-General's Office, or to a private sector auditor or audit firm, the power to express an opinion or conclusion, or to make a report.
18. In addition to legislatively mandated engagements, legislation may enable an Auditor-General to undertake audits or audit-related services by arrangement - that is, a public sector entity, a minister or the Legislature may request audits or audit-related services under an agreement with the Auditor-General. These engagements may be requested as a once-off arrangement or

as an annually recurring service. These types of engagements are often referred to as “by-arrangement” or “by-request” audits or reviews. An Auditor-General may only undertake these types of engagement where it falls within the Auditor-General’s legislative powers.

19. Auditors-General in Australia may be mandated to perform different types of assurance engagements on any subject of relevance to the responsibilities of management and those charged with governance of a public sector entity and the application of public resources. The extent or form of these engagements and the reporting thereon will vary according to the legislated mandate of the Auditor-General concerned and any legislation applicable to the entity which is the subject of the audit.
20. Depending on the legislative mandate in each jurisdiction, Auditors-General may be required to:
  - (a) conduct public sector engagements in accordance with applicable AUASB Standards;
  - (b) have regard to recognised professional standards; or
  - (c) set their own standards. Standards established by an Auditor-General may incorporate AUASB Standards.

#### *Financial Audits*

21. In the Australian public sector, the scope and nature of financial audits conducted by public sector auditors are governed by relevant enabling legislation in each different jurisdiction.
22. For the purpose of this GS, the term “financial audit” means an audit that focuses on determining whether an entity’s financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.<sup>6</sup>
23. For financial audits conducted under AUASB Standards, the public sector auditor applies the Australian Auditing Standards (ASAs) relevant to the engagement. As described in the Preamble to AUASB Standards<sup>7</sup>, AUASB Standards are:
  - (a) neutral with respect to the audited or reviewed entity’s sector and size; and
  - (b) intended to be applied, as appropriate, to all audit, review, assurance and related service engagements conducted by an auditor or audit firm in both the public and private sectors<sup>8</sup>.

The application and explanatory material in ASAs may contain considerations specific to public sector entities.

24. The public sector auditor’s responsibilities may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the Legislature), which may encompass a broader scope than an audit of a financial report in accordance with the ASAs. Given the ASAs are sector neutral, these additional responsibilities are not dealt

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<sup>6</sup> INTOSAI Standard ISSAI 100 *Fundamental Principles of Public-Sector Auditing*, paragraph 22.

<sup>7</sup> See Auditing Standard ASA 101 *Preamble to AUASB Standards*, paragraphs A11-A15.

<sup>8</sup> In the public sector, “audit firm” is to be read as referring to a public sector equivalent, for example, an Auditor-General’s Audit Office.

with in the standards. They may be dealt with in standards or guidance issued by government audit agencies.<sup>9</sup>

25. The scope of an annual audit in the public sector may include, in addition to the audit of the financial report of a public sector entity, an audit of service performance (for example, an audit of annual performance information or performance statements) and/or elements of a compliance engagement (for example, reporting on compliance with key legislation). A public sector auditor may also perform other discretionary assurance engagements such as performance audits, reviews or assurance engagements on controls (refer to paragraph 29 below).
26. Specific requirements may exist within the legislation governing the audit mandate, for example, the public sector auditor may be required to report directly to a minister, the Legislature or the public if the entity attempts to limit the scope of the audit. Furthermore, law or regulation may establish additional reporting requirements for the auditors of public sector entities, for example, to prepare a separate report on instances of non-compliance with law or regulation to the Legislature or other governing body, or communicating such instances in the auditor's report on the financial report.
27. In the public sector, there are many users of financial information including, but not limited to, the audited entity, ratings agencies, analysts, lending institutions, service providers and recipients, parliament, ministers and the public. In order to meet the information requirements of a broad range of users, a public sector auditor's mandate may require, or allow for, reporting on non-compliance with laws or regulations and unacceptable conduct (such as lack of probity) in the public sector. Auditors-General may elect or may be required to address probity and public interest considerations in their annual financial audits. This may necessitate a further broadening of the scope of an audit beyond the scope envisaged by the ASAs under which the audit is performed. The broadening of scope may present a challenge for the auditor in determining how to effectively report on the outcome of any additional work the auditor may decide to undertake within the structure of the opinion normally required by the relevant ASAs.
28. The objectives of a financial audit in the public sector therefore may be broader than expressing an opinion on whether the financial report has been prepared, in all material respects, in accordance with an applicable financial reporting framework. The ASAs and ASAEs provide minimum requirements and application material; however, as they are written to be sector neutral, additional guidance may be required to support the broader scope of engagements undertaken in the public sector to promote consistency.

#### *Other Assurance and Assurance Related Engagements*

29. For other public sector assurance and assurance related engagements required to be conducted under AUASB Standards, the public sector assurance practitioner applies the relevant requirements of the applicable AUASB Standard relevant to the engagement. For example:
  - Reviews of financial reports or historical financial information (limited assurance engagements) — refer to the applicable Standards on Review Engagements.

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<sup>9</sup> See ASA 200, paragraph A59. In Australia, the term "government audit agencies" refers to Commonwealth, State or Territory Auditors-General.



- Assurance engagements on subject matters other than historical financial information — refer to Standard on Assurance Engagement ASAE 3000.<sup>10</sup>
- Compliance engagements — refer to Standard on Assurance Engagement ASAE 3100.<sup>11</sup>
- Assurance Engagements on Controls — refer to Standard on Assurance Engagement ASAE 3150.<sup>12</sup>
- Performance engagements — refer to Standard on Assurance Engagement ASAE 3500.<sup>13</sup>

### **Addressing Challenges associated with applying AUASB Standards in the Public Sector**

30. As noted in paragraph 23, AUASB Standards are designed to be neutral with respect to the sector and the size of the entity subject to the engagement, and are intended to be applied, as appropriate, to engagements in both the public and private sectors.
31. Where appropriate, additional considerations specific to the public sector are included within the application and other explanatory material of AUASB Standards. These additional considerations assist in the application of the requirements of the standards in such engagements. However, these considerations and associated guidance are not extensive and, as a result, the standards focus largely on engagements undertaken in the private sector where the objective is to form a conclusion in respect of compliance with a reporting framework.
32. Due to the differences between engagements undertaken in the public and private sectors, public sector auditors and assurance practitioners may face challenges in applying the AUASB Standards in the public sector. For example, practitioners may need to apply professional judgement in:
  - interpreting terminology used in AUASB Standards that is not usually found in the public sector, for example, terms such as “client”, “listed entity”, “firm”, “partner”, “engagement partner” and “lead assurance practitioner”.
  - applying AUASB Standards in delivering audit mandates established within legislation.
  - distinguishing a compliance engagement from a financial audit with elements of compliance with law or regulation.
  - determining materiality levels for public sector engagements where, for example, application of private sector benchmarks may not be appropriate and where the impact of qualitative considerations may be more prevalent.
  - identifying and communicating matters required to be reported by law or regulation within the structure of the opinion promulgated by the relevant AUASB Standards.

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<sup>10</sup> See ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

<sup>11</sup> See ASAE 3100 *Compliance Engagements*.

<sup>12</sup> See ASAE 3150 *Assurance Engagements on Controls*.

<sup>13</sup> See ASAE 3500 *Performance Engagements*.

- complying with AUASB Standards in circumstances where it may be against the public interest to disclose certain sensitive information in publicly released reports.

## Structure of Topic Specific Guidance

33. Topic specific guidance included in this GS is structured as follows:

**(a) Application**

This section clarifies how the topic specific guidance is to be used and for what purpose it has been developed, and identifies:

- the relevant AUASB Standard the guidance applies to; and
- the type of engagement (or combination thereof) and, where relevant, the subject matter it addresses.

It includes a clear statement that the GS:

- provides supplementary guidance in relation to the AUASB Standard it applies to and that it does not contain any further requirements for the conduct of the public sector engagement; and
- is to be read and applied together with the relevant AUASB Standard.

**(b) Introduction (where applicable)**

Topic specific guidance may include further introductory material to provide context relevant to a proper understanding of the topic specific supplementary guidance. Introductory material may include, as necessary, such matters as explanation of the:

- purpose and scope of the supplementary guidance, including how the guidance relates to other segments of the GS; and
- topic specific subject matter.

**(c) Scope**

This section identifies the specific paragraphs or sections of the AUASB Standard the supplementary guidance relates to.

**(d) Definitions**

Definitions necessary to understand guidance provided in this GS are included with the topic specific guidance it relates to.

**(e) Guidance**

This section sets out supplementary application and other explanatory material to assist the auditor/assurance practitioner to achieve the objectives of the relevant AUASB Standards.

## Drafting Conventions

34. The following drafting conventions apply to guidance material included in this GS:
- (a) Words such as “should”, “shall” or “must”, or any other term that denotes something as a mandatory requirement, are not to be used, except when repeating or referring to the requirements from relevant AUASB Standards.
  - (b) Guidance supports the general requirements and application and explanatory material contained in AUASB Standards, and:
    - (i) does not extend the requirements of the public sector auditor/assurance practitioner as stated in the AUASB Standards;
    - (ii) refers to the requirements in the AUASB Standards to which the guidance is supplementary; and
    - (iii) is consistent with the relevant AUASB Standards the guidance relates to.
  - (c) The present tense of verbs is used when it is the best form of expression. Use of the present tense does not create or imply mandatory requirements.
  - (d) The word “including” means a list of items or examples is provided but the list does not purport to contain all relevant items or examples and intentionally is not exhaustive.

## **Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements***

### **Application**

35. This section of the GS provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements* in the public sector. It does not contain any further requirements for the conduct of the audit. It is to be read and applied together with ASA 210.

### **Introduction**

36. ASA 210 deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes:
- (a) establishing that certain preconditions for an audit are present before accepting the engagement; and
  - (b) confirming that there is a common understanding between the auditor and the entity of the terms of the audit engagement.
37. The preconditions for an audit are defined in ASA 210, paragraph 4, to mean the use by management<sup>14</sup> of an acceptable financial reporting framework in the preparation of the financial report and the agreement of management to the premise<sup>15</sup> on which an audit is conducted.
38. In the public sector, law or regulation governing the operations of public sector audits generally mandate the appointment of a public sector auditor and commonly set out the public sector auditor's responsibilities, functions and powers, including the power to access an entity's records and other information. Law or regulation may also prescribe other aspects of the terms of the audit engagement, including the objective and scope of the audit and the responsibilities of management. ASAs do not override law or regulation in such matters.
39. Where the public sector financial audit is mandated by legislation, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position to not accept (that is, to decline) or not continue (that is, to withdraw from) the engagement. The public sector auditor may be required to perform these types of audits whether or not the ASA 210 preconditions for the audit exist and whether or not management's agreement on the terms of the engagement has been obtained.
40. Consequently, the use of engagement letters may not be a widespread practice in the public sector for audits mandated by legislation. Nevertheless, there may be benefit in communicating a common understanding of the terms of the audit engagement between the auditor who is carrying out the audit and those charged with governance of the public sector

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<sup>14</sup> Consistent with ASA 210, references to "management" should be read hereafter as "management and, where appropriate, those charged with governance".

<sup>15</sup> See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 13(j).

entity, to avoid misunderstandings with respect to the engagement and to provide for an efficient and quality audit to be carried out.

41. Use of ASA 210 terminology such as to “accept” or “continue” an audit engagement, or to “agree” the terms of an engagement with management may be problematic in the public sector context for audits mandated by law or regulation.
42. This section of the GS provides additional guidance to reflect the public sector perspective on ‘agreeing’ the terms of financial audit engagements undertaken in the public sector.

### **Scope of ASA 210 Supplementary Guidance**

43. This section of the GS provides supplementary guidance for public sector auditors related to the following requirements of ASA 210:
  - (a) Preconditions for an Audit – Obtain agreement of management that it acknowledges and understands its responsibility (ASA 210, paragraph 6(b)).
  - (b) Agreement on Audit Engagement Terms (ASA 210, paragraphs 9-13).

## **Guidance**

### **Preconditions for an Audit**

*Obtain Agreement of Management that it Acknowledges and Understands its Responsibility (ASA 210, paragraphs 6(b) and 12)*

44. An audit in accordance with ASAs is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph 6(b) of ASA 210. To avoid misunderstanding about the respective responsibilities of management and the auditor, ASA 210, paragraph 6(b), requires the auditor to obtain the agreement of management that it acknowledges and understands these responsibilities. In the private sector, this acknowledgement from management is usually obtained as part of agreeing and recording the agreed terms of the audit engagement in an engagement letter or other suitable form of written agreement, in accordance with the requirements of ASA 210, paragraphs 9-12.
45. However, the terms of an audit engagement in the public sector are normally mandated by legislation and therefore not subject to traditional contractual agreement with management. The legislated right in itself is an implicit agreement between the parties of the terms of the engagement. ASA 210 addresses this situation and outlines that if, in the circumstances described in paragraphs 10 and 11 of the Standard, the public sector auditor concludes that it is not necessary to issue an engagement letter or other suitable form of written agreement, the auditor is required only to obtain the acknowledgement of management that it understands that it has the responsibilities set out in paragraph 6(b) of the Standard.
46. In accordance with paragraph 12 of the Standard, the written acknowledgement from management may use the wording of the law or regulation if such law or regulation establishes responsibilities for management that are equivalent in effect to those described in paragraph 6(b) of the Standard. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written acknowledgement uses the description in paragraph 6(b) of the Standard.
47. When obtaining the agreement of management that it acknowledges and understands its responsibility as required in ASA 210, paragraph 6(b), the public sector auditor also takes into account the fact that the responsibilities of management in the public sector may be broader,

and there may be increased value in formalising the acknowledgement and understanding of such responsibilities.

## **Agreement on Audit Engagement Terms**

### **Legislatively Mandated Financial Audits**

#### *Agreeing the Terms of the Audit Engagement (ASA 210, paragraph 9)*

48. The terms of an audit engagement in the public sector are normally mandated by legislation and thus not subject to requests from, and agreement with, management. Therefore, ASA 210, paragraph 9, is not relevant in these circumstances.

#### *Engagement Letter or Other Form of Written Agreement (ASA 210, paragraphs 10-11, 13)*

49. Whether or not to formally record the terms of the engagement in an engagement letter or other suitable form of written agreement depends on whether law or regulation prescribes in sufficient detail the matters described in ASA 210, paragraph 10.
50. If law or regulation prescribes in sufficient detail the matters described in paragraph 10 of the Standard, paragraph 11 of the Standard permits the auditor to include in the engagement letter only reference to the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b).
51. In circumstances where paragraph 11 of the Standard applies, the public sector auditor is therefore not required to issue a full engagement letter<sup>16</sup> or to obtain management's formal agreement to the terms of the engagement.<sup>17</sup> However, the public sector auditor is still required to obtain the written acknowledgement from management that it understands that it has the responsibilities set out in paragraph 6(b) of the Standard (see paragraphs 44-47 above).
52. For paragraph 11 to apply, ASA 210 requires the relevant law or regulation includes all the elements outlined in paragraph 10 of the Standard and prescribe in sufficient detail the terms of the audit engagement. The law or regulation describing the elements in paragraph 10 may be from different sources.
53. Where law or regulation does not include all the elements outlined in paragraph 10 of the Standard or is not sufficiently detailed, paragraph 11 of the Standard does not apply and the public sector auditor will be required to include the relevant detail in an engagement letter (or equivalent form of communication) in order to comply with ASA 210, paragraph 10.
54. In circumstances where paragraph 11 of the Standard applies (see paragraphs 50-52 above), the public sector auditor may nonetheless consider that there may be benefit in communicating the matters described in paragraph 10 of the Standard in an engagement letter (or equivalent form of communication) for the information of management. The objective of the public sector auditor in documenting and communicating the terms of the engagement in these circumstances, is to confirm that there is a common understanding of the terms between the auditor who is carrying out the audit and management of the public sector entity, to clarify any

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<sup>16</sup> That is, an engagement letter that includes all the elements outlined in paragraph 10 of the Standard.

<sup>17</sup> If the circumstances described in ASA 210, paragraph 11, applies to the engagement, there is no requirement for the auditor to document the reasons why an engagement letter that includes all the elements outlined in paragraph 10 of the Standard has not been issued in accordance with the requirements of paragraphs 9-10, as the requirement is not relevant in the circumstances of the engagement. See ASA 101, paragraphs A41-A43.

matters that may be misunderstood<sup>18</sup> and to provide for an efficient and quality audit to be carried out.

55. Use of an engagement letter (or equivalent form of communication) that draws together the detail of the terms of the engagement may be particularly beneficial where there are matters that are unique to the engagement, or where the matters described in paragraph 10 of the Standard are located in more than one piece of legislation.
56. In these circumstances, the engagement letter (or equivalent form of communication) is not an agreement (contract) nor is it an audit proposal, and neither the public sector entity nor the public sector auditor can use the engagement letter as a vehicle to negotiate or vary the terms of the engagement in the letter. The engagement letter (or equivalent form of communication) communicates the terms of the engagement, as determined under law or regulation, to the public sector entity. The auditor is required to obtain acknowledgement that management understands its responsibilities - not agreement of the terms of the engagement outlined in the letter.
57. Documentation of the terms of the engagement cannot reduce obligations imposed by law or regulation and the public sector auditor is required to refer to the applicable provisions of the law in undertaking the engagement.

#### **Form and Content of Engagement Letter or Equivalent Communication**

58. As noted in ASA 210, paragraph A23, it is in the interests of both the public sector entity and the public sector auditor that an engagement letter or equivalent communication is issued before the engagement commences to help avoid misunderstandings with respect to the engagement.
59. On recurring engagements, the public sector auditor applies professional judgement to determine whether there is a need to periodically re-issue the engagement letter and/or obtain re-acknowledgement from management that it understands its responsibilities, for example, taking into account the factors outlined in ASA 210, paragraph A30.
60. Typically, engagement letters issued for new recurring engagements may represent a standing arrangement until such time as the public sector auditor issues a new letter due to changes in the conditions or the scope of the engagement, or significant changes in the senior management of the public sector entity or in management's responsibilities.
61. The public sector auditor may also consider drafting an engagement letter that extends beyond one year. For example, an Auditor-General may decide to publish an engagement letter to Parliament for the life of the Parliament, although no specific response is required or received back.
62. The form and content of the engagement letter may vary according to the nature of the engagement, the terms of appointment of the public sector auditor, and the extent to which the terms of the engagement are prescribed in law or regulation, and may be in a form different to a traditional engagement letter. For example, as detailed in the previous section, in circumstances where law or regulation mandate the appointment of a public sector auditor and prescribe in sufficient detail the terms of the engagement, the auditor is not required to issue an engagement letter that includes all the elements outlined in paragraph 10 of the Standard.

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<sup>18</sup> For example, such communication may assist to avoid misunderstanding about the respective responsibilities of management and the public sector auditor.

63. In circumstances where the public sector auditor concludes that it is not appropriate or necessary to issue a traditional engagement letter or other form of written agreement, the terms of the engagement and other arrangements may be communicated to management at preliminary (entrance) meetings with the entity. Different jurisdictions may use different approaches and different documents<sup>19</sup> for this purpose.
64. The public sector auditor requests management to acknowledge receipt of the engagement letter (or equivalent communication) and that it acknowledges and understands its responsibilities. The auditor may also consider seeking written acknowledgement from management of other aspects of the terms of the engagement<sup>20</sup> or arrangements concerning the engagement. Typically, the auditor obtains such acknowledgement for new engagements, once-off engagements or where there has been changes to the scope of the engagement or changes in senior management of the entity.
65. In the public sector, there may be additional matters besides the examples listed in ASA 210, paragraphs A24-A26, that public sector auditors have to report if they become aware of them during the course of the audit and that may be relevant to the engagement letter. When relevant, other audit objectives stipulated by the mandate may also be included in the engagement letter (or equivalent communication).
66. ASA 210, paragraph A25, recommends that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report. Public sector auditors may be required to, or may decide to, communicate key audit matters to other parties, such as the Legislature, in addition to management or those charged with governance when relevant legal provisions do exist.

### **Audits Conducted By Arrangement**

67. In addition to legislatively mandated audits, legislation may enable a public sector auditor to undertake audits and audit-related services by arrangement – that is, a public sector entity, a minister or the Legislature may request an audit or review under an agreement with the public sector auditor. These engagements may be requested as a once-off arrangement, or as an annually recurring service. These types of engagements are often referred to as “by-arrangement” or “by-request” audits or reviews. A public sector auditor may only undertake these types of engagements where it falls within the auditor's legislative powers.
68. As these types of engagements are not legislatively mandated, the public sector auditor, in limited circumstances, may have discretion on whether to accept, or continue with, the engagement (for example, when requested by a public sector entity). However, legislation may provide for the public sector auditor to undertake these types of engagements at the request or direction of a Minister or the Legislature. Where this is the case, the public sector auditor will not generally have discretion to decline the request and may not be required to obtain agreement from the auditee of the terms of the engagement.
69. For these types of engagements, the public sector auditor complies with the relevant requirements of ASA 210 as applicable to the engagement. This may include agreeing the terms of the engagement, which includes the matters set out in paragraph 10 of ASA 210, with

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<sup>19</sup> For example, overall planning or strategy type documents are often used to communicate the objective and scope of the engagement.

<sup>20</sup> For example, the objective and scope of the engagement, the responsibilities of the auditor and identification of the applicable financial reporting framework for the preparation of the financial report.



management and recording the agreed terms in an engagement letter (or equivalent communication) before any assurance work is undertaken.

*Draft*

## Auditing Standard ASA 570 *Going Concern*<sup>21</sup>

### Application

70. This section of the GS provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying Auditing Standard ASA 570 *Going Concern* in the public sector. It does not contain any further requirements for the conduct of the audit. It is to be read and applied together with ASA 570.

### Introduction

71. Financial reporting frameworks applicable in Australia generally require the adoption of the going concern basis of accounting in financial reports, except in circumstances where management of an entity intends to liquidate the entity or to cease trading or has no realistic alternative in doing so. This concept applies even when there are uncertainties about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in the future. However, these reporting frameworks require such uncertainties to be disclosed in the financial report when they are material.<sup>22</sup>
72. Under the going concern basis of accounting, the financial report is prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.<sup>23</sup>
73. ASA 570 clarifies that management's use of the going concern basis of accounting is also relevant to public sector entities.<sup>24</sup> However, as the concept of going concern as described in AASB 101/ASA 570 is generally more relevant to for-profit commercial entities (whether operating in the private sector or public sector), it may need to be interpreted and applied differently for public sector entities responsible for providing significant government functions on a non-commercial basis.
74. Cash flow projections and other financial metrics-based criteria traditionally used in making going concern assessments are often less relevant in the public sector for those entities that are funded by government through annual appropriations and grants, where the focus is more on whether an entity is sufficiently supported by the government and to what extent the continuation of its functions is protected. Cessation of a public sector entity is most likely to result from a government policy (political) decision to discontinue an entity in its entirety, merge or amalgamate one or more public sector entities, privatise the entity, or privatise all or part of the functions delivered by the entity. Therefore, the events or conditions which may cast significant doubt on a public sector entity's ability to continue as a going concern may be different to the factors faced in the private sector.
75. To effectively plan and implement audit procedures that appropriately respond to going concern related risks, public sector auditors require a clear understanding of how the concept of going concern is applied to the public sector entity they are auditing. A lack of

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<sup>21</sup> In developing this section of the GS, the AUASB considered relevant guidance to public sector auditors on the topic of going concern included in the UK Financial Reporting Council's Statement of Recommended Practice – Practice Note 10 *Audit of financial statements of public sector bodies in the United Kingdom* (2020).

<sup>22</sup> For example, see Australian Accounting Standard [AASB 101 Presentation of Financial Statements](#), paragraphs 25-26.

<sup>23</sup> ASA 570, paragraph 2.

<sup>24</sup> ASA 570, paragraph A2, provides limited application guidance relevant to the public sector in the form of examples of situations where going concern risks may arise in the public sector and of events and conditions that may cast significant doubt on an entity's ability to continue as a going concern.

understanding of how the going concern concept applies in the context of public sector reporting may lead to public sector auditors applying unnecessary or inappropriate audit procedures.

76. Public sector auditors may need to obtain a detailed understanding of what, if any, going concern risks apply to the public sector entity and on what basis the going-concern assumption is appropriate. For example, whilst some public sector entities may face funding shortfalls or liquidity concerns, management's use of the going concern assumption may still be appropriate based on the assumption that the functions provided by the public sector entity will continue within government, even if not within that entity if it is abolished. As a consequence, the nature and source of evidence public sector auditors obtain may be different when compared to the private sector.
77. Whilst the public sector auditor must determine that the use of the going concern basis of accounting is appropriate for each public sector entity in accordance with the requirements of ASA 570, there also may be other forms of public reporting (such as periodic reports to parliament covering the whole of government or specific public sector segments) where the public sector auditor may highlight significant financial sustainability issues relating to an individual or group of public sector agencies. Though reporting on these financial sustainability issues may be deemed in the public interest, it is not a substitute for any reporting requirements in ASA 570 and falls outside the scope of this GS.

### Scope of ASA 570 Supplementary Guidance

78. This section of the GS provides supplementary guidance to reflect the public sector perspective on going concern related to:
- (a) The concept of going concern in the public sector (ASA 570, paragraphs 2 and A2).
  - (b) Risk assessment procedures and related activities (ASA 570, paragraphs 10-11 and A3-A4, A7).
  - (c) Evaluating management's assessment (ASA 570, paragraph 12 and A8-A10).
  - (d) Additional audit procedures when events or conditions are identified (ASA 570, paragraphs 16 and A16-A19).
  - (e) Auditor conclusions and reporting (ASA 570, paragraphs 17-24 and A21-A35)

### Definitions

79. For the purpose of this Guidance Statement, the following terms have the meanings attributed below:
- (a) General Government Sector (GGS) – Defined in AASB 1049<sup>25</sup> (Appendix A) and the ABS GFS Manual<sup>26</sup>.
  - (b) 'Machinery of Government' (MOG) change – A MOG change refers to a restructure of existing government arrangements in the public sector that may involve the reallocation or reorganisation of government functions, responsibilities and resources between government-controlled entities. MOG changes may be made for a range of

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<sup>25</sup> Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

<sup>26</sup> The Australian Bureau of Statistics publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods*.

reasons, including to support the policy and/or political objectives of government. MOG changes can vary in scope and complexity and can involve a combination of:

- abolishing government departments and/or government-controlled statutory bodies;
- creating new government departments and/or government-controlled statutory bodies;
- merging/amalgamating one or more government departments or government-controlled statutory bodies; and/or
- moving functions between government departments and/or government-controlled statutory bodies.

MOG changes may occur at any time, often with little or no notice; however, significant MOG changes usually occur immediately following an election when a new government announces its new ministry and any new administrative arrangements. Changes may also transpire as a result of a legislative change or a government policy decision, such as to privatise a government-controlled entity, transfer a function or outsource a function.

- (c) Public Corporations<sup>27</sup> (and quasi-corporations) – The terms ‘Public Corporation’ and ‘quasi-corporation’ are defined in AASB 1049 (Appendix 1) and the ABS GFS Manual. Public Corporations are typically categorised into Public Financial Corporations (PFC) and Public Non-Financial Corporations (PNFC).
- (d) Public sector – The combination of the GGS and Public Corporations.

## Guidance

### Concept of Going Concern in the Public Sector (ASA 570, paragraphs 2, A2)

80. In the public sector it may be necessary to consider more than the financial health of an entity based on cash flow projections or other financial metrics-based criteria traditionally used in making going concern assessments in the private sector. There are many examples where public sector entities continually fail tests of liquidity, have accumulated deficits and negative equity, yet continue to operate and deliver their functions as they continue to receive appropriation or grant funding from government.
81. In assessing the appropriateness of the going concern basis of accounting in the public sector, consideration of whether the functions provided by the public sector entity will continue within government, even if not within that entity if it is abolished, is often more relevant in assessing going concern risk than whether the particular public body will continue to exist in its current structure or whether the particular entity is financially sustainable.
82. Cessation of a public sector entity is most likely to result from a government policy (political) decision. As most public sector entities undertake their functions in accordance with statutory requirements imposed by legislation, an act/regulation of Parliament would generally be required to amend or discontinue such functions. However, this may vary across jurisdictions where MOG changes may be permitted using other mechanisms.

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<sup>27</sup> Some jurisdictions may use alternative terminology to refer to Public Corporations, such as Government Owned/Controlled Corporations, Government Trading Enterprises or Government Business Enterprises.

83. As the majority of public sector entities exist to deliver essential public functions, it may be reasonable to assume that those functions will continue to be delivered by the public sector, unless there is evidence to the contrary. Therefore, in the absence of any clearly expressed government or parliamentary intention to scale back or discontinue an entity's functions, it may be reasonable to assume that a parliament will continue to provide funding annually through the parliamentary appropriation (budget) process. A government can also intervene to increase funding to an entity or adopt a different delivery model to ensure continuity in provision of functions.
84. Functions are frequently transferred or amalgamated in MOG changes. This may result in the discontinuation of a public sector entity. In these circumstances it may still be appropriate for the discontinued entity to adopt the going concern basis of accounting where it is anticipated that the underlying functions it provides will continue to be delivered by another public sector entity and its assets and liabilities realised in the normal course of business. Whether or not the going concern basis of accounting is appropriate in preparing the financial report of the discontinued entity will depend on the specific circumstances affecting the entity.<sup>28</sup>
85. Certain public sector entities may be expected to operate in a competitive market on a commercial basis and to be primarily self-funded (that is, not reliant on government appropriations and/or grants to fund their operations). For these types of entities, consideration of going concern can be similar to that applied to for-profit commercial entities in the private sector and ASA 570 is generally fit-for-purpose.

**Risk Assessment Procedures and Related Activities** (ASA 570, paragraphs 10-11, A3-A4, A7)

86. In performing the applicable ASA 315<sup>29</sup> risk assessment procedures as required under ASA 570, paragraphs 10-11, the public sector auditor determines a proportionate approach to going concern risk, based on the auditor's understanding of the public sector entity and its environment, the requirements of the applicable financial reporting framework related to going concern, and the entity's system of internal control (for example, in relation to oversight and governance over management's assessment of going concern and the controls in place to identify events or conditions relevant to going concern).
87. In forming a view on a public sector entity's ability to continue its operations, the public sector auditor's consideration of going concern embraces two separate, but sometimes overlapping, factors:
- the more likely risk associated with changes in policy direction (for example, where there is a change in government); and
  - the less common operational or business risk (for example, where an entity has insufficient working capital to continue its operations at its existing level and is unable to raise additional capital).<sup>30</sup>
88. ASA 570, paragraph 10, includes a requirement for the public sector auditor, as part of performing ASA 315 risk assessment procedures, to consider whether events or conditions exist that may cast significant doubt on the public sector entity's ability to continue as a going concern. The auditor exercises professional judgement to consider whether the examples of

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<sup>28</sup> Further guidance is provided in paragraphs 115-120 of this GS.

<sup>29</sup> See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

<sup>30</sup> INTOSAI GUID 2900, paragraph 25.5.

indicators identified in paragraph A3 of the Standard are relevant in the circumstances and, if relevant, whether management has included these factors in their going concern assessment. Also, the auditor determines whether there are public sector specific mitigating factors that may need to be taken into consideration.

89. In the public sector, the risk associated with changes in policy direction may be greater than any operational or business-related risks. ASA 570 risk indicators may be more relevant to self-funded corporate and non-corporate entities in the public sector that operate on a commercial basis. These indicators may be less relevant to those government agencies receiving annual appropriations/grants (budget funded).
90. To minimize the risk of changes in government policies not coming to the public sector auditor's attention which could impact on the going concern assumption, the auditor may ascertain through inquiry and review whether:
- the government has announced its intention to review an area of policy affecting the public sector entity;
  - a review has been announced and is in progress;
  - a review has indicated that the public sector entity could be restructured or that an entity's future may be re-examined; or
  - the government has communicated its policy to privatise the activities of the public sector entity.<sup>31</sup>
91. Considerations specific to the public sector that may impact the public sector auditor's assessment of the going concern assumption may include, for example:
- How the entity is funded and the extent to which the entity is reliant on government funding (economically dependent on government versus self-funded and operating on a commercial basis).
  - Nature of goods and services provided by the entity (for example, the government is unlikely to not continue to provide health care, provide utilities or continue to register vehicles).
  - Uncertainties regarding on-going government funding, for example, an expiring funding agreement or omission from the budget.
  - Budget announcements of plans to restructure/abolish/privatise public sector entities.
  - Policy decisions that affect the functions provided by the entity.
  - Legislative reform changing the legal structure of how functions are to be provided.
  - Whether the entity can be wound up without legislative change.
  - Timing of Royal Assent of legislation impacting an entity's operations or existence.
  - Estimates of revenue or the likelihood of continued revenue streams, including government funding and the donation base.
  - Changes to markets/reduction of customers for self-funded agencies.

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<sup>31</sup> INTOSAI GUID 2900, paragraph 25.6.

- Poor financial indicators for a fee for service entity.
92. The following are examples of mitigating factors to consider when assessing the validity of the going concern assumption:
- Entities at local government level are often required to maintain delivery of functions essential to local communities and may themselves be revenue-raising bodies (that is, have the power to levy rates or taxes) and may have the possibility, on application, of recovering losses over a period.
  - The existence of multi-year funding agreements or other arrangements that will ensure the continued operation of the entity.
  - A letter of financial support (or other similar direct confirmation) from a government agency or other parent entity able to provide such support.<sup>32</sup>

The public sector auditor includes their consideration of these factors in the conclusions they draw on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report.

93. In addition to the audit procedures set out in ASA 570, the public sector auditor applies professional scepticism in reviewing the applicable legislative and reporting frameworks, Budget Papers, Budget announcements, media releases, statements of corporate intent, and government funding commitments. The auditor may also read official records of changes in policy and relevant proceedings of the legislature, parliamentary transcripts, gazettal notices, and inquire about matters addressed in proceedings for which official records are not yet available.

*Budget-funded government-controlled entities in the GGS*

94. The term GGS is defined in paragraph 79 of this GS and typically includes public sector entities established by or through the Australian Constitution or an act/regulation of Parliament. Examples include government departments, local government authorities and other government-controlled statutory bodies that have a primary role to provide government functions, which are mainly non-commercial (non-market) in nature, for the collective consumption of the community. These entities are mainly funded by government through the transfer or redistribution of revenue (budget funded through annual appropriations and/or grants) which is financed by government through taxes and other compulsory levies, and through loans/bond issues<sup>33</sup>.
95. Given the statutory nature of these entities and the presumption that the functions provided by these entities will continue to be delivered by the public sector, going concern risk may be assessed as low on the basis that that it can be assumed, in the absence of any clearly stated parliamentary or government intention to amend or discontinue such functions, that the government is likely to continue to provide the minimum amount of financial support necessary to continue these public functions. For these types of entities, the risk associated with changes in policy direction is likely to be greater than any operational or business-related risks.
96. Where continuation of the provision of a function in the future is anticipated, the use of the going concern basis of accounting is likely to be appropriate for these entities other than in

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<sup>32</sup> See paragraphs 122-127 of this GS.

<sup>33</sup> Referred to in the public sector as 'the borrowing program'.

exceptional cases (as examples, where an entity's functions are to be discontinued altogether and the entity abolished, or where an entity is to be privatised, or a public/private joint venture entered into). It is also unlikely that a material uncertainty related to going concern will exist in these circumstances – unless there is evidence to the contrary.

97. As the risk in relation to going concern may be lower in these circumstances, the public sector auditor's risk assessment procedures and evaluation of management's going concern assessment focus primarily on whether there is a parliamentary or government legislative intention to amend or discontinue service delivery, rather than around the financial sustainability of the public sector entity.
98. The public sector auditor's risk assessment procedures as required by ASA 570 may include consideration of:
- (a) the statutory nature of the entity and whether there is an expectation that the underlying functions delivered by the entity will continue to be delivered and funded by the public sector notwithstanding any decision to restructure existing government arrangements which may result in the discontinuance of the particular entity;
  - (b) the requirements of the applicable financial reporting framework related to going concern (including the requirements to account for and report on MOG changes);
  - (c) the entity's risk assessment process to identify events or conditions which may indicate that the functions provided by the entity may no longer continue (which is expected to be proportionate to the low risk that a material uncertainty related to going concern exists);
  - (d) factors the auditor may be aware of that could indicate that either the functions delivered by the entity will no longer be provided or that funding for these functions will be discontinued or significantly reduced.
99. The public sector auditor documents the auditor's consideration and assessment of the basis for, and validity of, any assumption that functions are likely to continue.
100. Where the public sector auditor's risk assessment concludes that it may be inappropriate to assume that the functions delivered by the entity will continue to be delivered by the public sector in the foreseeable future, for example, where there is an intention by the government to discontinue the entity's operations altogether (that is, to abolish the entity and cease its functions) or to transfer the delivery of such functions to outside the public sector by privatising the entity, the auditor may need to re-evaluate the planned audit procedures based on the revised consideration of assessed risks in relation to the going concern assumption, and perform alternative procedures to comply with the requirements of ASA 570.

*Public sector entities not funded (or not fully funded) by appropriations or grants*

101. Certain public sector entities are expected to operate in a competitive market on a commercial basis and to be primarily self-funded (that is, not rely on government appropriations and/or grants to fund their operations). Many government business divisions may also be expected to recover their costs through commercial arrangements.



102. These entities operate in various legal forms such as statutory authorities formed by legislative instruments that define their role and purpose, Public Corporations and quasi-corporations<sup>34</sup>, trusts and joint ventures. These entities may be granted varying degrees of autonomy but are ultimately responsible to a relevant government minister. While some of the services provided by these entities would be considered essential services (for example, water delivery services) this is not the case for all.
103. These government-controlled entities and their subsidiaries are typically separate legal entities from the ‘government’ and going concern risks can arise from, for example, situations where these entities experience financial difficulties, when policy decisions are made that affect the functions provided by the entity, where government support is reduced or withdrawn, or a subsidiary entity is wound up as a result of a decision of the parent entity.
104. For these types of entities, consideration of going concern can be similar to that applied to for-profit commercial entities in the private sector (for example, the public sector auditor may consider knowledge of the business, financial ratios, future forecasts)<sup>35</sup> and ASA 570 is generally fit-for-purpose.
105. Some of these entities may not be financially sustainable on their own and be reliant or semi-reliant on government funding to continue operating in a competitive market. For example, certain Public Corporations that provide essential public services may receive ‘Community Service Obligations’ from a government (similar to a government subsidy) to compensate these entities for delivering uneconomical but essential services in remote areas or where these entities are impacted by government policy decisions that disadvantage the entity in competing with private sector entities providing similar services.
106. A public sector auditor cannot assume that because an entity is operating in the public sector, a government will automatically support the entity should it experience financial difficulties. The determination of whether the going concern assumption is appropriate in the circumstances, will depend on the facts in each case. Whilst not all are applicable to public sector entities, the public sector auditor still considers the examples of events or conditions that, individually or collectively, may cast significant doubt on the public sector entity’s ability to continue as a going concern included in ASA 570, paragraph A3, when determining the level of going concern risk. In particular, the public sector auditor considers whether, without government or other external assistance, the entity will be able to continue operating for at least one year from the date of the auditor’s report.
107. In considering going concern for entities that are economically dependent on government funding to continue operating, in addition to the ASA 570 factors related to operational and business risk, the public sector auditor takes into consideration the statutory nature of the entity and the functions it delivers, and whether the underlying functions delivered by the entity are essential or key public functions that are expected to be delivered and funded by a government on a continuing basis. The auditor considers any factors that could signal that either the functions delivered by the entity will no longer be provided or significantly curtailed, or that funding for these functions may be discontinued or significantly reduced.

### **Evaluating Management’s Assessment** (ASA 570, paragraphs 12, A8-A10)

108. ASA 570, paragraphs 4 and 6, clarifies that whenever the going concern basis of accounting is a fundamental principle in the preparation of a financial report as discussed in paragraph 2 of

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<sup>34</sup> These terms are defined in paragraph 79 of this GS.

<sup>35</sup> See ASA 570, paragraph A3 for example indicators to consider.

the Standard, the preparation of the financial report requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

109. In the public sector, management may not always prepare a detailed or explicit going concern assessment, based on the assumption that a government will continue to support the entity regardless of its financial circumstances. Management may also provide only limited assessments, for example, by referring to a passed budget or appropriation bill as evidence that service delivery will continue in the foreseeable future.
110. ASA 570, paragraph 12, includes a requirement for the public sector auditor to evaluate management's assessment of the public sector entity's ability to continue as a going concern. As explained in paragraphs A8-A9 of the Standard:
- (a) this assessment by management forms a key part of the auditor's consideration of management's use of the going concern basis of accounting; and
  - (b) it is not the auditor's responsibility to rectify the lack of analysis by management.
111. The degree of analysis by management in support of its assessment depends on the facts and circumstances of each entity. Given the legislative status of, and financial reporting frameworks applicable to, most entities in the public sector, it is likely that, unless there are indications that a government intends to amend or discontinue the delivery of public functions, management's assessment and the auditor's evaluation of management's assessment may be relatively straightforward. Nevertheless, management is still required to make this assessment and to explain the rationale in support of their assessment.
112. ASA 570, Paragraph A9, provides for circumstances where management may reach a conclusion that the going concern basis of accounting is appropriate without performing a detailed analysis, for example, when there is a history of profitable operations and a ready access to financial resources. In these circumstances, the auditor's evaluation of management's assessment of going concern may be made without performing detailed evaluation procedures if the auditor's other audit procedures (which will include the risk assessment procedures referred to in the previous section) are sufficient to enable the auditor to conclude on whether management's use of the going concern basis is appropriate in the circumstances.

**Additional Audit Procedures when Events or Conditions are Identified** (ASA 570, paragraphs 16, A16-A19)

113. In circumstances where there has been an announcement or decision made regarding a MOG change, or a change in legislation or funding arrangements, the public sector auditor performs additional audit procedures in accordance with ASA 570, paragraph 16, to determine whether or not a material uncertainty related to going concern exists.
114. In these circumstances, sufficient appropriate audit evidence in support of management's judgements about going concern can usually be obtained by the public sector auditor and may include gazettal notices, parliamentary transcripts, correspondence with government bodies regarding funding, government budget announcements and Budget Papers.
115. When the public sector auditor becomes aware of information that indicates that a government or parliament has made, or intends to make, a decision which will likely impact the continued operational existence of a public sector entity, the auditor determines whether the functions

- being provided by the entity to be discontinued will continue to be provided by another public sector entity.
116. Functions are frequently transferred or amalgamated in MOG changes. This may result in the discontinuation of a public sector entity. Whether or not the going concern basis of accounting is appropriate in preparing the financial report of the discontinued entity will depend on the specific circumstances affecting the public sector entity.
117. Where functions are transferred between government-controlled entities within the GGS, it may still be appropriate for the discontinued entity to adopt the going concern basis of accounting in preparing its final accounts. While legislative reform of this nature may change who manages/provides the function, there is considered to be no impact on the going concern assumption as functions are merely moved around within the government as a single legal entity and functions will continue to be delivered using the net assets transferred to the new or continuing entity. Unless there is evidence to the contrary, it can reasonably be assumed that the assets and liabilities will be realised in the normal course of business in the new or continuing entity – that is, at a fair or agreed value.
118. However, where there is evidence that a public sector entity's functions may be fully discontinued or where functions are transferred from a government-controlled entity in the GGS to a Public Corporation or to a government-controlled private sector entity, which are separate legal entities from the GGS, continued application of the going concern assumption in the discontinued entity may no longer be appropriate.
119. In circumstances where there has been an announcement or decision made to abolish a public sector entity, and legislation is required to be passed to cease the entity, the entity is usually treated as a going concern until the legislation has been enacted (that is, received Royal Assent). Where passage of legislation through Parliament is not required, the responsible Minister may be able to make changes via publication in the Government Gazette.
120. In circumstances where a government has only announced its intention to abolish a public sector entity, this will usually not be sufficient evidence that a government is demonstrably committed to the policy/decision.<sup>36</sup> However, such announcements of a government's intentions, or where a Bill has been introduced to Parliament, are likely to give rise to a material uncertainty for which the public sector auditor considers whether it is necessary to include an Emphasis of Matter paragraph<sup>37</sup>.

*Public sector entities not funded (or not fully funded) by appropriations or grants*

121. For public sector entities referred to in paragraphs 101-107 of this GS, traditional indicators and financial metrics used to assess going concern may be relevant and may signify that a material uncertainty exists, for example, in circumstances where an entity reports accumulated deficits, negative equity or a net liability position. In these circumstances, the public sector auditor performs additional audit procedures in accordance with ASA 570, paragraph 16, to obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists.

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<sup>36</sup> The government has to demonstrate its commitment, and be sufficiently detailed, for example, via Cabinet approval or where no Cabinet approval, through other binding documentation such as contractual arrangements, evidence of engagement of experts, passing of legislation etc.

<sup>37</sup> Refer to Auditor Conclusions and Reporting in paragraphs 128-129 for further details.

*External Written Confirmations*<sup>38</sup>

122. Public sector auditors are aware that changes in government policy can have a significant impact on the status and functions of public sector entities. However, management and the auditor in most instances may not be aware of the strategic or legislative decisions which may impact an entity. Changes in government policy can occur at short notice and without consultation.
123. When considering appropriate audit procedures relevant to the requirement in ASA 570, paragraph 16, the auditor may consider whether to obtain direct written confirmation from a central government agency or parent entity regarding any plans that may impact the entity's continued operational existence and/or to confirm the existence, authority and enforceability of arrangements to provide or maintain financial support.<sup>39</sup>
124. When considering requesting such confirmation, the auditor is advised to take account of any constraints imposed by legislation or the political process.<sup>40</sup> Also, in many circumstances, confirmation that financial backing will continue, or future funding will be received, may not be sufficient as meaningful assurance on the future of an entity.<sup>41</sup>
125. When considering requesting direct confirmations, the public sector auditor considers that there may be circumstances where such confirmations may not be forthcoming. For example:
- MOG changes may occur at any time, often with little or no notice. As a result, the government of the day will not generally provide direct confirmation that nothing is likely to change in relation to financial backing or future funding.
  - A State or Australian Territory Government may also not be in a position to provide such confirmations as it may itself be highly dependent on, for example, GST funding with no control over changes to the distribution of the GST pool.
  - Legislation may contain specific provisions that a government will not guarantee the debts or operations of, for example, a Public Corporation. In these circumstances, a central government department or other government agency will not be in a position to provide confirmation of continued financial support to these entities.
126. In circumstances where the public sector entity's continued use of the going concern basis of accounting is dependent on, for example, a letter of financial support, which the entity and/or public sector auditor was able to secure, the auditor exercises professional scepticism in evaluating the appropriateness and sufficiency of such confirmations as audit evidence. The auditor may consider the following matters:
- (a) whether the entity providing the letter of support has the authority to provide the support;
  - (b) whether the letter of support has been signed by a person with appropriate delegated authority to provide such support;

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<sup>38</sup> See ASA 570, paragraph A19. Includes a letter of financial support, comfort letter, letter of guarantee, letter of intent.

<sup>39</sup> See ASA 570, paragraph A19. In obtaining these confirmations, the public sector auditor complies with the requirements of ASA 505 *External Confirmations*.

<sup>40</sup> For example, a parent entity or government may have a policy of not providing letters of support.

<sup>41</sup> Paragraph 126 includes examples of matters to consider in evaluating the form and level of commitment provided by such confirmations. A promise to provide funding is not legally binding.

- (c) whether the entity or entities that will be providing the support have the ability to cover the obligations of the entity receiving the support;
  - (d) whether the amount of support will be sufficient; and
  - (e) whether one or both parties can terminate the arrangement.<sup>42</sup>
127. If an adequate confirmation can be obtained, it may be reasonable to conclude that the going concern basis is appropriate. If such confirmation is not forthcoming or where the auditor questions its sufficiency as audit evidence, the auditor considers whether there is a material uncertainty that requires to be reported in the auditor's report.

### **Auditor Conclusions and Reporting** (ASA 570, paragraphs 17-24, A21-A35)

128. ASA 570<sup>43</sup> requires the public sector auditor to evaluate, based on the audit procedures performed, whether sufficient appropriate evidence has been obtained to conclude on:
- (a) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report;
  - (b) whether a material uncertainty related to going concern exists;
  - (c) whether going concern matters are adequately disclosed in the financial report; and
- then to report in accordance with ASA 570 requirements.

ASA 570, [Aus] Appendix 1 includes a useful diagrammatic illustration of the links between going concern considerations and the types of audit opinions that may be appropriate in the circumstances.

129. In circumstances where the public sector auditor has concluded that no material uncertainty exists but the use of the going concern basis of accounting is dependent on a letter of support or other confirmation obtained from a related or other third party, or based on the assumption that a parliament may continue to provide funding to ensure continued delivery of essential public functions, the auditor may consider whether:
- (a) to issue an unmodified opinion;
  - (b) it is necessary to include an Emphasis of Matter paragraph<sup>44</sup> in the auditor's report to draw the user's attention to the financial support/economic dependency note disclosure included in the entity's financial report; and
  - (c) the matter is a Key Audit Matter<sup>45</sup> to be communicated in the auditor's report, in circumstances when the auditor decides to communicate key audit matters in the auditor's report.

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<sup>42</sup> See OAG NZ AG ISA (NZ) 570, paragraph A1 (amended).

<sup>43</sup> See ASA 570, paragraphs 17-24.

<sup>44</sup> See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8-9.

<sup>45</sup> See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.