



AUASB DECLARATION OF INTERESTS

AUASB Member	Professional Affiliations	Listed Entity Affiliations	Other Relevant Matters
Dr Roger Simnett (Chair)	Fellow, CPA	Nil	Scientia Professor, UNSW Sydney Member, International Auditing and Assurance Standards Board Member, New Zealand Auditing Standards Board Member, International Integrated Reporting Council Working Panel Member, Financial Reporting Council (FRC) Australia Member, World Business Council for Sustainable Development Assurance Working Group
Ms Robin Low (Deputy Chair)	FCA GAICD	Director, AUB Group Limited Director, CSG Limited (CSV) Director, IPH Limited (IPH) Director, Appen Limited (APX)	Director, Public Education Foundation Ltd Director, Primary Ethics Ltd Member, CA ANZ Professional Conduct Committee Director, Australian Reinsurance Pool Corporation Director, Gordian Runoff Limited Director, Enstar Australia Holdings Pty Ltd Member, AICD Reporting Committee Receives PwC Retired Partner Pension
Mr Gareth Bird	Member, CA ANZ Member, SAICA (South African Institute of Chartered Accountants)	Nil	Partner, Deloitte

Mr Robert Buchanan	Barrister and Solicitor of the High Court of New Zealand Member of the Institute of Directors in New Zealand	Nil	Chairman, NZAuASB Barrister sole (Wellington, New Zealand) Board Chairperson, Low Volume Vehicle Technical Association Inc (a New Zealand not-for-profit entity) Director of a family trust company Director, Probity Manager Limited (NZ-registered company) Committee member of a body corporate (NZ)
Ms Jo Cain	GAICD	Nil	Banksia Foundation: Chair Audit and Risk Committee Workways Australia: Member Audit and Risk Committee IAASB Emerging Forms of External Reporting (EER) Project Advisory Panel (PAP): Member International Integrated Reporting Council (IIRC) Technical Review Panel: Member Materiality Counts: Executive Director Board Member of the Australian Marine Conservation Society (AMCS)
Ms Julie Crisp	RCA, ASIC FCA FCPA FGIA GAICD CIA, IIA CGAP, IIA CRMA, IIA Member, ACFE	Nil	Member, Australasian Council of Auditors-General (ACAG)
Dr Noel Harding	CPA	Nil	Associate Professor, UNSW Sydney Member, Editorial Board of International Journal of Auditing Member, Editorial Board of Behavioral Research in Accounting Chair, Communications Committee of American Accounting Association Auditing Section
Ms Carolyn Ralph	Fellow, CA ANZ		Partner, KPMG
Mr Justin Reid	Member, CA ANZ	Nil	Owner at Justin Reid Consulting Director of Technical Audit Solutions Pty Ltd
Mr Rodney Piltz	Member, CA ANZ	Nil	Partner, Ernst & Young
Mr Klynton Hankin	Member, CA ANZ	Nil	Partner, PWC



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

Attendance

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

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

Apologies: None

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

Minutes

(Agenda Item 1 – Minute 1271) Agenda and introduction

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

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

Draft minutes were discussed and approved by the Board.

(Agenda Items 1.8 – Minute 1273) NZAuASB Update.

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

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

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



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

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

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

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

ISA 315 Risks of Material Misstatements

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

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

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

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

ISA 600 Group Audits

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

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

Audit Evidence

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



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

Auditor Reporting Post Implementation Review

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

(Agenda Item 8 – Minute 1280) AUASB EER Submission

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

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

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

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

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

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



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

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

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

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

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

(Agenda Item 12 – Minute 1284) Joint Board Meeting

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

Next Meeting

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

Close of Meeting

The Chair closed the meeting at 12.30 p.m.

Approval

Signed as a true and correct record.

Roger Simnett
Chair

Date: 10 September 2019



Subject: Minutes of the 110th meeting of the Auditing and Assurance Standards Board (AUASB)
Venue: Teleconference
Date: Wednesday 26 June 2019, 9.30am to 12.30pm

Attendance

AUASB Members: Professor Roger Simnett (Chair)
Mr Gareth Bird
Mr Robert Buchanan (NZAuASB Chair)
Ms Julie Crisp
Mr Klynton Hankin
Dr Noel Harding
Mr Rodney Piltz
Ms Carolyn Ralph

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

Apologies: Ms Robin Low (Deputy Chair)
Ms Jo Cain
Mr Justin Reid

Minutes

(Agenda Item 1 – Minute 1285) Agenda and introduction

The Chair welcomed members to the 110th AUASB Meeting, which was held via video conference between Melbourne and Sydney, with other AUASB members dialling in via teleconference.

(Agenda Item 2 – Minute 1286) AUASB response to the IAASB's Exposure Drafts on the Quality Management suite of standards

The AUASB Chair outlined the process which the AUASB would undertake to review the AUASB's submissions on the IAASB's Exposure Drafts on the Quality Management Standards (QM Standards).

Board members were briefed on the different inputs which have been considered when developing the Draft submissions on the QM Standards. The AUASB received two formal submissions on the topic, and AUASB members reviewed these submissions along with a summary of the external stakeholder outreach performed by the AUASB Technical Group (ATG). The AUASB Chair and ATG also updated members on the status of the NZAuASB and APESB submissions on the QM Standards, noting a consistency of messaging across the draft submissions prepared by each standard-setter.

The AUASB worked through the draft submissions the ATG had prepared on each individual QM Standard, providing feedback on specific questions highlighted by the ATG to the Board and also general feedback on the structure and wording of each submission.



ISQM 1 Quality Management for Firms that Perform Audit of Reviews of Financial Statements, or Other Assurance or Related Services Engagements

The AUASB reviewed the ATG's draft submission covering ISQM 1 *Quality Management for Firms that Perform Audit of Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and requested the following amendments:

- The commentary on the overall impact on audit quality of ISQM 1 needed to be brought forward into the overall responses, rather than just included in the responses to the specific IAASB questions in the appendix of the submission.
- The public interest considerations of the risk based approach in ISQM 1 needed to be highlighted in more detail. Additionally, AUASB Members requested it be added that the public interest benefits of ISQM 1 be revised and streamlined to make it easier to understand and apply.
- The commentary in the draft ISQM 1 submission supporting the eight different components needed redrafting to provide more qualified support, along with a request for more guidance around implementation.
- The submission to make a stronger point about the implementation challenges associated with the proposed implementation timeline for ISQM 1, particularly with the application dates for a number of other significant revised auditing standards impacting practitioners over the next 2-3 years.
- The submission should include a request for the IAASB to revise the structure of ISQM 1 in line with the revised structure recently applied to the updated version of ISA 315 and the need for examples to be included within the standard.

ISQM 2 Engagement Quality Reviews

The AUASB reviewed the ATG's draft submission covering ISQM 2 *Engagement Quality Reviews* and requested the following amendments:

- The ISQM 2 submission be revised to make it clearer that concepts in the proposed standard that either overlap or interact with the IESBA Code of Ethics, such as the proposed cooling off period and Engagement Quality Reviewer, are removed from the standard and solely located in the Ethical Code.
- Clarification in the AUASB's submission on the application of professional scepticism by the Engagement Quality Reviewer being focused on the context of their role, and not focused on questioning the professional scepticism of the engagement team itself.
- An update to ensure the AUASB's submission requests additional clarity in relation to the proposed 'stand back' provision in ISQM 2.

ISA 220 Quality Management at the Engagement Level

The AUASB reviewed the ATG's draft submission covering ISA 220 *Quality Management at the Engagement Level* and requested one amendment:

- Whilst the AUASB were comfortable with the ATG's proposed wording about the engagement team definition in the proposed standard in response to Question 2 of the ISA 220 submission, further redrafting was requested to improve the clarity of the AUASB's response.

Covering Letter and other feedback on the QM Standards

The AUASB reviewed the ATG's draft covering letter on the QM Standards and requested the following amendments:

- Add into the AUASB's covering letter to the IAASB the point made in respect of ISQM 2 that concepts in the proposed standard that either overlap or interact with the IESBA Code of Ethics should solely reside in the Ethical Code.
- Include an additional comment how the IAASB should better consider the proportionality of responses in QM Standards when considering the audit quality impact, without having a detrimental impact on the cost/benefit implications for firms.
- Additional wording to be included about challenges relating to the overall scalability of ISQM 1, how the IAASB should incorporate examples to assist small/medium firms and the guidance relating to how professional scepticism is applied throughout the QM Standards.



Based on the above feedback the ATG will update the draft AUASB submissions on ISQM 1, ISQM 2 and ISA 220 and have them reviewed and approved by the AUASB Chair before they are submitted to the IAASB by 1 July 2019.

In addition the AUASB worked through the summary of the disposition of comments received from stakeholders in relating to the AUASB Exposure Drafts on the Quality Management Standards. Minor changes to the ATG's conclusions were requested and these will be updated in the final version of this document to be posted on the AUASB website.

(Agenda Item 3 – Minute 1287) AUASB Strategy Discussion

Discussions planned on the review and potential update of the AUASB Strategy were deferred to the September 2019 AUASB Meeting.

(Agenda Item 4 – Minute 1288) June 2019 IAASB meeting update

The AUASB Technical Director provided AUASB members with an overview of the key matters arising from the June 2019 IAASB meeting. A full summary of the June 2019 IAASB meeting will be provided out of session and tabled at the September 2019 AUASB Meeting.

Next Meeting

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

Close of Meeting

The Chair closed the meeting at 12.30 p.m.

Approval

Signed as a true and correct record.

Roger Simnett
Chair

Date: 10 September 2019

Matters Arising from Previous Meetings and Action List
Agenda item 1.4: AUASB Meeting 10-11 September 2019



Australian Government
Auditing and Assurance Standards Board

Status	Definition
Suspended	Will not be actioned in short-term
Pending	Yet be actioned
Outstanding	Matter ongoing - still to be actioned
In-progress	Progressing as expected
Completed	Matter resolved

Meeting Date	Action #	Matter Arising	Custodian	Status	Targeted completion	Comments
26-Jun-19	110.01	Hold further discussion with AUASB members regarding AUASB strategy	Matthew	In-progress	10-Sep-19	Refer to Agenda item 2.
26-Jun-19	110.02	Provide a full summary of the June 2019 IAASB meeting at the September 2019 AUASB Meeting.	Matthew	In-progress	10-Sep-19	Refer to Agenda item 4.1.
12-Jun-19	109.01	ASRE 2410 - ensure full transparency so that constituents in both AU & NZ can consider all options for addressing the matter	Anne	In-progress	11-Sep-19	Refer to Agenda item 5.1.
12-Jun-19	109.02	Draft revision of GS005 Using the Work of a Management's Expert to be presented at September AUASB meeting	Rene	In-progress	11-Sep-19	Refer to Agenda item 7.
12-Jun-19	109.03	Updated project plan for outreach regarding the prioritisation of the guidance statement revision plan	See Wen	In-progress	11-Sep-19	Refer to Agenda item 5.4.
12-Jun-19	109.04	Draft revision of GS008 The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001	See Wen	In-progress	11-Sep-19	Refer to Agenda item 5.5.
12-Jun-19	109.05	Findings from NFP Auditing issues research to be communicated to the member bodies and ACNC, and consideration given how best to engage with this stakeholder group for future AUASB communications.	Tim	Pending	3-Dec-19	AUASB staff currently considering options to convert information into an AUASB Research Report. Further discussion on this issue deferred to December 2019 AUASB Meeting.
12-Jun-19	109.06	Develop AUASB Bulletin regarding AASB ED's on removal of special purpose accounts	Anne	Completed	End July 19	Released on AUASB Website 30 July 2019. Refer https://www.ausb.gov.au/admin/file/content102/c3/BulletinFRF_FINAL.pdf
12-Jun-19	109.07	Detailed overview of the feedback and the possible standard setting options from Public Sector Audit Issues PAG to be presented to the AUASB	Matthew	Outstanding	3-Dec-19	No further PAG meetings held since last AUASB meeting. Update deferred to December 2019 AUASB Meeting.
6-Mar-19	106.02	Review and discuss ED process trialled with QM standards and update process documents to reflect agreed process.	Matthew	Pending	3-Dec-19	Included in 2019-20 AUASB Work Program. To be actioned in second half of 2019 following exposure of Quality Management Standards.
6-Mar-19	106.03	Provide reconciliation of AUASB matters raised in response to IAASB matters following and proceeding the review of IAASB papers at each AUASB meeting.	Rene	In-progress	10-Sep-19	Refer to Agenda item 2.
4&5 Dec 18	105.2	Share FRC Literature Review in respect of Audit Quality measures with AUASB Members	Anne	Completed	End June 19	Sent to AUASB Members via email following June 2019 meeting.
4&5 Dec 18	105.10	Draft of Assurance Framework Bulletin	Tim	Pending	16-Apr-19	Deferred to September 2019 AUASB meeting.
4&5 Dec 18	105.12	Maintain list of DA references for AUASB Board members in Dropbox	Jean	Pending	TBD	AUASB Technical Group currently working on this task.
4&5 Dec 18	105.13	Updated GS012 project plan and update on PAG	Matthew	Pending	3-Dec-19	Deferred to December 2019 AUASB meeting - new AUASB staff member (Johanna Foyster) appointed to lead this project.
4&5 Dec 18	105.15	Update on ISA/ASA 540 Implementation Guidance and Activities	Rene	Outstanding	3-Dec-19	Preliminary work by AUASB staff underway, but awaiting IAAB materials due for release in October and December 2019. Board discussion deferred to December 2019 AUASB Meeting.
12-Sep-18	103.02	Arrange a guest presentation for the December AUASB meeting on data analytics and technology.	Matthew	Outstanding	16-Apr-19	Deferred to December 2019 AUASB Meeting.
12-Sep-18	103.03	Develop criteria to determine when submissions require AUASB approval as opposed to Chair approval.	Matthew	Outstanding	16-Apr-19	Included in 2019-20 AUASB Work Program. Deferred to December 2019 AUASB Meeting.
13-Jun-18	101.02	Request for AUASB Technical Group Members to attend any Firm data analytics / audit technology related training courses or briefings provided to ASIC.	Board Members	In-progress	Ongoing	Data & Analytics training for AUASB staff and Chair hosted by KPMG on 27 March 2019. Board members to advise Matthew if this opportunity arises.
28-Nov-17	97.05	Technical Group to seek and consider of feedback on ASAE 3450 and monitor NZAuASB project to determine if any amendments are needed to ASAE 3450	Johanna	In-progress	3-Dec-19	NZAuASB likely to produce stand alone Assurance standard on prospective information. AUASB staff to investigate partnering with the NZAuASB on this project. Subsequently no changes to ASAE 3450 planned.
26-Jul-16	94.01	Revised guidance statement on Questions at AGMs. At November 2017 meeting (M97): - The AUASB did not consider this to be a priority project at this time; and - AUASB technical Group was requested to consider how to raise awareness of the enhanced auditor report in the investor/user community	Anne	Suspended	TBD	Refer to plan for updating Guidance Statements at Agenda Item 5.4.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 1.6

Meeting Date: 10th & 11th September 2019

Subject: AUASB Speaking Register

Date: 26/08/2019

Action Required

For Information Purposes Only

Events since last AUASB Meeting

Presenter	Date	Presenting to	Topic
Justin Reid	14 th June 2019	Moore Stephens	AUASB Update
Roger Simnett Anne Waters	08 th July 2019	AFAANZ conference	
Roger Simnett Marina Michaelides	30 th July – Melbourne 1 st August – Sydney	Business Leaders Reporting Forum	EER Guidance Update

Future Events

Presenter	Date	Presenting to	Topic

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



AUASB Meeting Register – September 2019

Organisation	Contact	Position	Who from AUASB	Frequency of Meeting	Last Contact Date
Strategic Stakeholders – Domestic					
ACAG Auditing Standards Committee	Andrew Richardson	Chair	Roger Simnett	Annually	11/10/2018
Australian National Audit Office	Grant Hehir	Auditor-General	Roger Simnett	Annually	07/12/2018
ACNC	Gary Johns	Commissioner	Roger Simnett	Annually	
ACNC	Mel Yates	Director	Matthew Zappulla / Tim Austin / Roger Simnett	6 monthly	6/2/2019
AFAANZ Auditing SIG	Robyn Moroney	Chair	Roger Simnett / Noel Harding / Anne Waters	6 monthly	23/1/2019
APESB	Nancy Milne	Chair	Roger Simnett	Annually	Upcoming 30/09/2019
APESB	Channa Wijesinghe	CEO	Matthew Zappulla	6 monthly	09/08/2019
APRA	Wayne Byres	Chair	Roger Simnett	Annually	
APRA	Rob Sharma	Head Accounting Services	Matthew Zappulla / Senior Project Manager	6 monthly	
ASIC	James Shipton	Chair	Roger Simnett	Annually	
ASIC	John Price	Commissioner	Roger Simnett /AUASB	Quarterly	16/04/2019
ASIC	Doug Niven	Head Accountant	Roger Simnett / Senior Project Manager	Quarterly	26/07/2019
CA ANZ	Rick Ellis	CEO	Roger Simnett	Annually	
CA ANZ	Amir Gandhar	Reporting and Assurance Leader	Matthew Zappulla	Quarterly	22/07/2019
CPA Australia	Andrew Hunter	CEO	Roger Simnett	6 monthly	



Organisation	Contact	Position	Who from AUASB	Frequency of Meeting	Last Contact Date
CPA Australia	Gary Pflugrath	Head of Policy and Advocacy	Roger Simnett / Matthew Zappulla	Quarterly	31/07/2019
CPA Australia	Claire Grayston	Senior Policy Advisor	Matthew Zappulla	Quarterly	06/08/2019
IPA	Andrew Conway	CEO	Roger Simnett	Annually	
AICD	Angus Armour	CEO	Roger Simnett	6 monthly	
Strategic Stakeholders – International					
AASB Canada	Ken Charbonneau	Chair	Roger Simnett / Matthew Zappulla	Quarterly	15/05/2019
IAASB (Canada)	Eric Turner	Member	Roger Simnett	Quarterly	17/06/2019
NBA (Netherlands)	Jan Thijs Drupsteen	Director	Roger Simnett / Matthew Zappulla	Quarterly	17/06/2019
NZAuASB	Robert Buchanan	Chair	Roger Simnett	Monthly	17/06/2019
NZAuASB	Sylvia Van Dyk	Director	Matthew Zappulla	Quarterly	17/06/2019
IAASB (Singapore)	Chun Wee Chiew	Member	Roger Simnett	Quarterly	17/06/2019
Nordic Federation	Per Hanstad	CEO	Roger Simnett	Annually	15/05/2019
IAASB (Japan)	Sayaka Sumida	Member	Roger Simnett	Quarterly	17/06/2019
IAASB	Arnold Schilder	Chair	Roger Simnett	Quarterly	17/06/2019
IAASB	Fiona Campbell	Deputy Chair	Roger Simnett	Quarterly	17/06/2019
IAASB Staff	Willie Botha	TD	Roger Simnett / Matthew Zappulla	6 monthly	17/06/2019
IAASB Staff	Beverley Bahlmann	Deputy	Roger Simnett / Matthew Zappulla	6 monthly	17/06/2019
IAASB (South Africa)	Imran Vanker	Member	Roger Simnett	Quarterly	17/06/2019
IIRC	Liz Prescott	Technical Director	Roger Simnett / Marina Michaelides	6 monthly	
Other Stakeholders – Domestic					
Australian Auditor Generals	Auditor Generals	A-G	Roger Simnett / Matthew Zappulla	As required	



Organisation	Contact	Position	Who from AUASB	Frequency of Meeting	Last Contact Date
Heads of Audit	Big 6 accounting firms	N/A	Roger Simnett	Annually	
ACAG	Rachel Portelli	Secretariat	Matthew Zappulla	Quarterly	
Department of Finance	Stein Helgeby	Deputy Secretary	Roger Simnett	6 monthly	08/08/2019
Other Stakeholders – Domestic (continued)					
AICD	Kerry Hicks	Senior Policy Advisor	Matthew Zappulla / Senior Project Manager	6 monthly	
ASX	Kevin Lewis	Board Member	Roger Simnett	6 monthly	03/09/2019
G100	Andrew Porter	CFO	Roger Simnett	Annually	29/07/2019
IIA	Peter Jones	CEO	Roger Simnett	Annually	



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **2.1.0**

Meeting Date: 10 & 11 September 2019

Subject: AUASB Technical Work Program Update

Date Prepared: 27 August 2019

Action Required

For Information Purposes Only

Agenda Item Objectives

1. To provide the AUASB with a final version of the 2018-19 AUASB Technical Work Program.

Background

2. The AUASB Technical Group prepared a Draft 2018-19 Technical Work Program and presented it to the AUASB for consideration in September 2018.
3. The AUASB Technical Group has produced a status update of the AUASB Technical Work Program for the AUASB to review quarterly since it was finalised. The format of this update aligns to the reporting we are required to present to the FRC to ensure consistency and reduce duplication. This is provided to the board at the first meeting following the end of each quarter.

Matters to Consider

4. The Final 2018-19 AUASB Technical Work Program is provided to board members for review at **Agenda Item 2.1.1.**
5. This Final 2018-19 AUASB Technical Work Program has been reviewed by the AUASB Chair and has been used as the basis for information that populates our AUASB Performance Report in the Combined AASB-AUASB 2018-19 Annual Report.

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

AUASB Technical Group Recommendations

- 6. That AUASB members note the Final 2018-19 AUASB Technical Work Program presented at **Agenda Item 2.1.1.**
- 7. Provide suggestions to the AUASB Technical Group about additions and changes AUASB members would like included in the 2019-20 AUASB Technical Work Program document included under **Agenda Item 2.3.**

Material Presented

Agenda Item 2.1.0	AUASB Board Meeting Summary Paper
Agenda Item 2.1.1	Final 2018-19 AUASB Technical Work Program

AUASB Technical Work Program – 2018-2019 Report for AUASB

Agenda Item 2.1.1
September 2019 AUASB Meeting

This table records the AUASB's activities in support of its strategic objectives and key performance indicators in the 2018-19 AUASB Corporate Plan, with a status report and update of activities for the reporting period for each high-level priority area provided.

High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report for Q3 are highlighted in Bold)
<p>1) Issue Australian Auditing and Assurance Standards (ASAs, ASREs, ASAEs & ASRSs) based on IAASB equivalent standards in accordance with AUASB legislative drafting and registration requirements.</p>	<p>→ Issue all IAASB related Australian equivalent Exposure Drafts on a timely basis (within three months of PIOB clearance or within 1 month of AUASB approval, as appropriate).</p> <p>→ Develop and issue Australian Auditing and Assurance Standards following the release of their equivalent ISA, ensuring all Australian legislative and regulatory requirements are considered, including changes required via application of the 'compelling reason' test.</p> <p>→ Coordinate and develop the AUASB's response to existing and planned IAASB exposure drafts.</p> <p>→ Develop high quality responses to other IAASB pronouncements or invitations to comment by the due date as they are released.</p> <p>→ Implement revised AUASB Process for exposing and issuing International Exposure Drafts concurrently with the IAASB</p> <p>→ Conduct post-implementation reviews of IAASB equivalent issued AUASB Standards, as required.</p>		<ul style="list-style-type: none"> Exposure Drafts for ISA 315 and ASA 540 both released and subject to extensive consultation. Submission on ISA 315 deliberated at October 2018 AUASB meeting and sent to the IAASB on 2 November 2018. Final version of updated ASA 540 <i>Auditing Accounting Estimates and Related Disclosures</i> approved in December 2018 and nine compilation standards, incorporating conforming amendments arising from the update to ASA 540, finalised and issued in January 2019. Submission on revised International Standard on Agreed-Upon Procedures Engagements completed in March 2019. Roundtables held and submissions developed on the IAASB Quality Management Standards (ISQM 1, ISQM 2 and ISA 220) in May and June 2019. Final submissions sent to IAASB on 1 July 2019. LCE Discussion Paper released and outreach commenced, including an Australian LCE survey. AUASB to report to the IAASB in September 2019.
			<ul style="list-style-type: none"> IAASB Post Implementation of Auditor Reporting Standards yet to formally commence, however all agreed AUASB initiated post implementation activities related to these standards (e.g. research, outreach) are either completed or ongoing.



Completed / On track

18/469



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



Yet to commence / Not completed

AUASB Technical Work Program – 2018-2019 Report for AUASB

High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report for Q3 are highlighted in Bold)
2) Develop, update and maintain Australian specific Standards and/or Guidance Statements for topics not specifically addressed by IAASB Standards as required.			<ul style="list-style-type: none"> Updated AUASB Glossary approved in September 2018. Project Advisory Group (PAG) on the revision of GS 005 <i>Using the Work of a Management's Expert</i> now in place. Focus is on responding to issues raised regarding the use of experts arising from ASIC's inspection report. ASRE 2410 ED issued in May 2019, with further addendum based on differences between AUASB and NZAuASB under development at year end (NB: Released in July 2019).
	<ul style="list-style-type: none"> → Review and update of AUASB Framework Pronouncements, including the AUASB Glossary. → Develop and issue Australian specific Standards within one month of AUASB approval, in accordance with AUASB legislative drafting and registration requirements. → Review full suite of AUASB pronouncements, including revising out of date Guidance Statements to determine necessity and timing of updates required. → Conduct post-implementation reviews of Australian specific AUASB Standards, as required. 		<ul style="list-style-type: none"> Project plan to update GS 012 <i>Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions</i> approved at December 2018 AUASB Meeting. A new AUASB Technical staff member commences in August 2019 to work on this task. Initial discussions held with ATO and professional bodies on the need to update GS 009 <i>Auditing Self-Managed Superannuation Funds</i>. Draft project plan prepared and presented to AUASB in March 2019. A contractor with SMSF expertise is currently being confirmed to assist the AUASB Technical Group with this project in late 2019. Update of ASAE 3450 deferred - awaiting decision by NZAuASB to potentially develop an equivalent standard in 2019-20. Proposal to review the full suite of AUASB Guidance Statements presented to the AUASB in June 2019 to determine the priority and validity of updates required. Further information requested by the AUASB and a revised Guidance Statement update plan currently in progress, for discussion at the September 2019 AUASB meeting.
			<ul style="list-style-type: none"> Post Implementation Reviews of ASAE 3100 and ASAE 3500 originally scheduled for 2018-19 were not undertaken due to other AUASB priorities. These projects have been deferred to the 2019-20 reporting period.



Completed / On track

19/469



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



Yet to commence / Not completed

AUASB Technical Work Program – 2018-2019 Report for AUASB

High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report for Q3 are highlighted in Bold)
<p>3) Monitor the Assurance Environment, considering the implications for Australian auditing and assurance standards and guidance and responding as appropriate.</p>	<ul style="list-style-type: none"> → Conduct regular AUASB Agenda Consultation Forums in various locations, either face to face or electronically, and update AUASB Workplan as required based on relevant feedback. → Hold quarterly meetings with the professional accounting bodies to discuss trends in assurance environment and identify impact for AUASB Agenda and Workplan. → Ensure AUASB attendance and presentations at a number of research events (e.g. AFAANZ Conference and AFAANZ Auditing and Assurance Special Interest Group, the UNSW Audit Research Roundtable, and the ANU ANZCAR Conference). → Develop and implement an AUASB Research Strategy. → Work with the FRC to implement the elements of the FRC Audit Quality Plan that are the responsibility of the AUASB. → Monitor key international regulator developments (including IOSCO, PCAOB and IFIAR Monitoring Group) and consider impact for the local auditing and assurance environment. → Develop updated guidance to encourage the increased application and understanding of review engagements. → Consider audit quality and implementation issues associated with the audit and assurance issues specific to the financial services sector, including any matters arising from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. 		<ul style="list-style-type: none"> • AUASB Work Program update provided to stakeholders at ISA 315 and ASA 540 Roundtable events held in September and October 2018. • Regular engagement held with CA ANZ and CPA Australia in respect of the current AUASB exposure drafts and regular meetings held with technical representatives from both professional bodies. • AUASB Chair keynote speaker at ANU ANCAAR Conference and presenter at World Congress of Accountants in Nov/Dec 2018. • Ongoing collaboration with the FRC on Audit Quality activities as outlined in the FRC Audit Quality Action Plan, including the Audit Committee Chairs and Investor Surveys on perceptions of Audit Quality. • Working with University of Adelaide on resolving variations in Australian legislation requiring audit and assurance. • Plan to develop AUASB Bulletin addressing the different types of assurance engagements that may be performed under the AUASB Assurance Framework developed and presented to the AUASB in December 2018. • No explicit audit or assurance implications arising from the Royal Commission into Misconduct in the Financial Services Industry noted. • New AUASB Evidence Informed Standard Setting (EISS) Strategy released in June 2019 and promoted to Auditing and Assurance Academics at July 2019 AFAANZ Conference. • Appointment of two inaugural 'AUASB Scholars' has been completed. They commence in July 2019 for 6 months.
			<ul style="list-style-type: none"> • Proposal to develop 3 new AUASB publications covering Assurance Basics and Expectation Gaps; a Guide for Government requirements for Independent Assurance and different types of assurance engagements that can be performed under the AUASB Framework in progress. Updated proposal to be tabled with AUASB at its September 2019 meeting. • White paper from Monitoring Group addressing next steps in global standard setting arrangements has been delayed.



Completed / On track

20/469



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



Yet to commence / Not completed

AUASB Technical Work Program – 2018-2019 Report for AUASB

High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report for Q3 are highlighted in Bold)
<p>4) Build, maintain and enhance key international relationships around key focus areas with both global (e.g. IAASB, IFAC, IIRC) and national standard setters and professional bodies (e.g. FRC, PCAOB, CPAC, IRBA).</p>	<p>→ AUASB to be represented at all IAASB meetings.</p> <p>→ Arrange for AUASB review of relevant IAASB board papers on a timely basis and share feedback on key matters with regional IAASB members before each IAASB meeting.</p> <p>→ Attend and present relevant topics at regional and global IAASB NSS meetings.</p> <p>→ With the IAASB and NZAuASB, identify and implement initiatives to drive increased sharing and collaboration across the National Standards Setting network.</p> <p>→ Attend and contribute to other IAASB or International Standard Setting forums as appropriate.</p> <p>→ Review and contribute as appropriate to other global initiatives, such as IIRC, GRI and WBCSD, on assurance issues.</p> <p>→ Engage with the Global EER Project Advisory Panel and support associated regional activities and local panel members.</p>	<p style="text-align: center;"></p>	<ul style="list-style-type: none"> • AUASB represented at all IAASB meetings in 2018-2019, both face to face and teleconference. AUASB Chair appointed to IAASB and has attended all IAASB Meetings in first half of 2019. • AUASB deliberated on all major IAASB projects at each of its 2018-19 Board Meetings held prior to each IAASB meeting. Feedback from AUASB used to inform AUASB Chair position, and shared with Australasian IAASB members. • NSS Meeting jointly hosted with the NZAuASB held in Sydney at the same time as the World Congress of Accountants in November 2019. Excellent feedback from IAASB and other participants received and way forward for collaborative NSS initiatives determined. • Collaboration with NZAuASB technical staff on common projects held at joint staff planning day in February 2019. • Ongoing National Standard Setters (NSS) initiatives being coordinated by AUASB/NZAuASB Chairs and Technical Directors with IAASB and other NSS following Paris NSS meeting in May 2019. • AUASB Chair appointed Chair of IAASB Less Complex Entities Working group and led development of IAASB LCE Discussion Paper to chart the way forward. • AUASB submission on 2020-23 IAASB Strategy developed and submitted in June 2019. • AUASB Chair attended various teleconference meetings of IIRC working group & WBCSD assurance task force. • EER specialist AUASB member appointed to the IAASB EER Advisory group and participated in all conference calls, as well as attended local IAASB EER Roundtables, supported by AUASB technical staff. • Roundtables held and submission developed and sent to IAASB on Phase One of EER Assurance Guidance in May and June 2019.



Completed / On track

21/469



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



Yet to commence / Not completed

AUASB Technical Work Program – 2018-2019 Report for AUASB

High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report for Q3 are highlighted in Bold)
<p>5) Maintain harmonisation of auditing and assurance standards in Australia and New Zealand in accordance with relevant agreements and protocols.</p>	<p>→ AUASB Chair and/or Technical Director to attend all NZAuASB meetings.</p> <p>→ Ensure standards and guidance are issued in accordance with AU/NZ harmonisation requirements.</p> <p>→ Contribute to and work in parallel on a number of NZAuASB projects, such as Auditor Reporting FAQs, and the Audit of Service Performance Information standard.</p> <p>→ Work collaboratively with NZAuASB Technical Staff to ensure co-operation and co-ordination between the AUASB and NZAuASB's activities (e.g. joint research programs and joint contributions on key focus areas, such as Assurance requirements for NFP's and Charities).</p>		<ul style="list-style-type: none"> • AUASB Chair attended all NZAuASB Meetings throughout 2018-19. • AUASB responses on ISA 315 and ASA 540 developed with regard to AU/NZ harmonisation requirements. • AUASB and NZAuASB Chairs and Technical Directors collaborated on the planning and conduct of the NSS Meeting held in Sydney at the World Congress of Accountants in November 2018. • AUASB and NZAuASB staff reviewed corresponding work programs to look for greater opportunities for collaboration and joint resourcing of projects at Joint AUASB and NZAuASB Technical team meeting in February 2019. Outputs to be incorporated into 2019-20 AUASB Technical Work Program. • AUASB staff jointly working with NZAuASB staff on the update of Review Standard ASRE 2410. • AUASB staff collaborating on an ongoing basis with NZAuASB staff on Assurance of Charities, EER assurance and Service Performance Reporting initiatives.



Completed / On track

22/469



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



Yet to commence / Not completed

AUASB Technical Work Program – 2018-2019 Report for AUASB

High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report for Q3 are highlighted in Bold)
<p>6) Complete a number of strategic projects addressing current areas of auditing and assurance thought leadership and emerging issues, in particular the areas of external reporting beyond financial reporting (e.g. EER) and the impact of changing technologies (e.g. Data Analytics).</p>	<p>→ Scope and implement strategic thought leadership projects in the following areas:</p> <ul style="list-style-type: none"> - Auditor Reporting Implementation - Audit Quality / Coordination and cooperation with Regulators - Assurance over Emerging Forms of External Reporting (EER) - Financial Reporting and Assurance Frameworks - Public Sector Auditing and Assurance Issues - Consideration of matters related to small and medium practices (SMPs) and audits of small- and medium-sized entities (SMEs) - Use of Technology in the Audit including Data Analytics <p>→ Work with relevant local and international stakeholders to influence and support emerging forms of assurance (e.g. IIRC).</p> <p>→ Develop and maintain contact with other key national standard setters and identify opportunities to collaborate on key international auditing and assurance focus areas.</p>		<ul style="list-style-type: none"> • Additional AUASB Auditor Reporting Frequently Asked Questions made available on AUASB Website. • AUASB assisting on academic projects in relation to Assurance Frameworks and Auditor Reporting. • Meetings held with ASIC and audit firms to review issues associated with inspections findings. • Plan to update of the AUASB guidance statement on the Use of Managements Experts approved in December 2018. This is now in development, with a Project Advisory Group (PAG) on the revision of GS 005 addressing ASIC's Inspection findings in place. • Proposed changes to GS 005 shared with ASIC for review. • AASB and AUASB joint publication on insights and research findings on climate-related disclosures for Australian listed entities and the application of APS 2 to financial reporting and assurance on climate-related risks released in December 2018 (and updated in April 2019). • Ongoing support provided by AUASB staff to Australian IAASB EER Project Advisory Panel member. • Attended IAASB EER Roundtable in November 2018. • Consultations held with ACNC & input into AASB paper on Audit requirements under revised NFP reporting framework. • Support/review of relevant Assurance matters provided to AASB as requested on their Framework publications. • PAG comprising ACAG representatives set up in February 2019 to advise on AUASB public sector audit issues project. • Ongoing outreach to gather feedback for Use of Technology in the Audit including Data Analytics project (Phase 2) with firms and ACAG. • Initial scoping of impact/barriers arising from audit technology performed and shared with IAASB Technology Working Group. • LCE survey and AUASB response to IAASB Discussion Paper released in late April 2019 currently in progress.
			<ul style="list-style-type: none"> • Initial planning for AUASB Project to develop guidance in response to audit inspection finding relating to the audit of Revenue has commenced. • Initial scoping commenced for joint National Standard Setters (NSS) initiatives covering AUASB strategic project areas and other thought leadership topics in progress with the IAASB, other like-minded NSS and directly with Canada and NZ.



Completed / On track

23/469



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



Yet to commence / Not completed

AUASB Technical Work Program – 2018-2019 Report for AUASB

High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report for Q3 are highlighted in Bold)
<p>7) Achieve a high level of stakeholder satisfaction through increased engagement (i.e. events and publications) that demonstrate the AUASB has a thorough awareness of ideas and concerns of Australian stakeholders.</p>	<p>→ Hold quarterly meetings with key stakeholders (CPA, CA ANZ, APESB, ASIC) and ensure regular contact with other stakeholders (ACAG, ACNC, CER, APRA, AICD & IPA) as required to:</p> <ul style="list-style-type: none"> - gather timely and relevant feedback on AUASB activities; and - ensure the AUASB Workplan is responsive to user needs. <p>→ Attend and present at regular professional and regulatory forums (e.g. ASIC Standing Committee, Emerging Accounting and Auditing, Issues Discussion Group, BLRF etc).</p> <p>→ AUASB Board members or staff to present at a number of auditing or assurance related events/conferences.</p> <p>→ Author or contribute to multiple articles on major auditing and assurance developments for CPA Australia and CA ANZ professional bulletins and other publication outlets.</p>	<p style="text-align: center;"></p>	<ul style="list-style-type: none"> • AUASB Meeting Register developed to ensure communication with major stakeholders. Discussed and reviewed at all AUASB meetings. • AUASB Chair attended and presented on Audit Quality Matters and other Assurance issues at all ASIC Standing Committee meetings. • AUASB Staff have attended and presented at a number of Audit and Accounting industry forums. • Communications from 2018/19 AUASB meetings (Highlights, Podcasts) all issued as required and on time via AUASB Website. • Regular meetings held with key audit and assurance related personnel at CPA Australia and CA ANZ. • Provided quarterly reports for the FRC on AUASB activities on a timely and in a concise matter, and acted on feedback received. • Quarterly AUASB Update Newsletters issued throughout the 2018-19 year, with new format released in May 2019. • AUASB stakeholder satisfaction survey sent in June 2019, with results to be available in August 2019.
	<p>→ Complete quarterly reports for the FRC and obtain positive feedback from FRC members on AUASB activities.</p> <p>→ Develop and distribute a quarterly AUASB update.</p> <p>→ Ensure all AUASB meeting highlights/podcast available within two working days after each meeting.</p> <p>→ In conjunction with the AASB, conduct regular AUASB Stakeholder satisfaction surveys.</p> <p>→ Create and maintain details of AUASB stakeholders in the new AASB/AUASB Stakeholder Database.</p> <p>→ Contribute to the planning of the new AASB/AUASB website.</p> <p>→ In conjunction with the AASB/AUASB Communications Manager, implement initiatives to monitor and grow stakeholder engagement, measured via increased media mentions, social media activity and level of participation at AUASB events.</p> <p>→ Ensure all AUASB meeting board papers are available on the AUASB website a week in advance.</p>		<p style="text-align: center;"></p>



Completed / On track

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



Yet to commence / Not completed

AUASB Technical Work Program – 2018-2019 Report for AUASB

High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report for Q3 are highlighted in Bold)
<p>8) Conduct awareness initiatives, such as webinars and presentations for new major Standards issued, and promote the development of education initiatives by others (for example professional bodies, regulators, accounting firms and tertiary institutions) by providing, technical input to their initiatives and co-presenting at their education sessions.</p>	<ul style="list-style-type: none"> → Record and release AUASB podcasts and/or webcasts for all AUASB meetings on all major audit and assurance pronouncements. → AUASB Board members or staff to present at a number of auditing or assurance related events/conferences (e.g. CA ANZ Audit Conference; CPA Congress). → Author or contribute to multiple articles on major auditing and assurance developments for CPA Australia and CA ANZ professional bulletins. → Partner with respected auditing and assurance academics on AUASB strategic projects and research activities, for example on Auditor Reporting implementation. → Engage with the CA ANZ and CPA Australia to support the currency and appropriateness of auditing and assurance professional program course materials. → Identify opportunities to present guest lectures or be represented on advisory panels for auditing and assurance topics at major tertiary institutions. 		<ul style="list-style-type: none"> • Podcast with highlights from each AUASB meeting recorded and released following each AUASB meeting. • AUASB Chair keynote speaker at ANU ANCAAR Conference and presenter at World Congress of Accountants. • AUASB assisting on academic projects in relation to Assurance Frameworks and Auditor Reporting. • LCE articles published in CA ANZ and CPA Professional Practice Journals in May and June 2019. • AUASB Chair and/or staff presented at 5 Australian CA ANZ Audit Conferences on current AUASB topics. • Appointment of two 'AUASB Scholars' for 2019 has been completed, with work to commence in July 2019. • AUASB Chair presented keynote address on current audit issues at AFAANZ Conference in early July 2019. • AUASB Technical staff member is on the Deakin University School of Accounting Advisory Board.
			<ul style="list-style-type: none"> • No actions identified by professional bodies in 2018-19 in relation to auditing and assurance professional program course materials or contributions to external articles or bulletins.



Completed / On track

25/469



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



Yet to commence / Not completed

AUASB Technical Work Program – 2018-2019 Report for AUASB

High level priorities to achieve AUASB Strategy & Outcomes	Current Priorities & KPIs	Status	Comments (Changes since last report are highlighted in Bold)
<p>9) Analyse regulator inspection findings to identify AUASB actions that help improve audit quality and the consistency of audit execution, predominately through the development of new publications (such as AUASB Bulletins and frequently asked questions ('FAQs')) that facilitate the consistent application of auditing and assurance standards.</p>	<ul style="list-style-type: none"> → Increased and timelier engagement with ASIC and other regulators responsible for audit and assurance inspections. → Assess and respond to implementation issues and identify opportunities to create additional AUASB guidance to address inspection findings. → Hold quarterly meetings with ASIC and meet at least annually with other regulators (APRA, CER) to discuss audit inspection developments and identify opportunities for AUASB staff involvement. → In conjunction with the NZAuASB, issue new and revised Auditor Reporting FAQs based on stakeholder feedback and issues noted by AUASB staff. → Develop and issue AUASB Bulletins to provide guidance to Stakeholders as required on AUASB Pronouncements and topical/emerging auditing and assurance issues and in conjunction with the release of all major AUASB standards and guidance statements. → Monitor global audit inspection developments and trends and consider impact for Australian auditing and assurance environment. 		<ul style="list-style-type: none"> • Meetings held with ASIC and large audit firms to review common issues associated with inspections findings, resulting in updated AUASB guidance on the use of experts currently in development. • Ongoing collaboration with the FRC on Audit Quality activities in FRC Audit Quality Action Plan, including the ACC and Investor Surveys on perceptions of Audit Quality. • Additional AUASB Auditor Reporting Frequently Asked Questions made available on AUASB Website. • Ongoing discussions with ASIC on issues arising from January 2019 Report on audit inspection findings. • AASB and AUASB joint publication developed on insights and research findings on climate-related disclosures for Australian listed entities and the application of APS 2 to financial reporting and assurance on climate-related risks. • AUASB published media release in response to the latest ASIC Inspection Findings in late January 2019. • Joint AUASB/FRC Report on survey to gather professional investors' perspectives on audit quality, the value of audit, and the factors that influence these released in May 2019. • AUASB staff jointly working with NZAuASB staff on the update of Review Standard ASRE 2410.
			<ul style="list-style-type: none"> • Proposal to develop 3 new AUASB publications covering Assurance Basics and Expectation Gaps; a Guide for Government requirements for Independent Assurance and different types of assurance engagements that can be performed under the AUASB Framework in progress. Updated proposal to be tabled with Board at September 2019 Board meeting.



Completed / On track

26/469



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



Yet to commence / Not completed



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **2.2.0**

Meeting Date: 10 September 2019

Subject: AUASB Strategy Debrief and Discussion

Date Prepared: 3 September 2019

Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the AUASB to review the current AUASB Strategy and determine what changes are required to the 2019-2023 AUASB Strategy and accompanying 2019-20 AUASB Technical Work Program.

Background

1. A joint session to review the AASB and AUASB Strategies was held with the AASB in Sydney as part of the last AUASB Meeting in June 2019. Whilst high level discussions were held by AUASB members in table groups, a full review of the AUASB strategy was not possible, so has been deferred to the September 2019 meeting.

Matters to Consider

1. Refer to the AUASB Strategy Session Outline at **Agenda Item 2.2.1** which lays out the timing and structure of the AUASB's review and discussion on the AUASB Strategy.
2. **Agenda Item 2.2.2** captures the initial AUASB Strategy Assessments made by AUASB members at the June 2019 joint meeting with the AASB. As there was only limited time to discuss and analyse these ratings back in June the intention is to revisit them and consider any impacts for the AUASB strategy going forward.
3. Following the review of the AUASB Strategy AUASB members will be requested to consider the impact for the 2019-20 AUASB Technical Work Program, which will subsequently be finalised by the AUASB Technical Group. To assist with this exercise an extract from the Final AASB-AUASB 2019-20 Corporate Plan, highlighting the planned AUASB activities for 2019-20 mapped to the current AUASB Strategy and KPIs, has been provided for background reading.

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

4. The AUASB Strategy Session will also cover an update of the AUASB's International Strategy and request feedback on some current AUASB board processes.
5. On 4 September 2019 the AUASB Chair, Roger Simnett, and NZAuASB Chair and AUASB Member, Robert Buchanan will be taking part in a similar session to review and provide feedback on the NZAuASB Strategic Action plan for 2019-20. Following this meeting and the discussions with the AUASB on 10 September 2019 the AUASB and NZAuASB Technical Directors will meet and review each board's work programs to ensure alignment.

Material Presented

Agenda Item 2.2.0	AUASB Board Meeting Summary Paper
Agenda Item 2.2.1	AUASB Strategy Session Outline
Agenda Item 2.2.2	Initial AUASB Strategy Assessment from June 2019
Agenda Item 2.3	Extract from AUASB 2019-20 Corporate Plan - AUASB activities mapped to Strategy and KPIs (for noting only)



AUASB Strategy Session Outline

Venue: Rattigan Room, Productivity Commission, Level 12, 530 Collins St
Time(s): Tuesday 10 September 2019, 2:00pm – 4:30pm

Timing	Topic	Presenter
2:00pm	Welcome and Objectives for the Session	Roger
2:05pm	AUASB Technical Work Program - 2018-19 Report (Agenda Item 2.1)	Matthew
2:15pm	AUASB Strategy Debrief and Discussion (Agenda Item 2.2) <ol style="list-style-type: none"> 1. Determine updates to AUASB Strategic Priorities for 2019-22 <ul style="list-style-type: none"> • Identify gaps / redundant items • Agree updated wording 2. Review of Current AUASB Strategic Priorities <ul style="list-style-type: none"> • Evaluation and revisiting ratings from joint Board meeting in Sydney in June • Determine actions to address areas where AUASB Strategy has been changed/needs review for: <ul style="list-style-type: none"> ○ AUASB Board ○ AUASB Technical Team ○ Others? 	Roger / Robin
3:15pm	<i>Afternoon Tea</i>	
3:30pm	AUASB International Strategy <ol style="list-style-type: none"> 1. Review quantum and nature of time and detail on the meeting agenda for International / IAASB topics 2. Feedback mechanism after IAASB meetings 	Rene
3:45pm	AUASB Corporate Plan - 2019-20 (Agenda Items 2.3, 2.4 & 2.5) <ol style="list-style-type: none"> 1. Review 2019-20 AUASB Corporate Plan extract 2. Capture feedback on 2019-20 AUASB Work Program: <ul style="list-style-type: none"> • Resulting from changes in AUASB Strategy • Any items missing / to be removed 3. Allocation of AUASB sponsors to major 2019-20 AUASB Projects 4. AUASB Forward Agenda 	Matthew
4:10pm	Feedback on Board procedures and Documentation <ul style="list-style-type: none"> • Clarity around start/end time • Mail out arrangements • Other feedback 	Matthew
4:20pm	Wrap Up and Outcomes/Actions	Roger



AUASB STRATEGY ASSESSMENT @ JUNE 2019

Strategy	Table 1	Table 2	Table 3	Table 4	Table 5	Total	Average
1 Develop, issue and maintain high quality Australian auditing and assurance standards and guidance that meet the needs of stakeholders. Use IAASB ³ Standards – where they exist, modified as necessary – or develop Australian-specific standards and guidance.	4	4	4	4	2	18	3.6
2 With the AASB, play a leading role in reshaping the Australian external reporting framework by working with regulators to develop objective criteria on: <input type="checkbox"/> who prepares external reports (including financial reports) <input type="checkbox"/> the nature and extent of assurance required on external reports.	3	4	4	2	1	14	2.8
3 Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships	5	5	5	2	4	21	4.2
4 Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.	4	3.5	4	4	4	19.5	3.9
5 Influence initiatives to develop assurance standards and guidance that meet user needs for extended external reporting.	5	5	3	4	4	21	4.2
6 Monitor and respond to, or lead on, emerging issues impacting the development of auditing and assurance standards and guidance, including changing technologies.	4	4	3	2	1	14	2.8
7 Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance.	3	4	4	2	1	14	2.8



Agenda Item 2.3
AUASB Meeting 11 – Sept 2019

Strategic Priority One: Issue Australian Auditing and Assurance Standards

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

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objective 1 PBS Outcome 1 PBS Programs 1, 2, 3 PBS Deliverables 1, 2, 3 PBS Performance Criteria 1, 2, 5, 6	Develop and issue Australian Auditing and Assurance Standards following the release of their IAASB equivalent, ensuring all Australian legislative and regulatory requirements are considered, including changes required by the AUASB's "compelling reason" test.	X	X	X	X	<ul style="list-style-type: none"> Issue all Australian IAASB equivalent Standards and Exposure Drafts within 3 months of PIOB clearance or 1 month of AUASB approval, as appropriate 	<ul style="list-style-type: none"> ASA 315 ASRS 4400
	Coordinate and develop high quality responses from the AUASB to all IAASB exposure drafts, other IAASB pronouncements and invitations to comment, incorporating relevant feedback from AUASB members and Australian stakeholders.	X	X	X	X	<ul style="list-style-type: none"> Release Exposure Drafts/Discussion Papers via the AUASB Website within two weeks of approval by AUASB Stakeholder engagement plan developed and implemented for each IAASB pronouncements Responses developed with appropriate AUASB input and sent to the IAASB by the closing date 	<ul style="list-style-type: none"> ISA 600 ED Monitor development of IAASB Quality Management Standards (ISQM 1, ISQM 2 & ISA 220) EER Guidance Phase 2 LCE Discussion Paper
	Develop and issue implementation support materials and activities for all new IAASB/AUASB standards.	X	X	X	X	<ul style="list-style-type: none"> AUASB implementation support materials and activities for all new IAASB/AUASB standards in place before effective date 	<ul style="list-style-type: none"> ASA 540 ASA 315
	Conduct post-implementation reviews of IAASB equivalent issued AUASB Standards, feeding into the IAASB's post-implementation review projects as required.	X	X	X	X	<ul style="list-style-type: none"> Obtain evidence appropriately evaluating implementation of IAASB equivalent issued AUASB Standards in Australia Provide feedback to IAASB as requested 	<ul style="list-style-type: none"> Auditor Reporting Post Implementation Review
	Finalise and implement revised AUASB Due Process procedures and documentation for exposing and issuing International Exposure Drafts.	X				<ul style="list-style-type: none"> Revised AUASB Due Process for exposing and issuing International Exposure Drafts in place for all IAASB EDs issued in 2020 and beyond 	<ul style="list-style-type: none"> Board approval of revised process Update AUASB Due Process Documentation



Strategic Priority Two: Develop, Update and Maintain Australian Specific Standards and/or Guidance Statements

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

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objective 1 PBS Outcome 1 PBS Programs 1, 2 PBS Deliverables 1, 2 PBS Performance Criteria 1, 2, 3, 4	Develop and issue Australian specific AUASB Standards and Exposure Drafts within one month of AUASB approval, in accordance with AUASB legislative drafting and registration requirements.	X	X	X	X	<ul style="list-style-type: none"> Issue all Australian specific AUASB Standards and Exposure Drafts within one month of AUASB approval Finalise conforming amendments and compilation standards as a result of changes to AUASB standards within one month of the AUASB standard being issued 	<ul style="list-style-type: none"> ASRE 2410 ASRS 4400
	Update existing AUASB pronouncements, including identifying and revising all AUASB Guidance Statements which are out of date or need revision based on AUASB member and stakeholder feedback.	X	X	X	X	<ul style="list-style-type: none"> Complete project to review all AUASB Guidance Statements (GS) by December 2019 Develop and implement Project Plans for the update all GS identified as out of date Release updated GS within two weeks of approval by AUASB 	<ul style="list-style-type: none"> GS 005 (Use of Experts) GS 008 (Rem Reporting) GS 009 (SMSFs) GS 012 (APS 310) Other GS's as required
	Determine where other AUASB Framework Pronouncements require updating.	X	X	X	X	<ul style="list-style-type: none"> Review and update other AUASB Framework Pronouncements, as required. 	<ul style="list-style-type: none"> None currently identified for 2019-20
	Conduct post-implementation reviews of Australian specific AUASB Standards, as required.	X	X	X	X	<ul style="list-style-type: none"> Conduct post-implementation reviews of Australian specific AUASB Standards, within 2 years of their operative date. 	<ul style="list-style-type: none"> ASAE 3100 ASAE 3500



Strategic Priority Three: Monitor the Assurance Environment

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

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
All Strategic Objectives PBS Outcome 1 PBS Programs 1, 2, 3 PBS Deliverables 1, 2, 3 PBS Performance Criteria 4	Review and update the 2019-2023 AUASB Strategy and 2019-20 AUASB Technical Work Program based on feedback from AUASB members and key stakeholders and informed by the final 2020-2023 IAASB Strategy.	X	X	X	X	<ul style="list-style-type: none"> Updated AUASB 2019-23 Strategy based on AUASB feedback by September 2019 Finalise 2019-20 Technical Work Program and align it to AUASB 2019-23 Strategy by September 2019 Complete quarterly updated and reporting of progress against AUASB 2019-20 Technical Work Program for FRC and AUASB for each relevant FRC and AUASB meeting 	<ul style="list-style-type: none"> Update AUASB Strategy Develop 2019-20 Technical Work Program Produce a quarterly status update on auditing and assurance matters and progress against the Work Program for the AUASB and FRC.
	Work with the FRC to develop the FRC Audit Quality Plan and implement those elements that are the responsibility of the AUASB.	X	X	X	X	<ul style="list-style-type: none"> AUASB involvement in FRC Audit Quality Plan approved by FRC AUASB Audit Quality activities delivered as required by the updated FRC Audit Quality Plan 	<ul style="list-style-type: none"> Activities from updated FRC Audit Quality Action Plan Audit Quality Surveys of Audit Committee Chairs and CFO's
	Monitor developments associated with the Joint Parliamentary Inquiry on the regulation of Auditing, working across the profession to promote audit quality and the AUASB's role.	X	X	X	X	<ul style="list-style-type: none"> Develop submission for parliamentary inquiry by September 2019 Coordinate with other key stakeholders across the profession (e.g. FRC, APESB) as required Prepare and assist the AUASB Chair with any presentations to the parliamentary joint committee Monitor and respond to any recommendations relevant to the AUASB 	<ul style="list-style-type: none"> AUASB submission to PJC inquiry Presentations to PJC enquiry by AUASB Chair AUASB responses to PJC findings
	Following on from the AUASB LCE Survey work with small and medium audit practitioners to determine implications for Australian Standard Setting.	X	X	X	X	<ul style="list-style-type: none"> Develop additional guidance and initiatives to support LCE auditors based on LCE survey outcomes Provide input to IAASB on proposed response to LCE Discussion Paper 	<ul style="list-style-type: none"> LCE specific guidance Feedback to IAASB on global issues



Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
	Monitor developments in public sector auditing and assurance issues by maintaining regular engagement with Auditors-General through the AUASB Public Sector Audit Issues Project Advisory Group and the ACAG Auditing Standards Subcommittee.	X	X	X	X	<ul style="list-style-type: none"> Develop and have approved specific AUASB guidance (in a form to be determined) for public sector auditors on issues raised by the Public Sector Audit Issues PAG Provide ongoing input to FRC subcommittee on Public Sector Reporting and Assurance matters Positive engagement with Auditors-General and ACAG Auditing Standards Committee 	<ul style="list-style-type: none"> Public Sector specific AUASB GS (TBC) Input to FRC on Public Sector Reporting and Audit issues Regular engagement with A-Gs and ACAG
	Assess and respond to implementation issues and issue AUASB guidance to address key inspection findings.	X	X	X	X	<ul style="list-style-type: none"> Analyse and respond to 2019 ASIC inspection Findings Identify and produce relevant guidance materials addressing common inspection findings in key audit areas Work with AASB to identify and to accounting and auditing issues impacting audit quality 	<ul style="list-style-type: none"> Finish update of GS 005 Plan guidance on auditing of revenue Engage with practitioners and stakeholders to analyse 2019 inspection outcomes
	Monitor international auditing and assurance developments (including global audit inspection developments and trends) and consider the impact for the Australian auditing and assurance environment.	X	X	X	X	<ul style="list-style-type: none"> Engage with IAASB and NSS representatives to monitor international developments Consider issues arising from UK audit inquiries Review IFIAR and other global publications to determine impact on Australian standard setting environment 	<ul style="list-style-type: none"> Response to Monitoring Group proposals (if revived) Monitor and consider findings from UK audit inquiries
	Hold regular formal meetings with the professional accounting bodies, other standard setting bodies and regulators to discuss trends in assurance environment and identify the impact on the AUASB Agenda and Technical Work Program.	X	X	X	X	<ul style="list-style-type: none"> Regular meetings (at least quarterly) to be held with ASIC, APESB, CA ANZ and CPA Australia. Meeting with other key stakeholders (e.g. APRA, AICD) to be held as necessary 	



Strategic Priority Four: Build, Maintain and Enhance Key International Relationships

Build, maintain and enhance key international relationships around key focus areas with both global and national standard-setters.

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objectives 3, 4 PBS Outcome 1 PBS Program 3 PBS Deliverable 3 PBS Performance Criteria 5, 6	AUASB to be represented at all IAASB meetings.	X	X	X	X	<ul style="list-style-type: none"> AUASB Chair and Technical Team member to attend all IAASB meetings Summary of each IAASB meeting prepared and presented to the AUASB at next AUASB meeting 	
	Arrange for AUASB review of relevant IAASB projects at each AUASB meeting and share feedback on key matters with regional IAASB members and relevant IAASB Task Force members before each IAASB meeting.	X	X	X	X	<ul style="list-style-type: none"> IAASB papers reviewed and papers prepared by AUASB staff for each AUASB meeting. Feedback on AUASB key issues prepared and sent to Australasian IAASB members and relevant Task Forces prior to each IAASB meeting 	<ul style="list-style-type: none"> AUASB Technical Team analysis of IAASB papers provided for each AUASB meeting
	With the IAASB, Canadian AASB and NZAuASB, identify and implement initiatives to drive increased sharing and collaboration across the National Standards Setting (NSS) network, including attending and presenting relevant topics at regional and global IAASB NSS meetings.	X	X	X	X	<ul style="list-style-type: none"> Develop and share updated NSS vision and roadmap Collaboration and support from IAASB steering committee for NSS initiatives Increased influence of NSS on IAASB Agenda and Outcomes Identify and implement initiatives to collaborate on key international auditing and assurance focus areas with other key national standard setters. 	<ul style="list-style-type: none"> Regularly scheduled NSS meetings with AASB Canada and NZAuASB Planning and developing of materials for 2020 IAASB NSS Meeting
	Review and contribute as appropriate to other global initiatives on emerging forms of assurance, such as IIRC, GRI and WBCSD.	X	X	X	X	<ul style="list-style-type: none"> Attend and contribute to calls and meetings as required. 	
	Engage with the IAASB EER Project Advisory Panel and support associated regional activities and local panel members.	X	X	X	X	<ul style="list-style-type: none"> Monitor and contribute to IAASB EER Project Advisory Panel meetings Link in Australian EER initiatives where appropriate 	<ul style="list-style-type: none"> Develop summaries for IAASB PAP member Present updates at AUASB meetings



Strategic Priority Five: Harmonisation of Auditing and Assurance Standards with New Zealand

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

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objectives 1, 3 PBS Outcome 1 PBS Programs 1, 2, 3 PBS Deliverables 1, 2, 3 All PBS Performance Criteria	AUASB Chair to attend all NZAuASB meetings as a NZAuASB Member.	X	X	X	X	<ul style="list-style-type: none"> AUASB Chair input into NZAuASB meetings AUASB staff to review relevant NZAuASB board papers and provide feedback to AUASB Chair and NZAuASB staff where applicable Updates from the NZAuASB Chair to the AUASB at each meeting 	
	Ensure AUASB Standards are issued in accordance with the principles of harmonisation with New Zealand Standards.	X	X	X	X	<ul style="list-style-type: none"> All AUASB Standards are issued in accordance with the common set of principles in relation to the standards that each board issues 	<ul style="list-style-type: none"> ASRE 2410 ASA 315
	Work collaboratively with NZAuASB Technical Staff to ensure co-operation and co-ordination between the AUASB and NZAuASB's activities, including on joint AUASB/NZAuASB projects where appropriate.	X	X	X	X	<ul style="list-style-type: none"> Identification and prioritisation of joint AUASB/NZAuASB projects AUASB and NZAuASB staff to ensure collaboration on the 'high' rated joint projects For other potential joint projects, the AUASB and NZAuASB Technical Director to build joint activities into each board's respective technical work programs 	<ul style="list-style-type: none"> Collaborate on agreed high priority joint projects: <ul style="list-style-type: none"> IAASB Quality Management Standards Auditor Reporting Post Implementation Review LCE Discussion Paper NSS Collaboration Review of Compelling Reasons Test and standard-setting process Assurance for Small NFPs and Charities Update of ASRE/NZRE 2410 Identify other opportunities to share resources, either directly or through the NSS AUASB/NZAuASB joint staff meeting to be held in early 2020.



Strategic Priority Six: Develop Thought Leadership

Develop thought leadership by identifying and implementing strategic projects that address emerging issues in auditing and assurance.

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objectives 2, 5, 6 PBS Outcome 1 PBS Programs 1, 2, 3 PBS Deliverables 1, 2, 3 PBS Performance Criteria 3, 4, 6	Undertake strategic thought leadership projects in the following topical or emerging auditing and assurance areas: - Audit quality - Assurance over Emerging Forms of External Reporting (EER) and other information in annual reports and other public reports - Assurance of Financial Reporting Frameworks - Audit and assurance of Charities and Not for Profit organisations - The Value of Audit and reducing the Audit Expectation Gap - Use of Technology in the Audit, including Data Analytics	X	X	X	X	<ul style="list-style-type: none"> Project plans developed and 2019-20 outputs identified for each strategic thought leadership project area Develop and implement outreach and engagement plans with subject matter experts and key stakeholders for each strategic thought leadership project area Regular updates provided to AUASB members at AUASB meetings 	<ul style="list-style-type: none"> FRC Audit Quality Action Plan EER Thought Leadership Input into global EER activities through IAASB EER PAP Collaboration with AASB on common areas of focus for Reporting and Assurance Frameworks Development of guidance targeted at NFP Auditors Engagement with ACNC on Assurance requirements for NFPs New Assurance Framework Publications Develop local guidance addressing common technology issues auditors face at a practical level Provide input to IAASB Technology and Audit Evidence Working Groups
	In accordance with the AUASB Evidence Informed Standard Setting Strategy, support or conduct high quality research in these strategic thought leadership areas.	X	X	X	X	<ul style="list-style-type: none"> Promote research opportunities in these strategic thought leadership projects through academic networks and conferences in accordance with the EISS strategy 	<ul style="list-style-type: none"> Collaboration with respected academics to identify and develop research in these strategic thought leadership projects published on AUASB Website Outputs from current and future AUASB Research Scholars
	Author or contribute to publications on major auditing and assurance developments.	X	X	X	X	<ul style="list-style-type: none"> AUASB board members or staff to publish articles or publications in selected strategic thought leadership project areas 	



Strategic Priority Seven: Increase Stakeholder Satisfaction and Engagement

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

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objective 4 & 7 PBS Outcome 1 PBS Programs 1, 2 PBS Deliverables 1, 2 PBS Performance Criteria 3, 4	Develop and issue AUASB Publications (e.g. Bulletins, FAQs) to provide guidance to Stakeholders as required on AUASB Pronouncements and topical/emerging auditing and assurance issues and in conjunction with the release of all major AUASB standards and guidance statements.	X	X	X	X	<ul style="list-style-type: none"> Develop Bulletins based on evidence and existing AUASB requirements Engage with regulators, stakeholders, AUASB members and other stakeholders as required to develop content Promote availability of AUASB guidance through various communication channels 	<ul style="list-style-type: none"> Auditors responsibility for Framework Bulletin ASA 540 Client Briefing
	Implement and promote the AUASB Evidence Informed Standard Setting (EISS) Strategy.	X	X	X	X	<ul style="list-style-type: none"> Communicate benefits of EISS Strategy to academic community at conferences and technical forums Promote engagement with AUASB to attain research in thought leadership areas 	<ul style="list-style-type: none"> Launch EISS Strategy at 2019 AFAANZ Conference Approved plans by AUASB Academic Scholars to co-develop research and education materials with the AUASB Develop AUASB Research Centre on AUASB Website
	AUASB members or staff to attend and present at auditing or assurance related professional and academic events/conferences and regular professional and regulatory forums.	X	X	X	X	<ul style="list-style-type: none"> Identify appropriate local and international professional and academic events/conferences for the AUASB to present at or attend Attendance at local professional and regulatory forums 	<ul style="list-style-type: none"> Keynote at 2019 AFAANZ Conference Present at 2019 AFAANZ SIG AUASB involved at 2019 ANCAAR Conference Regular present at ASIC Audit Committee Chairs Forum
	Obtain positive feedback from FRC members on AUASB activities.	X	X	X	X	<ul style="list-style-type: none"> Valuable engagement with FRC members at FRC meetings AUASB staff to develop auditing and assurance related papers for FRC meetings 	<ul style="list-style-type: none"> Collaborate with FRC on matters related to the Parliamentary Joint Committee Inquiry on the regulation of Auditing FRC Audit Quality Plan outputs Public Sector Reporting Framework and Auditing Issues Auditing Issues for Charities and NFPs



Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
	Develop and distribute a quarterly AUASB Update publication.	X	X	X	X	<ul style="list-style-type: none"> AUASB Newsletters developed and sent out in Sept 2019, Dec 2019, March 2020 and June 2020 	
	Conduct a regular AUASB Stakeholder Satisfaction Survey and respond to results.	X	X	X	X	<ul style="list-style-type: none"> Evaluate results from and develop actions in response to inaugural AUASB Stakeholder Satisfaction Survey completed in July 2019 Consider need for additional survey in 2020. 	
	Implement initiatives to support and grow stakeholder engagement, measured via increased media mentions, social media activity and level of participation at AUASB events.	X	X	X	X	<ul style="list-style-type: none"> Develop AUASB Communications Strategy Develop AUASB Message Calendar process Greater use of on-line tools to communicate AUASB projects (e.g. Webinars) Improved processes and communications to drive attendance and promotion of AUASB meetings and events 	<ul style="list-style-type: none"> Increased engagement and interaction with stakeholders over virtual platforms Higher attendance at AUASB events (physical and on-line) All AUASB meeting board papers are available on the AUASB website a week in advance of each AUASB meeting Highlights/Podcast are available within two working days after each AUASB meeting.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **2.4.0**

Meeting Date: 11 September 2019

Subject: AUASB Key Projects – Board Sponsor and Technical Group allocation

Date Prepared: 3 September 2019

Action Required

For Information Purposes Only

Agenda Item Objective

To update the AUASB as to the responsible parties for the main AUASB projects on the work program.

Background

One of the objectives of the AUASBs International Strategy (updated April 2019), is to influence the setting of international standards to achieve public interest outcomes and to serve as the most effective base possible for Australian auditing and assurance standards.

One of the ways we do this is for each major international project, an AUASB member (subject matter expert) and AUASB technical group member with the appropriate knowledge, expertise and capacity is identified. Collectively, in order to inform and direct AUASB discussions, the AUASB Board member (project sponsor) and AUASB technical group member will identify and understand the issues being considered by the IAASB, keeping the AUASB up to date with those issues and determine the matters to feed back to the IAASB through the Australasian IAASB members.

For significant domestic projects (including strategic projects), the same process is undertaken. The AUASB has an AUASB member that acts as a project sponsor and where appropriate is nominated to be chair of a project advisory group and provide input and limited support to technical staff on a particular project.

Attached to this BMSP is the allocation of AUASB members to each major area relating to Standards & Guidance, Strategic Projects and Thought Leadership and other AUASB Priorities as laid out in the 2019-20 AUASB Corporate Plan (refer **Agenda Item 2.3**).

Material Presented

Agenda Item 2.4 AUASB Board Meeting Summary Paper

Agenda Item 2.4.1 Attachment to Board Meeting Summary Paper

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Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 2.4.1

Meeting Date: 11 September 2019

Subject: AUASB Key Projects – Board Sponsor and Technical Staff allocation

Date Prepared: 3 September 2019

Standards & Guidance		
Subject Matter	AUASB Member	AUASB Staff
ISQC 1	Gareth Bird	Rene Herman
ISQC 2	Gareth Bird	Marina Michaelides
ISA 220	Julie Crisp	Tim Austin
ISA 315	Justin Reid	Anne Waters
ISA 540	Klynton Hankin	Rene Herman
ISA 600	Rodney Piltz	Rene Herman
AUP	Robin Low	Rene Herman
Audits of Less Complex Entities	Justin Reid	Tim Austin
EER Guidance	Jo Cain	Marina Michaelides
ASRS 2410	Carolyn Ralph	Anne Waters
GS 005	Gareth Bird	Rene Herman
GS 009 (SMSF)	Justin Reid	Marina Michaelides
GS 012 (APRA)	Klynton Hankin	Johanna Foyster
Professional Scepticism	Noel Harding	Johanna Foyster

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Strategic Projects & Thought Leadership		
Subject Matter	AUASB Member	AUASB Staff
Audit Quality	Roger Simnett	Anne Waters
EER	Jo Cain	Marina Michaelides
Assurance of Financial Reporting Frameworks	Roger Simnett	Anne Waters
Audit and Assurance of Charities and Not for Profit Organisations	Justin Reid	Tim Austin
The Value of Audit and reducing the Audit Expectation Gap	Roger Simnett	Tim Austin
Use of Technology in the Audit, including Data Analytics	Rodney Piltz	Rene Herman / Tim Austin
Public sector matters	Julie Crisp	Matthew Zappulla
Other AUASB Priority Areas		
Subject Matter	AUASB Member	AUASB Staff
NSS Coordination/initiatives	Robert Buchanan / Roger Simnett	Matthew Zappulla
Liaison between NZ and Australia	Robert Buchanan / Roger Simnett	Matthew Zappulla
Research strategy / evidence informed	Noel Harding	Anne Waters

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



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 2.5

Meeting Date: 10-11 September 2019
Subject: AUASB Forward Agenda
Date Prepared: 27 August 2019
Prepared By: Jean You / Matthew Zappulla

Background

The below table sets out the expected timing of when the AUASB's projects and other matters will be discussed at AUASB meetings for all planned dates until the end of 2019.

This timing is based on the best estimates of the AUASB Technical Group and the IAASB 2019 Workplan. As projects progress and circumstances change, further amendments to the below table will be required.

Items highlighted are expected to require a larger allocation of agenda time and/or relate to critical decisions for the AUASB.

This forward agenda will be updated for the December 2019 AUASB meeting with the forward agenda for 2020 following the finalisation of the 2019-20 AUASB Technical Work program and the 2020 IAASB Work Plan.

Forward Agenda

	2019
Meeting month	Dec
# of days	2
AUASB Pronouncements	
ASA 540 Implementation	✓
ASA 315	✓**
GS 005 <i>Using the Work of a Management's Experts</i>	✓**
GS 009 <i>Auditing Self-Managed Super Funds</i>	✓
GS 012 <i>Prudential Reporting</i>	✓
ASRE 2410 <i>Review Engagements</i>	✓**
International Projects (Review of IAASB Papers)	
ISQM 1	✓
ISQM 2	✓
ISA 220	✓
ISA 600	✓
ISRS 4400 – AUP	✓#
Emerging forms of External Reporting – Phase 2	✓#
Auditor Reporting PIR	✓
ISA 540 Implementation	✓
Auditing Less Complex Entities	✓
Audit Evidence	✓
Professional Scepticism	✓
IESBA Coordination (new code)	✓
Report on IAASB Meetings	✓

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	2019
Meeting month	Dec
# of days	2
AUASB Strategic Projects / Thought Leadership	
Audit Quality (including Parliamentary Inquiry)	✓
Use of Technology in the audit	✓
Reporting and Assurance Frameworks	TBD
Auditing Less Complex Entities	✓
EER	✓
Public Sector	✓
Other AUASB Agenda Items	
Other Assurance Frameworks Publications	✓
APESB Chair Update	✓
AUASB Technical work plan update	✓
AUASB Standards Due Process	✓
Restructured APES Code Amendment	✓
AASB-AUASB Annual Report	✓

Notes:

* Anticipated finalisation of Australian Exposure Draft

** Anticipated finalisation of Australian Pronouncement

Consideration of IAASB fatal flaw (standard or exposure draft)

^ Consideration of IAASB Consultation Paper

APPENDIX 1 – SUPPORTING INFORMATION

IAASB Forward Agenda International Standard key dates

Standard	Meeting	Outcome
ISA 315	Sep 2019	Anticipated finalisation of Standard
ISQM 1	Jun 2020	Anticipated finalisation of Standard
ISQM 2	Jun 2020	Anticipated finalisation of Standard
ISA 220	Jun 2020	Anticipated finalisation of Standard
ISA 600	Mar 2020	Anticipated finalisation of Exposure Draft
AUP	Dec 2019	Anticipated finalisation of Standard
LCE	Mar 2020	Anticipated finalisation of Feedback Statement
EER	Dec 2019	Anticipated finalisation of Exposure Draft (Phase 2)

AUASB/IAASB Meeting timing

AUASB Meeting	IAASB Meeting
11 Sep 19	16 Sep 19
3-4 Dec 19	9 Dec 19

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Australian Accounting Standards Board
Auditing and Assurance Standards Board

CORPORATE PLAN

2019 - 2020



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Introduction

As agreed with the Department of Finance, the 2019-20 Corporate Plans for the Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) have been prepared as a single document, with the specific purpose and significant activities of each Board separately presented where required by Subsection 35(1) of the *Public Governance, Performance and Accountability Act 2013*.

Accountable authority approval

Australian Accounting Standards Board

I, Kris Peach, as the accountable authority of the Australian Accounting Standards Board, present the 2019-20 AASB Corporate Plan, which is prepared for the 2019-20 period and covers the periods 2019-20 to 2022-23, as required under paragraph 35(1) (b) of the *Public Governance, Performance and Accountability Act 2013*.

30 August 2019

Auditing and Assurance Standards Board

I, Roger Simnett AO, as the accountable authority of the Auditing and Assurance Standards Board, present the 2019-20 AUASB Corporate Plan, which is prepared for the 2019-20 period and covers the periods 2019-20 to 2022-2023, as required under section 35(1)(b) of *the Public Governance, Performance and Accountability*.

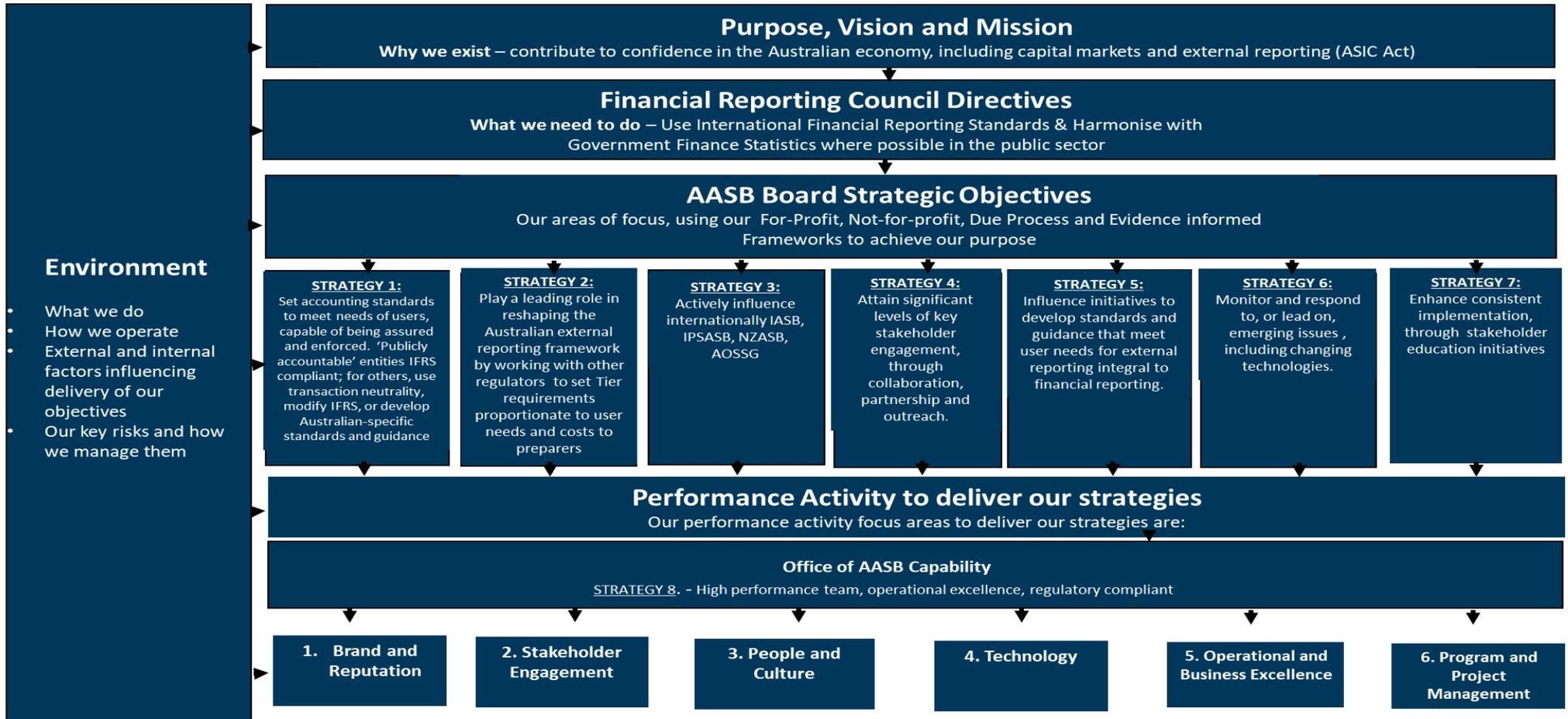
30 August 2019



The AASB and AUASB Corporate Plan

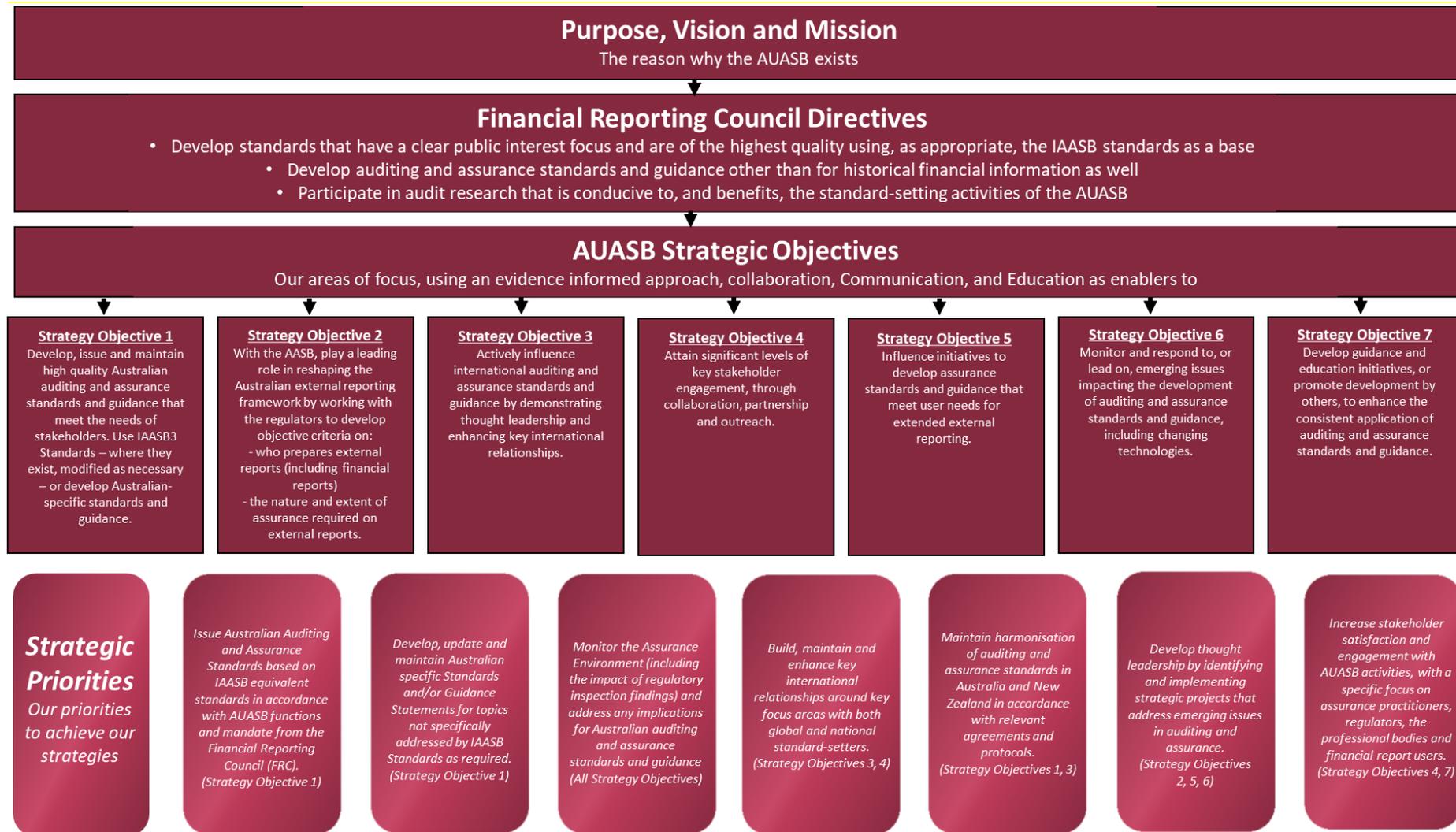
The corporate plan of the AASB and AUASB sets out why we exist, what we need to do to achieve our purpose, the factors that influence how we achieve our purpose, the activities we intend to undertake and the ways in which we measure whether we have achieved our purpose, as set out in the diagrams below.

The elements of the AASB's operations are set out below:





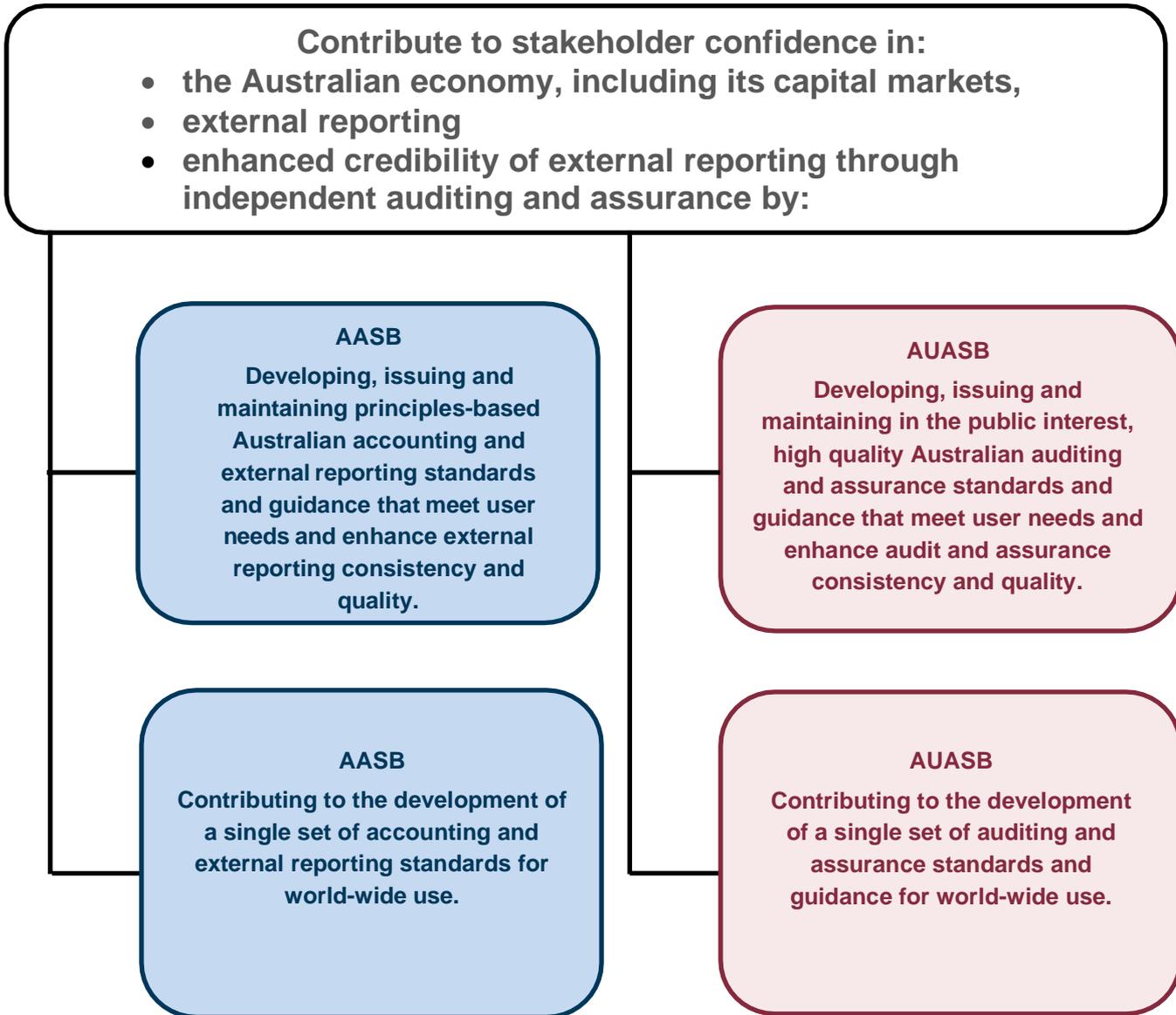
The elements of the AUASB's operations are set out below:





The Purpose of the AASB and AUASB

The AASB and AUASB's (the entities') purpose, vision and mission are set out below.





The strategic objectives of the Boards to achieve their purpose under the Australian Securities and Investment Commission (ASIC) Act and the Financial Reporting Council (FRC) directives are set out below:

AASB	AUASB
<p>1. Develop, issue and maintain principles-based, Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced. For 'publicly accountable'¹ entities maintain IFRS² compliance; for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian-specific standards and guidance.</p>	<p>1. Develop, issue and maintain high quality Australian auditing and assurance standards and guidance that meet the needs of stakeholders. Use IAASB Standards - where they exist, modified as necessary - or develop Australian-specific standards and guidance.</p>
<p>2. With the AUASB, play a leading role in reshaping the Australian external reporting framework by working with the regulators to develop objective criteria on:</p> <ul style="list-style-type: none"> • who prepares external reports (including financial reports) • the nature and extent of assurance required on these external reports. 	<p>2. With the AASB, play a leading role in reshaping the Australian external reporting framework by working with the regulators to develop objective criteria on:</p> <ul style="list-style-type: none"> • who prepares external reports (including financial reports) • the nature and extent of assurance required on external reports.
<p>3. Actively influence IASB⁴, IPSASB⁵ standards and other international accounting and external reporting standards and guidance, by demonstrating thought leadership and enhancing key international relationships.</p>	<p>3 Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships.</p>
<p>4. Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.</p>	<p>4 Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.</p>
<p>5. Influence initiatives to develop standards and guidance that meet user needs for external reporting integral to financial reporting.</p>	<p>5 Influence initiatives to develop assurance standards and guidance that meet user needs for extended external reporting.</p>
<p>6. Monitor and respond to, or lead on, emerging issues impacting the development of accounting and external reporting standards, including changing technologies.</p>	<p>6 Monitor and respond to, or lead on, emerging issues impacting the development of auditing and assurance standards and guidance, including changing technologies.</p>
<p>7. Develop guidance and education initiatives, or promote development by others, to enhance the consistent application of accounting and external reporting standards and guidance.</p>	<p>7 Develop guidance and education initiatives, or promote development by others, to enhance the consistent application of auditing and assurance standards and guidance.</p>
<p>8. Build a high performing team that operates efficiently, effectively and within budget, complying with all relevant legislation and Commonwealth Government requirements</p>	

1. Publicly accountable entities include those: a) with debt or equity instruments traded in a public market b) holding assets in a fiduciary capacity. (AASB 1053 *Application of Tiers of Australian Accounting Standards*)

2. International Financial Reporting Standards

3. International Auditing and Assurance Standards Board

4. International Accounting Standards Board

5. International Public Sector Accounting Standards Board



Environment

What we do

Accounting standards set out how entities must report externally on key transactions and events, and on their performance and financial health, in a way that is consistent and comparable with other entities in Australia and internationally. This enables people outside the entity to make informed decisions about their dealings with that entity, and making decisions such as whether to:

- invest in a listed company's shares
- trade with/extend credit to an entity
- donate to a particular charity
- hold government accountable for the use of taxpayer funds.

The AASB has a Conceptual framework that sets out the purpose of preparing financial statements, the key elements of financial statements (assets, liabilities, revenue, expenses and equity), and provides guidance on how to set standards. Accounting standards generally set recognition, measurement, classification, presentation and disclosure requirements for the elements of financial statements. The transparency, comparability and accountability required by accounting standards underpin public and investor confidence in the Australian economy. Accounting standards reduce information gaps and enable more efficient resource/capital allocations. To be effective, they must be capable of being audited and enforceable by other regulators.

Auditing and Assurance standards include requirements and application guidance that set out how auditors and assurance practitioners conduct an audit or assurance engagement. The AUASB is an independent standard-setting body that serves the public interest by setting high-quality auditing and assurance standards which are based on International Standards issued by the International Auditing and Assurance Standards Board (IAASB) that are generally accepted worldwide. The use of a single set of robust auditing and assurance standards contributes to enhanced engagement quality and consistency of practice throughout the world, and strengthened public confidence in the global auditing and assurance profession.

The AUASB has a well-established Assurance Framework that includes different types of assurance standards depending on the nature and extent of assurance required. They are sector and framework neutral, and principles based to encourage the auditor or assurance practitioner to apply their professional judgement and exercise professional skepticism at all times.

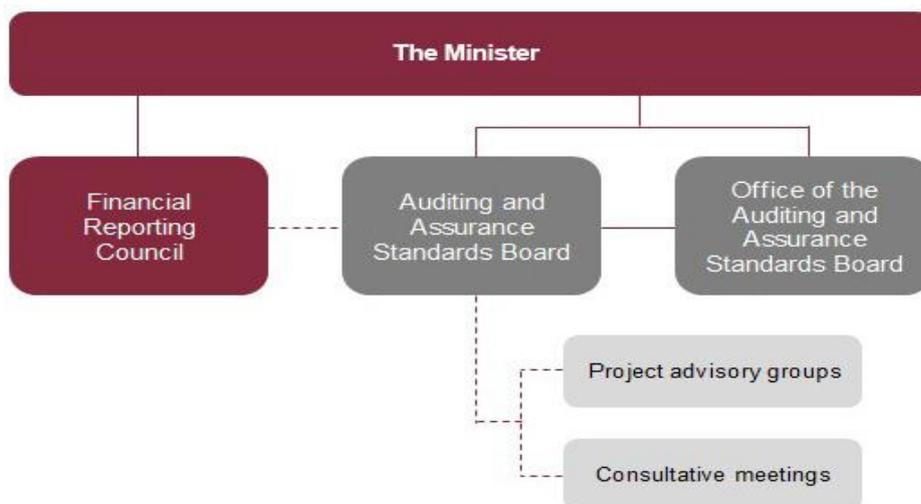
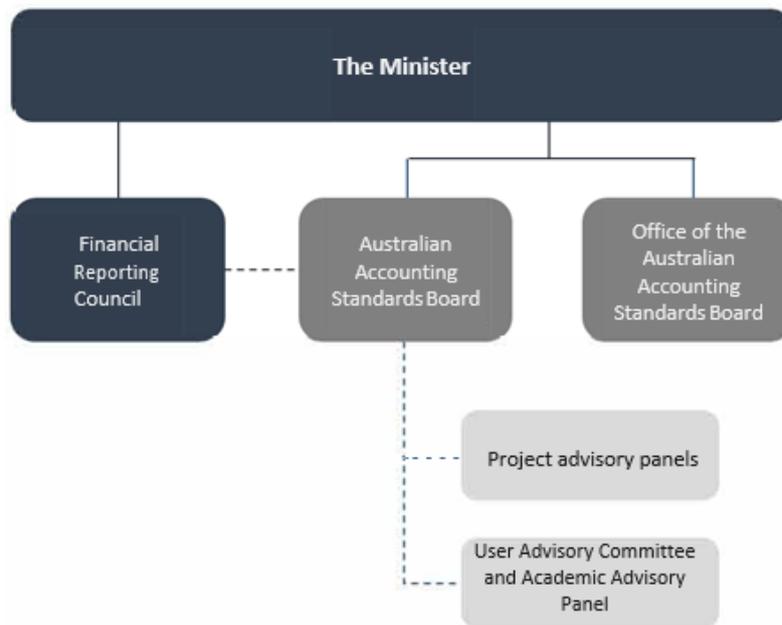
The AASB and AUASB are responsible for setting standards in three sectors, being for-profit companies, not-for-profit private sector entities (e.g. charities and incorporated associations), and the public sector. The



complexities of setting standards appropriate for all three sectors increases the challenges of achieving appropriate stakeholder understanding of the AASB's and AUASB's roles and engagement with their standard-setting activities.

How we operate

The AASB and AUASB operate within a framework set out in Part 12 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) and are part of the Commonwealth Treasury portfolio. See Appendix 1. Our funding is provided by the Commonwealth and the States and Territories. Our accountability responsibilities are set out below.





The Boards and their Offices

Each entity has two arms:

1. the Board itself
2. the technical staff of each entity who are employed by the relevant Office of the AASB or Office of the AUASB (the non-corporate government entity). The office of the AASB employs the administrative staff who support both the AASB and the AUASB.

The Boards of the AASB and AUASB are technical boards contributing to the strategic direction of the entities. The Boards do not have supervisory powers in respect of the functions and administration of the Offices of the AASB and the AUASB, which are the responsibility of the respective Chairs. Our Board members have a diverse range of skills, experiences, professional affiliations, geographies and industry and sector experience to enhance the quality of our standards.

Board members serve on Project Advisory Panels and Groups and participate in a range of public forums. In addition:

- the Australian-based representatives (if any) on the IPSASB and the IASB's IFRS Interpretations Committee, are observers at the AASB meetings
- the Australian-based member of the IAASB is an observer at the AUASB meetings
- the AASB Chair and the AUASB Chair are both members of the respective New Zealand Boards.

Each year the FRC advertises for new Board members across both entities.

Financial Reporting Council and Minister Oversight

The FRC provides broad strategic direction and advice to the Boards and has oversight of the process for setting accounting and assurance standards in Australia. The FRC appoints Board members (other than the Chairs).

The FRC has directed the AASB to:

- adopt accounting standards that are the same as those issued by the International Accounting Standards Board (IASB) (Direction approved on 5 September 2002);
- pursue the harmonisation of Government Financial Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting for the public sector (Direction approved on 12 December 2002).

The FRC has directed the AUASB on 6 April 2005 to:

- Develop Australian Auditing Standards that have a clear public interest focus and are of the highest quality;
- Use, as appropriate, International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop Australian Auditing Standards;



- Make such amendments to ISAs as necessary to accommodate and ensure that Australian Auditing Standards both exhibit and conform to the Australian regulatory environment and statutory requirements, including amendments as necessary for Australian Auditing Standards to be legally enforceable under the requirements of the Corporations Act 2001;
- Monitor and review auditing and assurance standards issued by other standard-setting bodies in other national jurisdictions; and
- Continue to develop auditing and assurance standards for other than historical financial information as well as develop and issue other guidance on auditing and assurance matters, and participate in audit research that is conducive to, and which significantly benefits, the standard-setting activities of the AUASB.

The relevant Minister appoints the Chairs of the AASB and AUASB. The Chairs are accountable to the Minister regarding the operations of the Board and the supporting Offices.

Although our funding is provided by government, we are independent as the ASIC Act expressly limits the FRC's and Minister's ability to direct the AASB or AUASB in relation to the development, or making, of a particular standard. The FRC and Minister do not have the power to veto a standard made, formulated or recommended by the AASB or the AUASB in that neither the FRC or the Minister can direct a particular technical outcome.

The Standards as Legislative Instruments

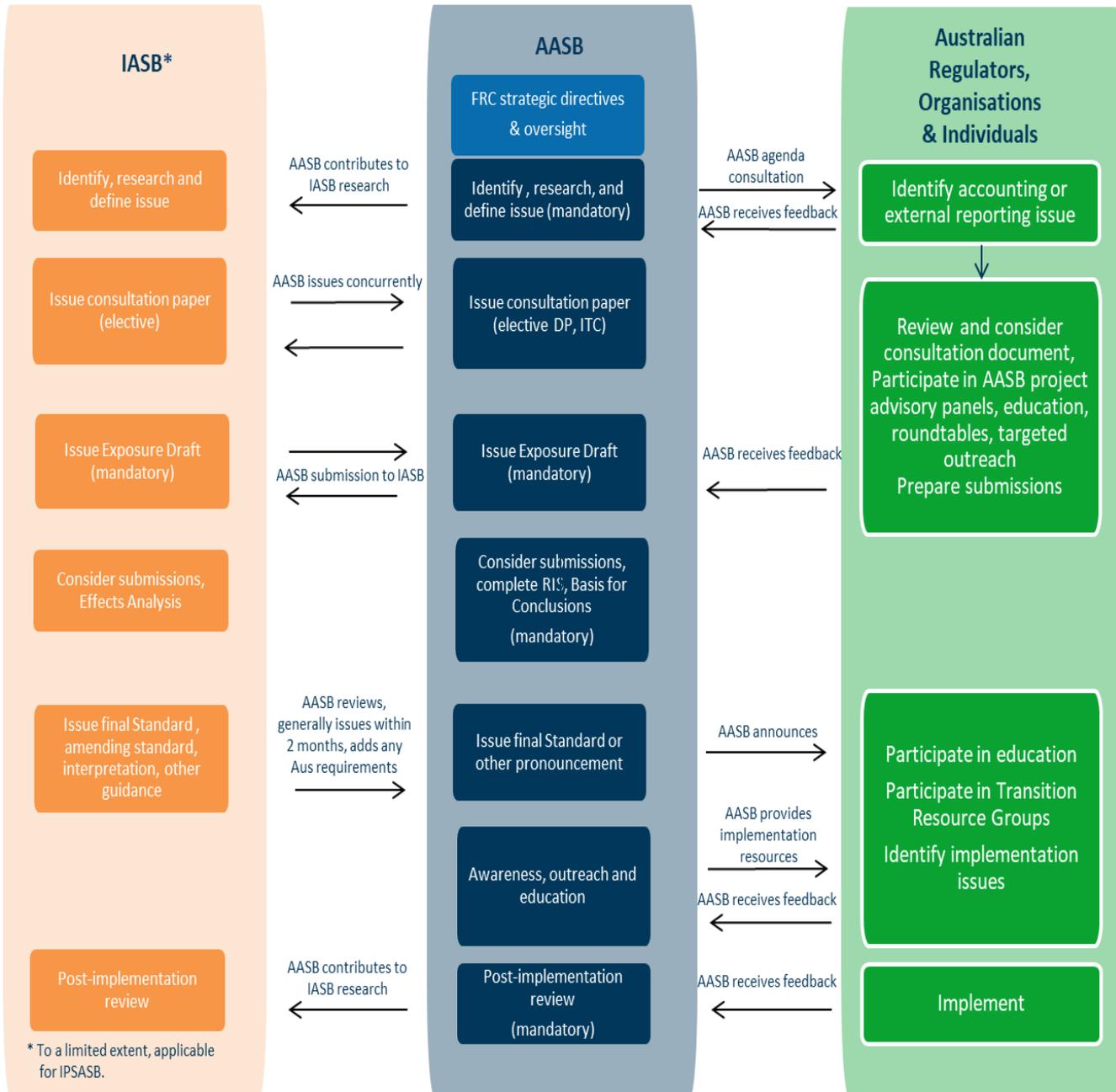
The standards issued by the AASB and the AUASB are legislative instruments and in accordance with regulatory best practice, are principle-based rather than rules-based. Accordingly, professional judgement is a critical element when implementing accounting and auditing standards.

The Boards comply with *The Australian Government Guide to Regulation* when assessing the regulatory impacts of significant changes.

The AASB uses its Due process and Evidence Informed Frameworks to ensure the quality of its standards and that the benefits of its standards outweigh the costs to its constituents. This includes use of empirical research from Australian and international academics to support the identification of issues, analysis of possible solutions and evidence of impact once a standard is finalised, as well as a means of influencing internationally. The AASB's Due process is set out below:

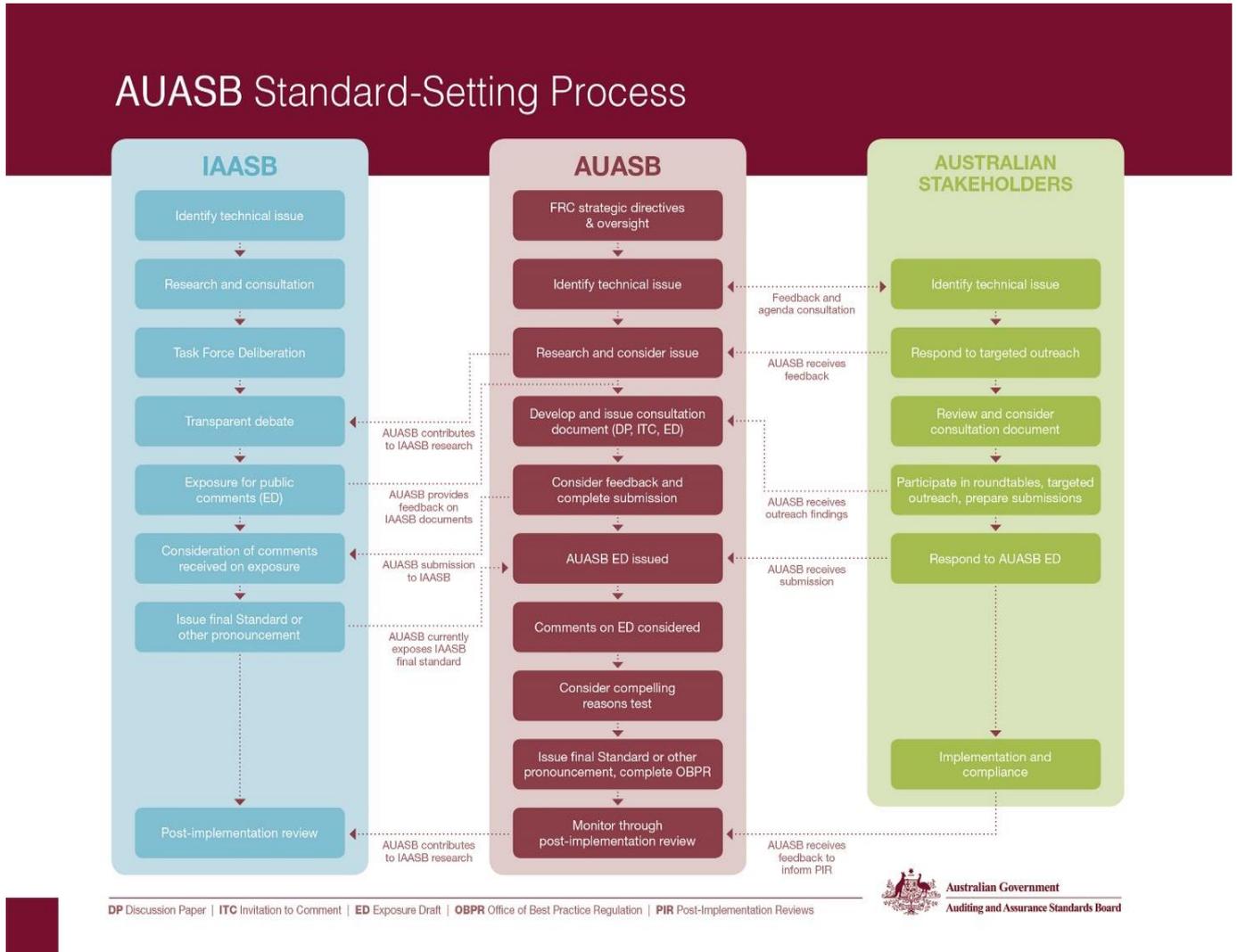


AASB Due Process Framework for Setting Standards





The AUASB uses its Due Process and Evidence-Informed Standards-Setting Strategy to ensure the quality of its standards and that the benefits of its standards outweigh the costs. This includes use of empirical research from Australian and international academics to support the identification of issues, analysis of possible solutions and evidence of impact once a standard is finalised, as well as a means of influencing internationally. The AUASB’s Standard-Setting process is set out below:



Both Boards consult extensively with Australian entities and other key stakeholders, so that they can properly reflect the interests of the Australian community at both domestic and international levels. The AASB’s and AUASB’s key stakeholders and their roles and responsibilities are set out below:



REPORT USERS
Debt and equity providers, analysts, credit rating agencies, creditors, customers, employees, regulators, grant providers, investors/investor associations, academics, media, government

ROLE

1. Make resource allocation decisions
2. Identify issues
3. Provide feedback to regulators

OVERSIGHT BODY: FINANCIAL REPORTING COUNCIL
ROLE: Oversight of processes for setting accounting and auditing standards, determining broad strategic directions, reporting to the Finance Minister

REGULATORY BODIES

A: Who determines who reports and what level of assurance is required
Federal, State & Territory Governments, Ministers, (Treasuries, ATO, ACNC etc)

B: Who develops the accounting and assurance standards for what is reported
AASB, AUASB, Stock Exchanges, ACNC

C: Who develops other reporting requirements
ASIC, APRA, ATO, Professional bodies

D: Who enforces Standards
ASIC, APRA, ATO, Professional bodies

<p>PREPARERS For profit and Not-for-profit entities, Directors, CEOs, CFOs, officers, accountants, members of professional bodies (CPA Australia, CA ANZ, IPA).</p> <p>ROLE</p> <ol style="list-style-type: none"> 1. Provide transparent, comparable, relevant and reliable information for users to make resource allocation decisions. 2. Comply with regulations. 3. Identify issues. 4. Provide feedback to regulators. 	<p>REGULATED BY: ASIC & APRA (directors & officers), ACNC (responsible persons), professional bodies (their members).</p> <p>ROLE</p> <ol style="list-style-type: none"> 1. Determine who must comply with standards. 2. Set standards – directors & officers, responsible persons and professionals. 3. Enforce.
<p>AUDITORS Accounting firms, government audit offices, sole practitioners, registered company auditors, members of the professional bodies.</p> <p>ROLE</p> <ol style="list-style-type: none"> 1. Provide assurance that reports are prepared in accordance with the relevant requirements. 2. Comply with regulations. 3. Identify issues. 4. Provide feedback to regulators. 	<p>REGULATED BY ASIC (registered company auditors), ACNC, professional bodies, APRA, AUASB.</p> <p>ROLE</p> <ol style="list-style-type: none"> 1. Determine who must comply with standards. 2. Set standards for audit profession and auditors. 3. Enforce.



The AASB and the AUASB have a wide network of contacts among Australian stakeholders who volunteer their time and expertise to help us fulfil our strategies by providing technical input, thoughts and ideas on our work. The AASB and AUASB also have a strong network of contacts throughout the international standard-setting community, which is a valuable source of collaboration and alliances.

External and internal factors influencing delivery of our objectives

People

AASB

Over the past 12 months the focus has been on the staffing of the AASB technical group to ensure the AASB has staff from a broad range of professional backgrounds, including accounting and auditing practice, industry, public sector and academia. Collectively, the AASB technical group possess technical and practical accounting experience, which they bring to standard-setting, together with a paramount understanding of standard-setting in public interest.

In the 2019-2020 financial year, the AASB conducted an engagement and performance review with the



help of external HR consultants to assess how best to further develop a high-performance culture. The objective is to define what “great” looks like for all the key roles with appropriate accountabilities and measurable behaviours required for future success. We will continue our staff professional development program, which includes coaching and mentoring, secondment opportunities, graduate cadetship and intern program, as well as opportunities for staff to engage with the Boards, Regulators, other international standard setters, professional accounting firms and corporates. A key focus for 2019-2020 will be to successfully integrate new recruits to develop a strong core group of standard-setters, supported by secondments for specialist skills needed for particular projects where we lack expertise in-house.

AUASB

The AUASB has managed to maintain the level and expertise of its Technical staff over the last 12 months and in 2019-20, following the receipt of additional funds from the Federal Government in the 2019-20 Budget, has been able to employ an additional staff member. This additional funding acknowledges the work the AUASB has done and will continue to do supporting the FRC in oversight of Audit Quality in Australia.

Collectively, the AUASB staff possess technical and practical auditing experience, which they bring to standard-setting, together with a paramount understanding of standard-setting in the public interest.

And our technical staff are supported, from time to time, by AUASB Academic Scholars. The AUASB Academic Scholar Role provides an opportunity for highly respected auditing and assurance academics to work with the Chair and the Technical Group on research topics that are mutually agreed and relevant to the outcomes of the AUASB. The first 2 AUASB Academic Scholars will be collaborating with the AUASB in the first half of 2019-20.

Technology

The AASB and the AUASB are increasingly using online platforms (i.e. websites, social media, event management tools, broadcasting, webinars) to engage with and educate their constituents. This will continue to evolve as technology and user preferences change.

Technology is also critical to improving knowledge management and reducing compliance risk. The entities have assessed the business needs with a view to achieving the following technology objectives:

- Mobility and flexibility of working arrangements;
- Collaboration on standards delivery internally and externally;
- Productivity efficiency of standards delivery;
- Effective internal and external communications; and
- Connectivity and engagement with external stakeholders.

This financial year the entities will be focused on implementing an ICT strategy involving a transition to the



cloud, and full deployment of Office 365 to allow the teams to operate anywhere, any time and on any device. This will ensure that the entities' core operations can be completed efficiently and securely in a flexible and adaptable work environment. The ICT strategy is designed to address compliance risks such as access, security, document control and record retention.

Other Regulators

Although responsible only for setting accounting and auditing and assurance standards, the entities play a key role in assisting regulators at both the State and the Commonwealth levels to clarify criteria and thresholds for different types of Australian entities, in order to determine who should report and the appropriate associated level of assurance. The current Australian Reporting Framework is complex, with numerous duplicated requirements, which results in financial reporting that is often not objective, transparent and comparable. A more robust framework that balances the needs of users with the costs to preparers of reporting and independent assurance, and results in 'fit for purpose' public information for different types of entities, is a key objective that involves obtaining the commitment of numerous relevant regulators and overcoming a history of reluctance to change.

Other key regulators who enforce the AASB and the AUASB standards include the ASIC, Australian Prudential Regulatory Authority (APRA) and other Australian regulatory agencies such as the Australian Charities and Not for Profit Commissions (ACNC), Australian Taxation Office (ATO) and the Clean Energy Regulator (CER). The perception of the AASB and the AUASB's performance is impacted not only by the AASB and AUASB's actions, but also how well its standards and guidance are implemented and enforced.

Global Standards

In accordance with the ASIC Act, when setting standards, the entities are required to consider the interests of Australian corporations aiming to raise capital in major international financial centers and/or who operate internationally.

The International Accounting Standards Board (IASB), International Public Sector Accounting Standards Board (IPSASB) and the International Auditing and Assurance Standards Board (IAASB) are major international accounting, auditing and assurance standard setters, with International Financial Reporting Standards (IFRS Standards) and International Standards on Auditing (ISAs) being applied in more than 100 countries.

In accordance with its FRC¹ directive, the AASB uses IFRS Standards as the basis for Australian Accounting Standards, implemented as follows

- for-profit private sector "publicly accountable" entities (e.g., listed entities or those with significant

¹ www.aasb.gov.au/admin/file/content102/c3/FRC_Broad_Strategic_Direction.pdf



fiduciary responsibilities like banks and insurance companies) benefit most from global comparability. The AASB ensures they can claim IFRS and New Zealand compliance in their financial statements.

- Other for-profit private and public sector entities. The AASB applies its [For-Profit Standard Setting Framework](#) to tailor IFRS standards appropriately, and provide a second tier of reporting that has the same recognition and measurement requirements, but simplified disclosures.
- Other not-for-profit private and public sector entities. The AASB applies its [Not-for-profit Standard Setting Framework](#) to use transaction neutrality (like transactions should be accounted for in the same way), and modifies IFRS as needed to cater for the unique characteristics of the sector. This includes developing appropriate Australian standards and guidance and providing a second tier of reporting that has the same recognition and measurement requirements, but with simplified disclosures.

The AUASB is required, under its directive from the FRC², to use the International Standards on Auditing of the International Auditing and Assurance Standards Board, as appropriate, as a base from which to develop Australian Auditing Standards (ASAs) and then make such amendments to the ISAs³ that are necessary to accommodate and ensure that the ASAs both exhibit and conform to the Australian regulatory environment and statutory requirements. Both the ASA's and the ISA's are principles based, rely on the application of professional judgment and professional skepticism and are sector and framework neutral.

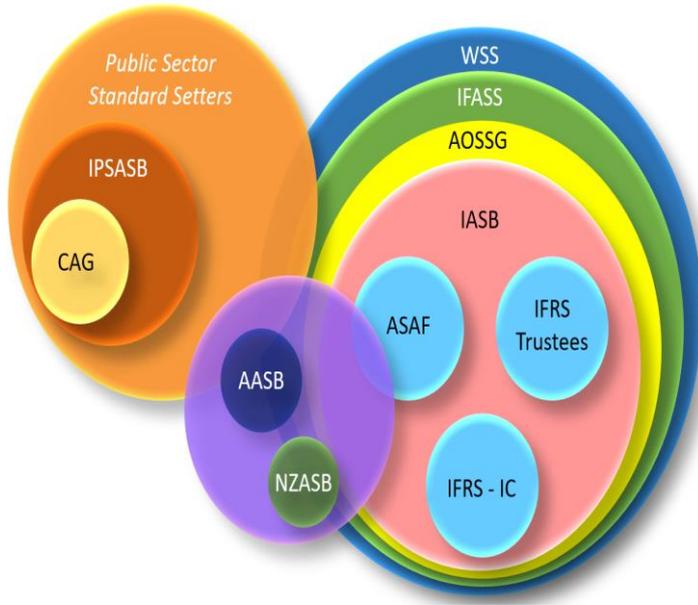
The use of IFRS Standards and ISAs enables Australian entities to raise capital and operate efficiently internationally. This has beneficial flow-on effects in the domestic capital market for entities and individuals.

However, where IFRS Standards and ISAs do not cover a topic of importance or are not appropriate for the Australian community, the AASB and the AUASB set local standards or add to the international standards to fill that gap. The AASB uses its Approach to International Public Sector Accounting Standards to regularly assess whether IFRS remains the appropriate base for public sector accounting.

To help ensure international standards remain appropriate for use in Australia, the AASB aims to ensure Australia remains at the forefront of international accounting practices. The key international and domestic bodies the AASB must influence are set out below:

² www.auasb.gov.au/admin/file/content2/c7/AUASB_Strategic_Direction_1242266219416.pdf

³ As well as International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs)



Glossary

Standard setters

- [AASB](#) – Australian Accounting Standards Board
- [IASB](#) – International Accounting Standards Board
- [IPSASB](#) – International Public Sector Accounting Standards Board
- [NZASB](#) – New Zealand Accounting Standards Board

Interpretive Committees

- [IFRS - IC](#) – IFRS Interpretations Committee

Advisory/Consultative Groups

- [ASAF](#) – Accounting Standards Advisory Forum
- [CAG](#) – Consultative Advisory Group

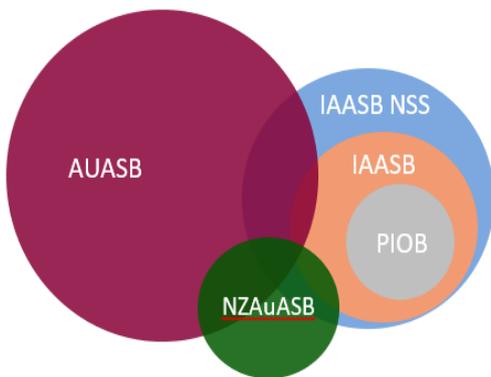
Standard-setter Forums

- [AOSSG](#) – Asian-Oceanian Standard-Setters Group
- [IFASS](#) – International Forum of Accounting Standard Setters
- [WSS](#) – World Standard Setters

Oversight

- [IFRS Trustees](#)

To help ensure international auditing and assurance standards remain appropriate for use in Australia, the AUASB aims to ensure Australia remains at the forefront of international auditing practice. The key international bodies the AUASB must influence for this purpose are:



Glossary

Standard setters

- [AUASB](#) – Australian Auditing and Assurance Standards Board
- [IAASB](#) – International Auditing and Assurance Standards Board
- [NZAuASB](#) – New Zealand Auditing and Assurance Standards Board

Standard-setter Forums

- [IAASB NSS](#) – IAASB National Standard Setters Group

Oversight

- [PIOB](#) – Public Interest Oversight Board

In 2019-20 the AUASB will identify and implement initiatives to drive increased sharing and collaboration across the global National Standards Setting (NSS) network, including attending and presenting relevant topics at regional and global IAASB NSS meetings.

The Australian and Global Economy

Although entities are expected to cease operations as a natural part of their life cycle, in difficult economic conditions, accounting and auditing standards come under extra scrutiny. As well as economic uncertainty, there are also changing expectations and declining trust in the services accountants and auditors traditionally provide, arising from continuing high levels of reported poor results of external



inspections and recent high-profile corporate failures in some overseas jurisdictions. Stakeholders' expectations are also changing about what the standards should require. This has resulted in there being numerous parliamentary or regulatory inquiries under way in Australia and around the globe triggered by corporate collapses or poor audit inspection outcomes.

In Australia the Parliamentary Joint Committee on Corporations and Financial Services has been asked to review the regulation of auditing in Australia with particular reference to, amongst other things, Audit Quality and the adequacy and performance of regulatory, standards, disciplinary and other bodies. This inquiry will impact both the AASB and AUASB and is scheduled to report by the end of March 2020.

Our key risks and how we manage them

The AASB's and AUASB's key risks and how they are managed are set out below.

Risk	Impact	Mitigating Actions
<p>Quality of international standards on which AASB and AUASB rely is not adequate</p> <p>International standard-setting bodies unduly influenced by national or regional stakeholders</p>	<ul style="list-style-type: none"> • Australian user needs are not met • Inability to influence internationally • Brand and reputation issues • Loss of funding 	<ul style="list-style-type: none"> • Influence IASB, IPSASB, IAASB board members and staff by nominating/providing board/advisory committee/task force members, participating in working groups, by providing input into all significant exposure drafts and other consultation documents, being seen as thought leaders and problem solvers • Apply established standard-setting frameworks that outline when quality is not acceptable to be adopted in Australia • Establish close working relationships and alliances with other national standard setters, particularly New Zealand
<p>Quality of Australian standards not seen as appropriate or contributing to confidence in the Australian economy</p> <p>Value of financial reporting and auditing perceived as</p>	<ul style="list-style-type: none"> • Standards not capable of being consistently implemented • Australian user needs are not met, loss of confidence in capital markets • Costs of standards outweigh benefits 	<ul style="list-style-type: none"> • For-profit, Not-for-profit Standard-Setting, Due process and Evidence-informed frameworks followed, including obtaining appropriate evidence, consulting extensively, assessing costs and benefits of change • Public and transparent process, basis for conclusions in all standards



Risk	Impact	Mitigating Actions
diminishing	<ul style="list-style-type: none"> • Brand and reputation issues • Loss of funding • Not-for-profit sector no longer supports IFRS as a base, tailoring not seen as sufficient • Perceived or actual loss of independence of the Board and ability to act in the public interest 	<ul style="list-style-type: none"> • Post-implementation reviews of standards • Diverse board membership, use of technical advisory panels and Project Advisory Groups to enhance quality of standards Submissions and presentations to public enquiries when requested (e.g. Joint Parliamentary Inquiry into the Regulation of auditing in Australia.)
Multiple other regulators requiring and/or enforcing accounting and auditing standards	<ul style="list-style-type: none"> • Accounting and auditing standards: <ul style="list-style-type: none"> ○ required inappropriately ○ not enforced appropriately • Stakeholders not understanding AASB and AUASB responsibilities • Brand and reputation issues as standards not seen as fit for purpose 	<ul style="list-style-type: none"> • Regular liaison with other key regulators • Collaboration with other regulators when developing standards • Working with regulators and practitioners to develop guidance in response to inspection review findings
Economic conditions contribute to entities financial collapse	<ul style="list-style-type: none"> • Difficult economic conditions result in more corporate collapse and more pressure on whether standards are fit for purpose • Changing expectations of standard setters to respond quickly 	As above
Not seen as a competitive employer in the marketplace	<ul style="list-style-type: none"> • Culture and environment not supporting productivity and effectiveness • Brand and reputation issues 	<ul style="list-style-type: none"> • Use of HR consultants to identify People and Culture gaps • Appropriate systems of reward and recognition established • Annual monitoring of employee engagement • Performance development process implemented to provide timely constructive feedback, career paths, development opportunities



Risk	Impact	Mitigating Actions
<p>Increasing complexity of businesses, technological advances, the rise in the importance of non-financial reporting and assurance, stakeholder demands for clearer, better communication and more frequent information, new business practices</p>	<ul style="list-style-type: none"> • Not responding on a timely basis • No response to key changing issues • Lack of credibility or subject matter experts for external reporting integral to financial statements • Exceeding mandated scope of accounting standards • Brand and reputation issues 	<ul style="list-style-type: none"> • Regular monitoring of domestic and international environments • Use of advisory panels and secondees to provide adequate skills and credibility • Engagement with stakeholders on major accounting and auditing issues impacting our standards • Influencing reporting and audit thresholds to reduce red tape for small and medium entities • Adapting standards for different sectors so fit for purpose
<p>Financial risk of inadequate funding to perform mandate</p>	<ul style="list-style-type: none"> • Limited finances, headcount flexibility and IT spend impact on the quality of standards 	<ul style="list-style-type: none"> • Maximise use of existing resources, collaborate with other government agencies • MOU for shared services between AASB and AUASB regularly reviewed • Regular benchmarking of Australian standard setting process against international counterparts • Identify joint projects and opportunities to leverage resources with other like-minded standard setters
<p>Operational legislative requirements and government policies are numerous, complex and subject to frequent change Inadequate technology to deliver on objectives</p>	<ul style="list-style-type: none"> • Non-compliance • Critical business systems failure (data security, business continuity) • Brand and reputation issues • Financial impact • Combined Chair and CEO role not recommended best practice corporate governance 	<ul style="list-style-type: none"> • Oversight by the Audit and Risk Committee with independent members, compliance with Commonwealth Risk Management Policy • Software to assist in meeting compliance requirements • Risk Register and Fraud Control Plan reviewed quarterly by the Chairs and the ARC • Regular training of AASB and AUASB staff on PGPA and APS Code of Conduct requirements • Regular review of IT strategy and capability



Performance: Delivering Our Strategy

Activities mapped to strategy and KPIs for measuring success

The following tables set out the planned activities and Key performance indicators (KPIs) that are intended to achieve our purpose, vision and mission for each entity for the next four years. We report quarterly against these plans to the Boards, the FRC and the Minister and in our Annual Performance Statements in our Annual Reports.

The strategies, deliverables and performance criteria are aligned to the AASB's and the AUASB's Portfolio Budget Statements ('PBS') for 2019-2020.

Many of the entities' priorities and KPIs are impacted by events not wholly within their control. For example, much of the AASB's work is based on the work of the IASB and IPSASB and the work of the AUASB is based on the work of the IAASB, so delays can affect the AASB and the AUASB's achievement of its key priorities.

Unlike projects influenced by international standards setters and their project timetables, domestic projects are generally within the AASB and the AUASB's control. However, key factors that can influence the success of projects are the actions or published policy documents of other regulatory agencies (for example, ACNC, ASIC, APRA and the ATO) and feedback from the constituents.

AASB activities mapped to strategies and KPIs for measuring success

1 - Performance Activity Focus: Brand/Reputation

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		20	21	22	23	
Strategy 2 <i>PBS Outcome 1⁴</i> <i>Program 1</i> <i>Deliverables 3</i>	Define appropriate reporting frameworks for each of the three sectors - for-profit (e.g., listed and large proprietary companies), not-for-profit (e.g. charities) and public sector	X	X	X	X	<ul style="list-style-type: none"> For-profit private sector financial reporting framework defined and completed by 30/6/2020 Appropriate framework for not-for-profit private and public sector defined and other regulator (eg ACNC) sponsorship obtained by 30/6/2021
Strategy 1,5,6,8 <i>PBS Outcome 1</i> <i>Program 1</i> <i>Deliverables 1,2,4,7,8</i> <i>KPIs 1, 2,</i>	Agree on 3-year program of work and deliver <ul style="list-style-type: none"> Maintain IFRS and New Zealand compliance for for-profit Private sector “publicly accountable” entities Tailor IFRS appropriately for other sectors, including developing Australian specific guidance Develop guidance on external reporting integral to financial reporting Develop guidance on emerging issues related to financial reporting 	X	X	X	X	<ul style="list-style-type: none"> Annual program of standards issued, delivered to plan agreed with the Board IASB equivalent Standards issued within two months of the release of the IFRS for for-profit entities IFRS and NZ compliance maintained for the for-profit private sector “publicly accountable” entities Feedback from NFP sector positive regarding the appropriateness of the IFRS tailoring
Strategy 3 <i>PBS Outcome 1</i> <i>Program 1</i> <i>Deliverables 5,6</i> <i>KPIs</i>	<ul style="list-style-type: none"> Enhance profile domestically and internationally Maintain and enhance key international relationships with IASB, IPSASB, NZASB, AOSSG, International Financial Reporting for NPOs 	X	X	X	X	<ul style="list-style-type: none"> Be seen as experts as measured by stakeholder feedback, IASB and IPSASB feedback Two thought leadership pieces completed per annum and presented internationally
Strategy 4,8 <i>PBS Outcome 1</i> <i>Program 1</i> <i>Deliverables 1,2</i> <i>KPIs 5,6,7,13,14</i>	<ul style="list-style-type: none"> Due process followed to ensure the quality of standard-setting: Evidence-informed approach to standard setting activities supports need for regulation and proposed solution 	X	X	X	X	<ul style="list-style-type: none"> Due process followed for all significant projects Positive feedback from the FRC and the stakeholders

⁴ Link to AASB PBS http://www.treasury.gov.au/sites/default/files/2019-04/pbs_2019-20_13_aasb.pdf



	<ul style="list-style-type: none"> appropriate consultation in accordance with the due process framework preparation of regulatory impact statement assessing costs and benefits 					
Strategy 1,3,4 <i>PBS Outcome 1</i> <i>Program 1</i> <i>Deliverables 1,2</i>	Post-implementation reviews conducted (PIR) for all significant projects to assess quality of standard-setting	X	X	X	X	<ul style="list-style-type: none"> No significant changes needed PIR feedback is acted upon No evidence not contributing to the confidence in the economy. Feedback from ASIC, APRA, ACNC surveillance reviews does not indicate loss of confidence due to accounting standard issues No significant decline in relevance of financial statements in the capital market
Strategy 7 <i>PBS Outcome 1</i> <i>Program 1</i> <i>Deliverables 10,11</i>	Improve consistency of implementation: <ul style="list-style-type: none"> Educate stakeholders on the AASB standards, support materials available, including why standards introduced Support and encourage high quality teaching of the Australian financial reporting framework and standards at Australian educational institution 	X	X	X	X	<ul style="list-style-type: none"> Education initiatives, such as webinars, providing appropriate educational materials to key stakeholders for all significant projects FAQs, illustrative examples, staff publications developed on significant interpretive issues Feedback from ASIC, APRA, ACNC surveillance reviews indicates no significant interpretive issues impacting the consistency of implementation Positive stakeholder feedback on education initiatives

2 - Performance Activity Focus: Stakeholder Engagement

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		20	21	22	23	
Strategy 4 <i>PBS Outcome 1</i> <i>Program 1</i> <i>Deliverables 12,13</i> <i>KPIs 3,5</i>	Enhance stakeholder engagement	X	X	X	X	<ul style="list-style-type: none"> Key stakeholders identified by 30 June 2020 and planned program of engagement executed as planned Improving Net Promoter Score Positive stakeholder feedback on the consultation process Increase in engagement results (newsletter, website, LinkedIn, Twitter, webinar, outreach numbers)
Strategy 4 <i>PBS Outcome 1</i> <i>Program 1</i> <i>Deliverables 15</i> <i>KPIs 5,</i>	Conduct Agenda consultations to determine projects and priorities	X			X	<ul style="list-style-type: none"> Agenda consultation conducted every 3-5 years

3- Performance Activity Focus: Technology

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		20	21	22	23	
Strategy 8, supporting Strategies 1-7 <i>PBS Outcome 1</i> <i>Program 1</i>	Develop and implement an IT strategy that enables flexible, seamless working via cloud	X	X	X	X	<ul style="list-style-type: none"> Independent of Productivity Commission hardware by 30 June 2021 IT supports flexible work including remote locations measured by employee satisfaction
Strategy 4,8 <i>PBS Outcome 1</i> <i>Program 1</i>	Customer relationship management tool selected and implemented	X				<ul style="list-style-type: none"> Appropriate CRM tool selected and implemented by 30 June 2020
Strategy 4,8 <i>PBS Outcome 1</i> <i>Program 1</i> <i>Deliverables 12,</i> <i>KPIs 5,</i>	Website redesigned to improve stakeholder experience and engagement	X	X	X	X	<ul style="list-style-type: none"> Obtain funding to improve website by 30 June 2020 Website experience improved as measured by stakeholder feedback



4 - Performance Activity Focus: People & Culture

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		20	21	22	23	
Strategy 8, supporting Strategies 1-7 <i>PBS Outcome 1</i> <i>Program 1</i>	Develop and implement People and Culture (P&C) strategy to develop high performing team	X	X	X	X	<ul style="list-style-type: none"> Employee survey - improving Net Promoter Score, “the place to be”, employee engagement High performance team as measured by Board and stakeholder feedback on delivery of program and all other measures of success
	New starter processes improved to support flexible subject matter expert involvement	X	X	X	X	<ul style="list-style-type: none"> New team members embedded successfully within six months by 30 June 2020 as measured by internal and external stakeholders’ feedback
	Understand current capability (talent mapping)	X	X	X	X	<ul style="list-style-type: none"> Ability to timely identify when/where to buy or borrow capability by 30 June 2020
	Resource planning to develop skills and allocate them appropriately	X	X	X	X	<ul style="list-style-type: none"> KPIs for all employees Leveraging diversity of skills and people as measured by employee and Board feedback and delivering an agreed program of work Retain core group of technical experts and leaders Fair allocation of workload measured by employee and Board feedback



5 - Performance Activity Focus: Program & Project Management

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		20	21	22	23	
Strategy 8, supporting Strategies 1-7 <i>PBS Outcome 1</i> <i>Program 1</i>	Develop a strategy to improve program and project management	X	X			<ul style="list-style-type: none"> Create and implement the strategy by 30 June 2020
	Identify and establish frameworks and processes to allocate resources appropriately, establish and monitor accountabilities	X	X			<ul style="list-style-type: none"> Project management processes and frameworks identified, created and embedded by 30 June 2021 Communicated processes and frameworks so team members are clear and deliver on expectations Work-life balance in completing projects as measured by employee feedback
	Allocate resources efficiently and effectively	X	X	X	X	<ul style="list-style-type: none"> Deliver agreed program of work as planned

6 - Performance Activity Focus: Operational & Business Excellence

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		20	21	22	23	
Strategy 8, supporting Strategies 1-7 <i>PBS Outcome 1</i> <i>Program 1</i>	Develop strategy supporting operational excellence and regulatory compliance	X	X	X	X	<ul style="list-style-type: none"> Strategy created and implemented by 30 June 2020 Complied with regulatory obligations
	Key processes and standards documented	X	X			<ul style="list-style-type: none"> Processes and standards identified, created and communicated by 30 June 2021
	Knowledge and information sharing support flexible subject matter expert involvement	X	X	X	X	<ul style="list-style-type: none"> Knowledge sharing forums created by 30 June 2020 Key knowledge imparted across teams within six months of joining
	Continuous improvement of operational processes to achieve planned outcomes	X	X	X	X	<ul style="list-style-type: none"> Continuous improvement schedule created and embedded to enable acting upon by 30 June 2020

AUASB activities mapped to strategy and KPIs for measuring success.

Strategic Priority One: Issue Australian Auditing and Assurance Standards

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

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objective 1 PBS Outcome 1 PBS Programs 1, 2, 3 PBS Deliverables 1, 2, 3 PBS Performance Criteria 1, 2, 5, 6	Develop and issue Australian Auditing and Assurance Standards following the release of their IAASB equivalent, ensuring all Australian legislative and regulatory requirements are considered, including changes required by the AUASB's "compelling reason" test.	X	X	X	X	<ul style="list-style-type: none"> Issue all Australian IAASB equivalent Standards and Exposure Drafts within 3 months of IOB clearance or 1 month of AUASB approval, as appropriate 	<ul style="list-style-type: none"> ASA 315 ASRS 4400
	Coordinate and develop high quality responses from the AUASB to all IAASB exposure drafts, other IAASB pronouncements and invitations to comment, incorporating relevant feedback from AUASB members and Australian stakeholders.	X	X	X	X	<ul style="list-style-type: none"> Release Exposure Drafts/Discussion Papers via the AUASB Website within two weeks of approval by AUASB Stakeholder engagement plan developed and implemented for each IAASB pronouncements Responses developed with appropriate AUASB input and sent to the IAASB by the closing date 	<ul style="list-style-type: none"> ISA 600 ED Monitor development of IAASB Quality Management Standards (ISQM 1, ISQM 2 & ISA 220) EER Guidance Phase 2 LCE Discussion Paper
	Develop and issue implementation support materials and activities for all new IAASB/AUASB standards.	X	X	X	X	<ul style="list-style-type: none"> AUASB implementation support materials and activities for all new IAASB/AUASB standards in place before effective date 	<ul style="list-style-type: none"> ASA 540 ASA 315
	Conduct post-implementation reviews of IAASB equivalent issued AUASB Standards, feeding into the IAASB's post-implementation review projects as required.	X	X	X	X	<ul style="list-style-type: none"> Obtain evidence appropriately evaluating implementation of IAASB equivalent issued AUASB Standards in Australia Provide feedback to IAASB as requested 	<ul style="list-style-type: none"> Auditor Reporting Post Implementation Review
	Finalise and implement revised AUASB Due Process procedures and documentation for exposing and issuing International Exposure Drafts.	X				<ul style="list-style-type: none"> Revised AUASB Due Process for exposing and issuing International Exposure Drafts in place for all IAASB EDs issued in 2020 and beyond 	<ul style="list-style-type: none"> Board approval of revised process Update AUASB Due Process Documentation

Strategic Priority Two: Develop, Update and Maintain Australian Specific Standards and/or Guidance Statements

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

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objective 1 PBS Outcome 1 PBS Programs 1, 2 PBS Deliverables 1, 2 PBS Performance Criteria 1, 2, 3, 4	Develop and issue Australian specific AUASB Standards and Exposure Drafts within one month of AUASB approval, in accordance with AUASB legislative drafting and registration requirements.	X	X	X	X	<ul style="list-style-type: none"> Issue all Australian specific AUASB Standards and Exposure Drafts within one month of AUASB approval Finalise conforming amendments and compilation standards as a result of changes to AUASB standards within one month of the AUASB standard being issued 	<ul style="list-style-type: none"> ASRE 2410 ASRS 4400
	Update existing AUASB pronouncements, including identifying and revising all AUASB Guidance Statements which are out of date or need revision based on AUASB member and stakeholder feedback.	X	X	X	X	<ul style="list-style-type: none"> Complete project to review all AUASB Guidance Statements (GS) by December 2019 Develop and implement Project Plans for the update all GS identified as out of date Release updated GS within two weeks of approval by AUASB 	<ul style="list-style-type: none"> GS 005 (Use of Experts) GS 008 (Rem Reporting) GS 009 (SMSFs) GS 012 (APS 310) Other GS's as required
	Determine where other AUASB Framework Pronouncements require updating.	X	X	X	X	<ul style="list-style-type: none"> Review and update other AUASB Framework Pronouncements, as required. 	<ul style="list-style-type: none"> None currently identified for 2019-20
	Conduct post-implementation reviews of Australian specific AUASB Standards, as required.	X	X	X	X	<ul style="list-style-type: none"> Conduct post-implementation reviews of Australian specific AUASB Standards, within 2 years of their operative date. 	<ul style="list-style-type: none"> ASAE 3100 ASAE 3500

Strategic Priority Three: Monitor the Assurance Environment

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

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
All Strategic Objectives PBS Outcome 1 PBS Programs 1, 2, 3 PBS Deliverables 1, 2, 3 PBS Performance Criteria 4	Review and update the 2019-2023 AUASB Strategy and 2019-20 AUASB Technical Work Program based on feedback from AUASB members and key stakeholders and informed by the final 2020-2023 IAASB Strategy.	X	X	X	X	<ul style="list-style-type: none"> Updated AUASB 2019-23 Strategy based on AUASB feedback by September 2019 Finalise 2019-20 Technical Work Program and align it to AUASB 2019-23 Strategy by September 2019 Complete quarterly updated and reporting of progress against AUASB 2019-20 Technical Work Program for FRC and AUASB for each relevant FRC and AUASB meeting 	<ul style="list-style-type: none"> Update AUASB Strategy Develop 2019-20 Technical Work Program Produce a quarterly status update on auditing and assurance matters and progress against the Work Program for the AUASB and FRC.
	Work with the FRC to develop the FRC Audit Quality Plan and implement those elements that are the responsibility of the AUASB.	X	X	X	X	<ul style="list-style-type: none"> AUASB involvement in FRC Audit Quality Plan approved by FRC AUASB Audit Quality activities delivered as required by the updated FRC Audit Quality Plan 	<ul style="list-style-type: none"> Activities from updated FRC Audit Quality Action Plan Audit Quality Surveys of Audit Committee Chairs and CFO's
	Monitor developments associated with the Joint Parliamentary Inquiry on the regulation of Auditing, working across the profession to promote audit quality and the AUASB's role.	X	X	X	X	<ul style="list-style-type: none"> Develop submission for parliamentary inquiry by September 2019 Coordinate with other key stakeholders across the profession (e.g. FRC, APESB) as required Prepare and assist the AUASB Chair with any presentations to the parliamentary joint committee Monitor and respond to any recommendations relevant to the AUASB 	<ul style="list-style-type: none"> AUASB submission to PJC inquiry Presentations to PJC enquiry by AUASB Chair AUASB responses to PJC findings
	Following on from the AUASB LCE Survey work with small and medium audit practitioners to determine implications for Australian Standard Setting.	X	X	X	X	<ul style="list-style-type: none"> Develop additional guidance and initiatives to support LCE auditors based on LCE survey outcomes Provide input to IAASB on proposed response to LCE Discussion Paper 	<ul style="list-style-type: none"> LCE specific guidance Feedback to IAASB on global issues



Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
	Monitor developments in public sector auditing and assurance issues by maintaining regular engagement with Auditors-General through the AUASB Public Sector Audit Issues Project Advisory Group and the ACAG Auditing Standards Subcommittee.	X	X	X	X	<ul style="list-style-type: none"> Develop and have approved specific AUASB guidance (in a form to be determined) for public sector auditors on issues raised by the Public Sector Audit Issues PAG Provide ongoing input to FRC subcommittee on Public Sector Reporting and Assurance matters Positive engagement with Auditors-General and ACAG Auditing Standards Committee 	<ul style="list-style-type: none"> Public Sector specific AUASB GS (TBC) Input to FRC on Public Sector Reporting and Audit issues Regular engagement with A-Gs and ACAG
	Assess and respond to implementation issues and issue AUASB guidance to address key inspection findings.	X	X	X	X	<ul style="list-style-type: none"> Analyse and respond to 2019 ASIC inspection Findings Identify and produce relevant guidance materials addressing common inspection findings in key audit areas Work with AASB to identify and to accounting and auditing issues impacting audit quality 	<ul style="list-style-type: none"> Finish update of GS 005 Plan guidance on auditing of revenue Engage with practitioners and stakeholders to analyse 2019 inspection outcomes
	Monitor international auditing and assurance developments (including global audit inspection developments and trends) and consider the impact for the Australian auditing and assurance environment.	X	X	X	X	<ul style="list-style-type: none"> Engage with IAASB and NSS representatives to monitor international developments Consider issues arising from UK audit inquiries Review IFIAR and other global publications to determine impact on Australian standard setting environment 	<ul style="list-style-type: none"> Response to Monitoring Group proposals (if revived) Monitor and consider findings from UK audit inquiries
	Hold regular formal meetings with the professional accounting bodies, other standard setting bodies and regulators to discuss trends in assurance environment and identify the impact on the AUASB Agenda and Technical Work Program.	X	X	X	X	<ul style="list-style-type: none"> Regular meetings (at least quarterly) to be held with ASIC, APESB, CA ANZ and CPA Australia. Meeting with other key stakeholders (e.g. APRA, AICD) to be held as necessary 	

Strategic Priority Four: Build, Maintain and Enhance Key International Relationships

Build, maintain and enhance key international relationships around key focus areas with both global and national standard-setters.

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objectives 3, 4 PBS Outcome 1 PBS Program 3 PBS Deliverable 3 PBS Performance Criteria 5, 6	AUASB to be represented at all IAASB meetings.	X	X	X	X	<ul style="list-style-type: none"> AUASB Chair and Technical Team member to attend all IAASB meetings Summary of each IAASB meeting prepared and presented to the AUASB at next AUASB meeting 	
	Arrange for AUASB review of relevant IAASB projects at each AUASB meeting and share feedback on key matters with regional IAASB members and relevant IAASB Task Force members before each IAASB meeting.	X	X	X	X	<ul style="list-style-type: none"> IAASB papers reviewed and papers prepared by AUASB staff for each AUASB meeting. Feedback on AUASB key issues prepared and sent to Australasian IAASB members and relevant Task Forces prior to each IAASB meeting 	<ul style="list-style-type: none"> AUASB Technical Team analysis of IAASB papers provided for each AUASB meeting
	With the IAASB, Canadian AASB and NZAuASB, identify and implement initiatives to drive increased sharing and collaboration across the National Standards Setting (NSS) network, including attending and presenting relevant topics at regional and global IAASB NSS meetings.	X	X	X	X	<ul style="list-style-type: none"> Develop and share updated NSS vision and roadmap Collaboration and support from IAASB steering committee for NSS initiatives Increased influence of NSS on IAASB Agenda and Outcomes Identify and implement initiatives to collaborate on key international auditing and assurance focus areas with other key national standard setters. 	<ul style="list-style-type: none"> Regularly scheduled NSS meetings with AASB Canada and NZAuASB Planning and developing of materials for 2020 IAASB NSS Meeting
	Review and contribute as appropriate to other global initiatives on emerging forms of assurance, such as IIRC, GRI and WBCSD.	X	X	X	X	<ul style="list-style-type: none"> Attend and contribute to calls and meetings as required. 	
	Engage with the IAASB EER Project Advisory Panel and support associated regional activities and local panel members.	X	X	X	X	<ul style="list-style-type: none"> Monitor and contribute to IAASB EER Project Advisory Panel meetings Link in Australian EER initiatives where appropriate 	<ul style="list-style-type: none"> Develop summaries for IAASB PAP member Present updates at AUASB meetings

Strategic Priority Five: Harmonisation of Auditing and Assurance Standards with New Zealand

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

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objectives 1, 3 PBS Outcome 1 PBS Programs 1, 2, 3 PBS Deliverables 1, 2, 3 All PBS Performance Criteria	AUASB Chair to attend all NZAuASB meetings as a NZAuASB Member.	X	X	X	X	<ul style="list-style-type: none"> AUASB Chair input into NZAuASB meetings AUASB staff to review relevant NZAuASB board papers and provide feedback to AUASB Chair and NZAuASB staff where applicable Updates from the NZAuASB Chair to the AUASB at each meeting 	
	Ensure AUASB Standards are issued in accordance with the principles of harmonisation with New Zealand Standards.	X	X	X	X	<ul style="list-style-type: none"> All AUASB Standards are issued in accordance with the common set of principles in relation to the standards that each board issues 	<ul style="list-style-type: none"> ASRE 2410 ASA 315
	Work collaboratively with NZAuASB Technical Staff to ensure co-operation and co-ordination between the AUASB and NZAuASB's activities, including on joint AUASB/NZAuASB projects where appropriate.	X	X	X	X	<ul style="list-style-type: none"> Identification and prioritisation of joint AUASB/NZAuASB projects AUASB and NZAuASB staff to ensure collaboration on the 'high' rated joint projects For other potential joint projects, the AUASB and NZAuASB Technical Director to build joint activities into each board's respective technical work programs 	<ul style="list-style-type: none"> Collaborate on agreed high priority joint projects: <ul style="list-style-type: none"> IAASB Quality Management Standards Auditor Reporting Post Implementation Review LCE Discussion Paper NSS Collaboration Review of Compelling Reasons Test and standard-setting process Assurance for Small NFPs and Charities Update of ASRE/NZRE 2410 Identify other opportunities to share resources, either directly or through the NSS AUASB/NZAuASB joint staff meeting to be held in early 2020.

Strategic Priority Six: Develop Thought Leadership

Develop thought leadership by identifying and implementing strategic projects that address emerging issues in auditing and assurance.

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objectives 2, 5, 6 PBS Outcome 1 PBS Programs 1, 2, 3 PBS Deliverables 1, 2, 3 PBS Performance Criteria 3, 4, 6	Undertake strategic thought leadership projects in the following topical or emerging auditing and assurance areas: - Audit quality - Assurance over Emerging Forms of External Reporting (EER) and other information in annual reports and other public reports - Assurance of Financial Reporting Frameworks - Audit and assurance of Charities and Not for Profit organisations - The Value of Audit and reducing the Audit Expectation Gap - Use of Technology in the Audit, including Data Analytics	X	X	X	X	<ul style="list-style-type: none"> Project plans developed and 2019-20 outputs identified for each strategic thought leadership project area Develop and implement outreach and engagement plans with subject matter experts and key stakeholders for each strategic thought leadership project area Regular updates provided to AUASB members at AUASB meetings 	<ul style="list-style-type: none"> FRC Audit Quality Action Plan EER Thought Leadership Input into global EER activities through IAASB EER PAP Collaboration with AASB on common areas of focus for Reporting and Assurance Frameworks Development of guidance targeted at NFP Auditors Engagement with ACNC on Assurance requirements for NFPs New Assurance Framework Publications Develop local guidance addressing common technology issues auditors face at a practical level Provide input to IAASB Technology and Audit Evidence Working Groups
	In accordance with the AUASB Evidence Informed Standard Setting Strategy, support or conduct high quality research in these strategic thought leadership areas.	X	X	X	X	<ul style="list-style-type: none"> Promote research opportunities in these strategic thought leadership projects through academic networks and conferences in accordance with the EISS strategy 	<ul style="list-style-type: none"> Collaboration with respected academics to identify and develop research in these strategic thought leadership projects published on AUASB Website Outputs from current and future AUASB Research Scholars
	Author or contribute to publications on major auditing and assurance developments.	X	X	X	X	<ul style="list-style-type: none"> AUASB board members or staff to publish articles or publications in selected strategic thought leadership project areas 	

Strategic Priority Seven: Increase Stakeholder Satisfaction and Engagement

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

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
Strategic Objective 4 & 7 PBS Outcome 1 PBS Programs 1, 2 PBS Deliverables 1, 2 PBS Performance Criteria 3, 4	Develop and issue AUASB Publications (e.g. Bulletins, FAQs) to provide guidance to Stakeholders as required on AUASB Pronouncements and topical/emerging auditing and assurance issues and in conjunction with the release of all major AUASB standards and guidance statements.	X	X	X	X	<ul style="list-style-type: none"> Develop Bulletins based on evidence and existing AUASB requirements Engage with regulators, stakeholders, AUASB members and other stakeholders as required to develop content Promote availability of AUASB guidance through various communication channels 	<ul style="list-style-type: none"> Auditors responsibility for Framework Bulletin ASA 540 Client Briefing
	Implement and promote the AUASB Evidence Informed Standard Setting (EISS) Strategy.	X	X	X	X	<ul style="list-style-type: none"> Communicate benefits of EISS Strategy to academic community at conferences and technical forums Promote engagement with AUASB to attain research in thought leadership areas 	<ul style="list-style-type: none"> Launch EISS Strategy at 2019 AFAANZ Conference Approved plans by AUASB Academic Scholars to co-develop research and education materials with the AUASB Develop AUASB Research Centre on AUASB Website
	AUASB members or staff to attend and present at auditing or assurance related professional and academic events/conferences and regular professional and regulatory forums.	X	X	X	X	<ul style="list-style-type: none"> Identify appropriate local and international professional and academic events/conferences for the AUASB to present at or attend Attendance at local professional and regulatory forums 	<ul style="list-style-type: none"> Keynote at 2019 AFAANZ Conference Present at 2019 AFAANZ SIG AUASB involved at 2019 ANCAAR Conference Regular present at ASIC Audit Committee Chairs Forum
	Obtain positive feedback from FRC members on AUASB activities.	X	X	X	X	<ul style="list-style-type: none"> Valuable engagement with FRC members at FRC meetings AUASB staff to develop auditing and assurance related papers for FRC meetings 	<ul style="list-style-type: none"> Collaborate with FRC on matters related to the Parliamentary Joint Committee Inquiry on the regulation of Auditing FRC Audit Quality Plan outputs Public Sector Reporting Framework and Auditing Issues Auditing Issues for Charities and NFPs



Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)	2019-20 Priorities
		20	21	22	23		
	Develop and distribute a quarterly AUASB Update publication.	X	X	X	X	<ul style="list-style-type: none"> AUASB Newsletters developed and sent out in Sept 2019, Dec 2019, March 2020 and June 2020 	
	Conduct a regular AUASB Stakeholder Satisfaction Survey and respond to results.	X	X	X	X	<ul style="list-style-type: none"> Evaluate results from and develop actions in response to inaugural AUASB Stakeholder Satisfaction Survey completed in July 2019 Consider need for additional survey in 2020. 	
	Implement initiatives to support and grow stakeholder engagement, measured via increased media mentions, social media activity and level of participation at AUASB events.	X	X	X	X	<ul style="list-style-type: none"> Develop AUASB Communications Strategy Develop AUASB Message Calendar process Greater use of on-line tools to communicate AUASB projects (e.g. Webinars) Improved processes and communications to drive attendance and promotion of AUASB meetings and events 	<ul style="list-style-type: none"> Increased engagement and interaction with stakeholders over virtual platforms Higher attendance at AUASB events (physical and on-line) All AUASB meeting board papers are available on the AUASB website a week in advance of each AUASB meeting Highlights/Podcast are available within two working days after each AUASB meeting.

Appendix 1

AASB's strategies to achieve its ASIC Act S227 statutory functions and relationship to priorities for each of the next four years.

<p>Function</p> <p>Strategic Objective</p>	<p>Develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards</p>	<p>Make accounting standards under section 334 of the Corporations Act for the purposes of the corporations legislation (other than the excluded provisions)</p>	<p>Formulate accounting standards for other purposes</p>	<p>Participate in and contribute to the development of a single set of accounting standards for world-wide use</p>	<p>To advance and promote the main objectives of Part 12 of the ASIC Act: 'facilitate the Australian economy by reducing the cost of capital; enable Australian entities to compete effectively; and maintain investor confidence in the Australian economy, including capital markets'.</p>
<p>1. Develop, issue and maintain principles-based, Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced. For 'publicly accountable'¹ entities maintain IFRS² compliance; for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian-specific standards and guidance.</p>	√	√	√	√	√
<p>2. With the AUASB, play a leading role in reshaping the Australian external reporting framework by working with regulators to develop objective criteria on:</p> <ul style="list-style-type: none"> • who prepares external reports (including financial reports) • the nature and extent of assurance required on these external reports. 		√	√		√



<p>Strategic Objective</p> <p>Function</p>	<p>Develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards</p>	<p>Make accounting standards under section 334 of the Corporations Act for the purposes of the corporations legislation (other than the excluded provisions)</p>	<p>Formulate accounting standards for other purposes</p>	<p>Participate in and contribute to the development of a single set of accounting standards for world-wide use</p>	<p>To advance and promote the main objectives of Part 12 of the ASIC Act: 'facilitate the Australian economy by reducing the cost of capital; enable Australian entities to compete effectively; and maintain investor confidence in the Australian economy, including capital markets'.</p>
<p>3. Actively influence IASB, IPSASB standards and other international accounting and external reporting standards and guidance, by demonstrating thought leadership and enhancing key international relationships.</p>	<p>√</p>	<p>√</p>	<p>√</p>	<p>√</p>	<p>√</p>
<p>4. Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.</p>	<p>√</p>	<p>√</p>	<p>√</p>	<p>√</p>	<p>√</p>
<p>5. Influence initiatives to develop standards and guidance that meet user needs for external reporting integral to financial reporting.</p>			<p>√</p>	<p>√</p>	<p>√</p>
<p>6. Monitor and respond to, or lead on, emerging issues impacting the development of accounting and external reporting standards and guidance, including changing technologies.</p>	<p>√</p>	<p>√</p>	<p>√</p>	<p>√</p>	<p>√</p>
<p>7. Develop guidance and education initiatives, or promote development by others, to enhance consistent application of accounting and external reporting standards and guidance.</p>					<p>√</p>

8. Build a high performing team that operates efficiently, effectively and within budget, complying with all relevant legislation and Commonwealth Government requirements



AUASB activities mapped to strategy and KPIs for measuring success.

<p>Strategic Objective</p> <p>Function</p>	<p>Make auditing standards under section 336 of the <i>Corporations Act</i> for the purposes of the corporations legislation.</p>	<p>Formulate auditing and assurance standards for other purposes.</p>	<p>Formulate guidance on auditing and assurance matters.</p>	<p>Participate in and contribute to the development of a single set of auditing standards for world-wide use.</p>	<p>Advance and promote the core objectives of auditing and assurance standard-setting as required by Part 12 of the ASIC Act.</p>
<p>1. Develop, issue and maintain high quality Australian auditing and assurance standards and guidance that meet the needs of stakeholders. Use IAASB Standards – where they exist, modified as necessary – or develop Australian-specific standards and guidance.</p>	<p>√</p>	<p>√</p>	<p>√</p>	<p>√</p>	<p>√</p>
<p>2. With the AASB, play a leading role in reshaping the Australian external reporting framework by working with regulators to develop objective criteria on:</p> <ul style="list-style-type: none"> • who prepares external reports (including financial reports) • the nature and extent of assurance required on external reports. 			<p>√</p>		<p>√</p>
<p>3. Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships.</p>	<p>√</p>	<p>√</p>		<p>√</p>	<p>√</p>



Strategic Objective

Function

Make auditing standards under section 336 of the *Corporations Act* for the purposes of the corporations legislation.

Formulate auditing and assurance standards for other purposes.

Formulate guidance on auditing and assurance matters.

Participate in and contribute to the development of a single set of auditing standards for world-wide use.

Advance and promote the core objectives of auditing and assurance standard-setting as required by Part 12 of the ASIC Act.

4. Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.

√

√

√

√

√

5. Influence initiatives to develop assurance standards and guidance that meet user needs for extended external reporting.

√

√

√

√

6. Monitor and respond to, or lead on, emerging issues impacting the development of auditing and assurance standards and guidance, including changing technologies.

√

√

√

√

√

7. Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance.

√

√

Table 7: S224 of the ASIC Act sets out core objectives for accounting and auditing and assurance standard-setting in Australia:

AASB	AUASB
<p>Accounting standards should require the provision of financial information that:</p> <ul style="list-style-type: none"> i. allows users to make and evaluate decisions about allocating scarce resources ii. assists directors to discharge their obligations in relation to financial reporting iii. is relevant to assessing performance, financial position, financing and investment iv. is relevant and reliable v. facilitates comparability is readily understandable 	<p>Auditing and assurance standards should require the provision of information that:</p> <ul style="list-style-type: none"> i. provides Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the Corporations Act 2001 (Corporations Act) ii. requires the preparation of auditors' reports that are reliable and readily understandable by the users of the financial reports to which they relate
<p>The Australian financial reporting system should:</p> <ul style="list-style-type: none"> i. facilitate the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively domestically and internationally ii. facilitate the Australian economy by developing accounting and auditing and assurance standards that are clearly stated and easy to understand to maintain investor confidence in the Australian economy, including its capital markets 	



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **3**

Meeting Date: 10 September 2019

Subject: Audit Quality – AUASB submission to the Parliamentary Inquiry into the Regulation of Auditing in Australia

Date Prepared: 4 September 2019

Prepared by: Anne Waters

Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the AUASB to discuss the scope of its submission and agree key messages to the Joint Committee on Corporations and Financial Service's inquiry into the regulation of auditing in Australia.

Background

2. On 1 August 2019 the Joint Committee on Corporations and Financial Services (the committee) announced an inquiry into the regulation of auditing in Australia. Submissions close 29 October 2019 (extended from the original date of 30 September) and the committee is due to report 30 March 2020. [Link](#)
3. The terms of reference are detailed below and are very broad covering;
 - quality, regulation and market for corporate audits;
 - conflicts of interest including the relationship between auditing and consulting services; and
 - the performance of regulators and standard setters.
4. The committee has not released any further detail or explanation on the terms of reference.
5. The scope of this review is similar to the reviews of regulators and the future of audit reviews currently underway in the UK.
6. The AUASB Chair has been invited to respond to the inquiry and may be asked to attend and respond to questions at the inquiry.

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7. As is standard practice in these inquiries the IAASB have also been invited to provide a submission to the Australian inquiry. The AUASB Chair has held discussions with the IAASB Chair on the scope of their submission. The IAASB and the IESBA also made a joint submission to the Bryden review ([link to their submission](#)), highlighting how the IAASB and IESBA “take action in the public interest to support public confidence in audits of financial statements and other assurance engagements more broadly, as well as reinforce the important ethical responsibilities of professional accountants in business (PAIBs) in the external reporting ecosystem”. The submission to the Australian inquiry is likely to be similar. The Chair of the IAASB has agreed that the IAASB will share their draft submission with the AUASB as soon as practical.
8. The AUASB Technical Group (ATG) have had discussions with the APESB, FRC, ASIC, and CAANZ and they will also be making submissions. At this stage the AASB are yet to confirm if they will make a submission.
9. CAANZ have been asked by the committee to prepare background information on auditing and assurance in Australia and the regulatory regime with international comparisons. Treasury have been asked to prepare background on legislative matters.
10. On 4 September 2019 CAANZ released an [investor survey](#) “How confident are Australian retail investors?” which provides some evidence relevant to this inquiry. Headlines are:
 - 87% of retail investors have confidence in audited financial reporting by public companies
 - Independent auditors are one of the groups retail investors trust mostThis survey also includes views on conflicts of interest. The ATG are yet to consider this survey in detail and will refer to this where relevant in the AUASB submission.

Scope of the AUASB’s submission

11. The terms of reference are broad and not all are relevant to the AUASB and / or appropriate for the AUASB to provide comments on. When considering which terms of reference the AUASB should provide comments on, the ATG considered the following principles:
 - a) The AUASB’s submission will cover the terms of reference relevant to its vision (refer appendix 1):
 - b) The AUASB’s submission may potentially cover other terms of reference for which we have relevant evidence on, and / or valuable observations as a key stakeholder.The following has been prepared to assist the AUASB in its deliberations on which terms of reference to provide comments on.
12. The terms of reference are “*regulation of auditing in Australia with particular reference to...*”
13. Terms of reference 1: *the relationship between auditing and consulting services and potential conflicts of interests;*
 - a) Possible relevant points:
 - Non-audit services may be audited related, or non-audit related.
 - Advantages of non-audit services (e.g. complimentary to audit) verses disadvantages (e.g. conflicts of interest, independence, perceived negative impact on Audit Quality (AQ)).

- Rules in place to assist to manage potential conflicts of interest, such as:
 - Strict current independence rules under APES 110 and *Corporations Act 2001*;
 - Transparency of reporting of fees paid to the auditor (both in the financial report and to the audit committee); and
 - The accounting firms and audit committee's pre- approval processes.
 - Any evidence that non audit services impact AQ?
 - The AUASB / FRC ACC survey indicated no concerns over objectivity or independence of auditors.
- b) Meeting the principles? Potentially 11(b)
- c) ATG comment: This term of reference is relevant to the APESB. The FRC will be commenting on. The AUASB to consider commenting?
14. Terms of reference 2: *other potential conflicts of interests*;
- a) Possible relevant points:
- Existing Partner rotation requirements vs other jurisdictions.
 - Firm rotation requirements in other jurisdictions. Evidence on the impact on audit quality? Some jurisdictions have gone from mandatory firm rotation back to none. Why?
- b) Meeting the key principles? No
- c) ATG comment: Relevant to the APESB.
15. Terms of reference 3: *the level and effectiveness of competition in audit and related consulting services*;
- a) Possible relevant points:
- Level of competition in the market. AUASB academic scholar can provide Statistics on market share of big 4, big 6 and auditors of listed entities. Results still being finalised but initial results are that % of medium/ smaller auditors auditing listed entities is increasing at the smaller end of entities, but big 4 do nearly all ASX top 200. Impact on audit quality? Is there sufficient regulation of smaller audit market?
 - ACCC commenced but dropped an inquiry into the big 4 over alleged anti-competitive conduct.
- b) Meeting the key principles? No clear link however we have information which is relevant and could comment on.
- c) ATG comment: Relevant to the ACCC however not sure they are going to prepare a submission. FRC to cover. AUASB can provide comment on the statistics available.
16. Terms of reference 4: *audit quality, including valuations of intangible assets*;
- a) Possible relevant points:

- Robust standard setting process using as appropriate the IAASB's standards.
- Auditing Standards principles based for audits of all types and sizes of entities and sector neutral.
- ASIC inspection results – agree improvement is necessary but low sample and can't be stratified.
- CAANZ investor survey.
- Other measures of AQ. Supportive of more measures being available for stakeholders to consider.
- Results of FRC's AQ action plan including surveys.
- Key projects to address audit quality:
 - ASA 540
 - ASA 315 - Revisions of our standards on identifying and assessing the risks of material misstatement
 - Enhancing quality management at both firm and engagement levels
 - Strengthening and clarifying requirements when performing group audits
 - Updating GS 005
 - Recent update to the auditor's report designed to narrow the expectation gap
- b) Meeting the key principles? Yes, 11(a)
- c) ATG comment: Relevant to the AUASB's vision and AUASB can make valuable contribution.

17. Terms of reference 5: *matters arising from Australian and international reviews of auditing;*

- a) Possible relevant points:
 - International drivers / issues – being assessed by the IAASB when setting standard setting agenda
 - International developments monitored by the AUASB
 - Significant debate in the UK (Bryden review)
 - UK considering splitting audit and consulting
 - Monitoring Group has raised issues about auditing and ethics standard setting internationally.
- b) Meeting the key principles? Possibly 11b
- c) ATG comment: FRC to cover. The AUASB briefly cover that we monitor international developments.

18. Terms of reference 6: *changes in the role of audit and the scope of audit products;*
- a) Possible relevant points:
- Being looked at in the UK Bryden review.
 - The IAASB/AUASB assurance framework is wider than auditing the Financial Report ie. assurance over controls, non-financial information, compliance engagements. There is a framework to facilitate assurance over different subject matter.
 - There is continuing debate around assurance over Extended External Reporting and assurance over information other than the Annual Report.
 - ASX Corporate Governance principles require disclosure of its processes to verify the integrity of any periodic corporate report.
 - Assurance doesn't have to be provided by the auditor.
 - Concern that the value of audit is not understood, and possibly a re-look at what users want assurance over would be helpful.
- b) Meeting the key principles? Yes 11b
- c) ATG comment: AUASB to comment on. Note FRC also commenting on.
19. Terms of reference 7: *the role and effectiveness of audit in detecting and reporting fraud and misconduct;*
- a) Possible relevant points:
- Current objective of ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* is to identify material misstatement in the financial report due to fraud.
 - Expectation gap and inherent difficulties in identifying fraud.
 - Auditors can provide more assurance over fraud as a separate engagement, but cost vs benefit.
 - Recent NOCLAR amendments – increasing ethical responsibility of preparers and auditors.
- b) Meeting the key principles? Yes 11a
- c) ATG comment: AUASB to comment on. Note FRC also commenting on.
20. Terms of reference 8: *the effectiveness and appropriateness of legislation, regulation and licensing;*
- a) Possible relevant points:
- Overview of the Legislation determines who requires an audit;
 - Regulated by ASIC;
 - Requirement for Registered Company Auditors;
- b) Meeting the key principles? No

- c) ATG comment: Not to be commented on by the AUASB. FRC considering.
21. Terms of reference 9: *the extent of regulatory relief provided by the Australian Securities and Investments Commission through instruments and waivers;*
- a) Possible relevant points: N/A
- b) Meeting the key principles? No
- c) ATG comment: ASIC to comment on. Not to be commented on by the AUASB
22. Terms of reference 10: *the adequacy and performance of regulatory, standards, disciplinary and other bodies;*
- a) Possible relevant points:
- FRC's oversight role of the AUASB
 - FRC directive to AUASB and AASB to use international standards
 - Rigorous due process in developing our standards in the public interest and using the principles in our evidence informed standard-setting strategy.
 - Strict balance between practitioners and non-practitioners on our board
- b) Meeting the key principles? Yes
- c) ATG comment: AUASB to comment on. Note FRC also commenting on.
23. Terms of reference 11: *the effectiveness of enforcement by regulators;*
- a) Possible relevant points: None.
- b) Meeting the key principles? No
- c) ATG comment: Not to be commented on by the AUASB
24. Terms of reference 12: *any related matter*
- a) Meeting the key principles? N/A
- b) Possible relevant points: None identified by the ATG.
- c) ATG comment: No further matters to comment on.

Questions for the AUASB

25. What are the key messages that the AUASB is seeking to deliver in the submission?
26. Which terms of reference does the AUASB consider is their role to comment on?
27. Any other matters to include in the AUASB submission?

Material Presented

Agenda Item

AUASB Board Meeting Summary Paper

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.			AUASB		

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Appendix 1:

AUASB's Vision

Contribute to stakeholder confidence in the Australian economy, (including its capital markets), external reporting and enhanced credibility of external reporting through independent auditing and assurance;

- Develop, issue and maintain in the public interest, high quality Australian auditing and assurance standards and guidance that meet user needs and enhance audit and assurance consistency and quality;
- Contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.1.0**

Meeting Date: 10 & 11 September 2019

Subject: Report on IAASB June 2019 Meeting

Date Prepared: 27 August 2019

Prepared By: Matthew Zappulla

Action Required

For Information Purposes Only

Agenda Item Objectives

1. Report to AUASB on the main matters discussed at the June 2019 IAASB meeting and implications for the AUASB.

Material Presented

Agenda Item 4.1.0	AUASB Board Meeting Summary Paper
Agenda Item 4.1.1	Report on IAASB June 2019 Meeting

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Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1.1
Meeting Date: 10 & 11 September 2019
Subject: Report on IAASB June 2019 Meeting
Date Prepared: 27 August 2019

This paper provides an overview of the International Auditing and Assurance Standards Board (IAASB) meeting held in New York, USA on 17 – 21 June 2019 for the AUASB.

ISA 315 - Identifying and Assessing the Risks of Material Misstatement

Since the March 2019 IAASB meeting, the ISA 315 Task Force progressed changes to the standard by focusing its efforts on implementing the new drafting approach, as agreed to with the Board in the March 2019 meeting, to address the overarching concerns in relation to

- Length and complexity; and
- Scalability and proportionality of ED-315

Using the new drafting approach:

- The ‘what’ remained the in the requirements, while keeping it at a principles level
- Definitional material (or criteria) was relocated to definitions
- The ‘why’ or ‘how’ was relocated to the AM, unless such criteria provided a necessary threshold for the execution of the requirement – in which the Task Force proposed that it remains as a requirement. In addition, the Task Force considered additional “why’s” where it was thought this would be helpful.

After considering a full version of the standard, the Board broadly supported the overall direction of the changes, in particular regarding the efforts to:

- Enhance the flow of the requirements;
- Make the standard more understandable; and
- Enhance the application material, noting that the introduction of the “why” was very helpful, as well as separately signposting the examples, the scalability and automated tools and technique paragraphs.
- Enhance and revise the appendices.

Despite the support, many Board members expressed concern with the interaction of some of the new definitions and the requirements, adding that there may also be challenges in navigating efficiently through the standard when considering a number of related pieces. There were also questions about the “authority” of the definitions.

Although it was recognized that technology may be a solution to improve navigation, the Board agreed that this was not necessarily a solution for now.

During the week the Task Force reconsidered the approach, and after further deliberation, brought back to the Board a new presentation to ‘reconnect’ some of the definitions to the requirements (mainly related to the understanding of the components of the system of internal control). The new presentation was also intended

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to make clearer what is required to obtain an understanding of each component of the system of internal control.

This was done through connection in a 2-column table showing what is required to be understood, and then to evaluate, to be able to have the required understanding. Subject to some suggestions where further clarifications are needed to enhance the flow of the requirements presented in the 2-column format, the Board generally supported this revised approach. The Task Force will continue develop this for discussions on the final standard in September on the final proposed standard.

The Task Force also brought revised definitions relating to inherent risk factors (as well as the related requirements) and significant risk to address concerns raised by the Board during the week. Broadly the way that fraud is dealt with in the definition of the inherent risk factors continues to have divided views, but the Board has agreed to revise wording that refers to the fraud risk factors that acknowledges the two different types of fraud but also highlights the behavioural aspects related to fraud.

There were also some other issues and concerns raised by the Board that the Task Force will need to consider further. The Task Force plans to continue to develop the final proposed standard, and related implementation guidance, for the targeted approval of September 2019.

Implications for the AUASB

Most feedback provided by AUASB in its submission has been addressed by the ISA 315 Task Force was supported by the IAASB.

Standard will be targeted for approval at the September 2019 IAASB meeting. 'Fatal flaw' review of the final draft of ISA 315 provided to the IAASB will be reviewed at the September 2019 AUASB meeting.

ISA 600 - Group Audits

The board had a good discussion on the issues identified by the task force and some "indicative drafting" presented by the task force. The indicative drafting was intended to demonstrate how the special considerations related to group audits might be presented in a proposed standard. There was general support for public interest issues identified.

There was also general support for the risk-based approach to group audits presented by the task force. While agreeing that the group auditor is responsible for the direction, supervision, and review of the group engagement, and the opinion, it was recognized that often component auditors are in the best position to perform some of the work, including the identification of the risks of material misstatement, and that this should be recognized in the standard. The board also discussed the extent to which the group auditor can use the work performed in connection with statutory audits performed by component auditors.

The board also discussed:

- The Scope of the standard. It needs to be clear when an audit is a group audit and thus the requirements of the standard apply.
- Significant components, and whether the concept should be retained, either as a requirement for the auditor to perform procedures on all significant components, similar to the requirement in ISA 330.18, which requires substantive procedures on all material accounts.
- The importance of having a scalable standard.

The Task Force will:

- Consider the comments received from the Board and will present further drafting related to the risk-based approach and the special considerations related to ISA 220 at the September 2019 meeting:

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- Continue outreach and coordination with IESBA and other IAASB Task Forces, and the Consultative Advisory Group

Implications for the AUASB

Continue to monitor developments leading up to September and December 2019 IAASB Meeting.

Expected timeline for approval of the Group Audits ED has been revised from December 2019 to March 2020.

Agreed Upon Procedures

The Board discussed the feedback received from the responses to its Exposure Draft of ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*. The responses were overwhelmingly supportive of ED-4400 with a significant majority of respondents agreeing that ED-4400 has been appropriately clarified and modernized to respond to the needs of stakeholders and address the public interest.

The task force presented its preliminary views on the issues raised in the responses. The Board supported many of these views.

Professional Judgment

The Board confirmed the position in the ED that professional judgment is relevant in an AUP engagement. It also supported the view in some responses that professional judgment is not applied when performing the agreed-upon procedure (AUP). However, the practitioner's training, knowledge and experience are applied throughout the engagement.

Independence – Precondition

The Board generally agreed with not including a precondition for the practitioner to be independent and not requiring the practitioner to determine independence.

Independence – Disclosure

The Board discussed the balance between enhancing transparency and promoting consistent disclosure in the AUP report. In considering the responses from stakeholders, the Board generally agreed that, if the practitioner is not required to be independent, the AUP report would include a statement along the lines that the practitioner is not required to be independent and accordingly, makes no assertion of independence.

However, the Board tentatively concluded that further statements on whether the practitioner is, or is not, independent may be confusing to readers given the lack of generally accepted criteria for determining independence in the IESBA Code.

The Board indicated that the task force should further consider whether disclosures about the practitioner's objectivity would enhance the AUP report. The enhanced transparency on objectivity may help mitigate the "expectations gap" in this area.

Effective Date

The Board discussed the merits between basing the effective date on when the engagement agreement date and basing the effective date on the AUP report date. Views on this issue are split. The Task Force will further consider this point.

Other matters

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The Board broadly supported the proposals in relation to references to findings, engagement acceptance and continuance, using a practitioner's expert, written representations and the AUP report.

Way Forward

The Task Force will take the Board's views into account as it works towards having the final standard for the Board to approve at the December 2019 meeting.

Implications for the AUASB

Continue to monitor developments leading up to December 2019 IAASB Meeting.

Full 'fatal flaw review' of ISRS 4400 to be performed at December 2019 AUASB meeting.

Subsequent to approval by the IAASB then the AUASB will need to expose ASRS 4400.

Extended External Reporting

In relation to the discussion on EER, the Board:

- Received an update on the EER Task Force's work on the remaining five Key Challenges
- Provided input, through breakout groups that did deep dives into several of those challenges, including on the content of the guidance and on how the challenges should be addressed in the guidance

The Task Force will make improvements to the drafting of the phase 2 guidance, taking that input into account, for the Board's further discussion in September 2019.

Implications for the AUASB

Jo/Marina to continue to monitor developments on Phase 2 of the EER Project through the EER Guidance Project Advisory Panel and update AUASB members at AUASB meetings.

Audit Evidence

In relation to audit evidence, the Board discussed the analysis undertaken by the Audit Evidence Working Group of the issues across the ISAs related to audit evidence. The analysis also covered aspects of the ISAs where the use of technology may need to be considered, and explored possible actions to address the issues.

The Board agreed to initiate a two-track process to address the issues related to audit evidence and technology more broadly:

- The first track would involve developing guidance on the effect of technology when applying certain aspects of the ISAs. The Board's view is that this guidance needs to be developed expeditiously, given the prevalent use of technology and the feedback we have received from stakeholders about the need for guidance.
- The second track would encompass further research activities to understand the issues related to audit evidence in more depth, so that this can provide information to the Board in determining the need for revisions to ISA 500, and possibly other related standards.

The next steps for the Audit Evidence Working Group are to develop a project plan for the audit evidence research activities for further discussion by the IAASB at the September meeting. The Technology Working

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Group will also develop a project plan outlining the topics to be addressed by the technology-related guidance, and the format and due process of the guidance, which will also be presented to the IAASB.

Implications for the AUASB

Additional consideration required by IAASB Audit Evidence Working Group. No action for the AUASB at this time, other than continuing to be updated by the AUASB Technical Group prior to the September 2019 IAASB meeting.

Other matters discussed by the IAASB

1) The **Professional Scepticism work group** also met during the June Board meeting. The working group:

- discussed its input to the revisions to ISAs on group audits, EER and audit evidence
- is developing a third Communiqué on how the IAASB has responded to public interest issues related to professional skepticism
- is following IESBA's current project on the role and mindset of professional accountants and input has been provided to the IESBA Task Force

The working group's next focus will be on the revisions to ISAs on group audits, EER and audit evidence.

2) The Board received an update from Mary Tokar (IASB Member) on **IASB activities**, including:

- How the IASB sets their agenda, as well as resources and consultations with stakeholders, in light of the upcoming discussions about the 2020 IAASB Strategy.
- The impact of technology on standard setting, including how standards are set
- An update on relevant topics on the IASB's current agenda, including discussions about various aspects of auditability related to these.

3) The Board received a presentation on the process put in place to inventory, capture and manage **coordination needs with IESBA**, how the IAASB staff prioritise topics requiring coordination and allow for periodic review (e.g., by the Board's liaison members, the Steering and Planning Committees).

4) The Board discussed global trends and key themes related to **auditor reporting**, and also provided input on the plans for the auditor reporting post-implementation review as proposed by the Auditor Reporting Implementation Working Group.

Implications for the AUASB

None. For noting only.

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	4.2.0
Meeting Date:	11 September 2019
Subject:	ISA 315 Identifying and Assessing the Risks of Material Misstatement
Date Prepared:	3 September 2019
Prepared by:	Matthew Zappulla / Anne Waters

Action Required

For Information Purposes Only

Agenda Item Objectives

1. To update and inform the AUASB on the IAASB's ISA 315 Task Force's proposed changes to respond to ED 315 *Identifying and Assessing the Risks of Material Misstatement* (ED 315), which is being presented at the September 2019 IAASB meeting for approval as a standard;
2. To communicate to the AUASB how / if the matters raised in our submission to the IAASB on ISA 315 have been addressed; and
3. For the AUASB to perform a 'fatal flaw' review of the proposed standard and provide views on the any major issues contained in redrafted ISA 315 to AUASB Chair Roger Simnett in his capacity as an IAASB member.

Background

4. The AUASB submitted a comment letter to the IAASB on ED 315 on 2 November 2018.
5. For the March 2019 IAASB Meeting the IAASB considered a detailed analysis of the 72 responses the IAASB received on ED 315 prepared by the ISA 315 Task Force, as well as agreed a new drafting style or approach to reduce the length and complexity of the requirements.
6. At its June 2019 meeting the IAASB reviewed a redrafted ISA 315 with the requirements based on the new drafting approach with application material and appendices still to be finalised. The agenda item covering ISA 315 at the AUASB's June 2019 was also attended by IAASB Deputy Chair and ISA 315 Task Force Chair, Fiona Campbell.
7. An analysis of the IAASB's Issues paper and proposals is summarised in this AUASB board paper – if AUASB members wish to review the full suite of materials relating to this IAASB Agenda Item refer to the [IAASB's](#) website (Refer IAASB 'Agenda Item 2 - ISA 315 (Revised)').

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Matters to Consider

Changes to the standard since June 2019

8. Since the June 2019 IAASB meeting, the ISA 315 Task Force (the Task Force) has focused on addressing the comments received from Board members at the June meeting and continuing to look for ways to improve the readability and understandability of the standard. The revised structure of format of the proposed standard has been retained, but is less extreme than the version presented to the AUASB at its June meeting, based on the request from IAASB members that many of the definitions previously removed from the requirements were reinstated into the body of the standard. So whilst the principle of the requirements being the “what”, and the application material, appendices and guidance being the “why” and “how” has been retained, the requirements (refer paragraphs 17 - 54 of **Agenda Paper 4.2.1**) are now laid out in both a tradition narrative and tabular format where relevant to best address readability, understandability and scalability.
9. The AUASB gave feedback at its June meeting that there could still be some improvements to the order and flow of the standard, which was hard to follow via the normal ‘linear’ approach in the requirements. Specifically, there were concerns expressed about how some of the risk concepts are still presented in the standard and there is a greater opportunity to simplify the deliberations about identification and assessment of ROMM in the requirements and application material. The ISA 315 Task Force further considered how to address the iterative nature of the Standard, but have not made any major changes to the order of the requirements as it continues to have the view that the order that the requirements are presented in, although linear, is still the most effective way, as all requirements for risk identification and assessment are presented in a common section.
10. Some AUASB members still expressed at June a concern about how ISA 315 addresses the requirement to consider the Inherent Risk Factors. The Task Force has for this latest version reconsidered how reference to the inherent risk factors, in the requirement to obtain an understanding of the entity and the applicable financial reporting framework, has been articulated, to address some concerns expressed about potential inconsistency between the articulation in the requirement and the definition of inherent risk factors. Refer to Paragraphs 23 and 48 in **Agenda Paper 4.2.1** for this detail.
11. The Task Force has brought to the IAASB review of the revised Introductory paragraphs, public sector considerations and guidance on automated tools and techniques for the first time at September 2019. Its unusual the standard would be subject to approval when these items are only being reviewed for the first time. Some stakeholders may be disappointed with the lack of additional information relating to the use of automated tools and techniques as a risk assessment procedure in ISE 315 revised, but the Task Force is clear to point out this is a more general issue which the Technology working group should be dealing with – not the ISA 315 Task Force. The ATG is supportive of the approach the Task Force has taken, but note it is not consistent with our original feedback on ISA 315 ED summarised in Table 1, which requested additional guidance on the use of automated tools and techniques in the revised standard.
12. The ISA 315 Task Force are also developing the following guidance to assist with implementation, but at the time of the AUASB’s analysis these items were yet to be released by the IAASB:
 - First time implementation guide – new and revised concepts
 - Frequently asked questions

These implementation materials are not subject to vote by the IAASB and will be further enhanced before being released. The proposed implementation materials capture a lot of the information from the Appendices and Introductory paragraphs of the standard which was not

retained as part of the ‘re-drafting’ of the standard to streamline it and make it easier to understand. This represents a favourable outcome to what happened with ISA 540, where much of the elements removed from the final standard were on the basis implementation materials would be made available, but over a year down the track for approval by the IAASB very little actual implementation support materials are ready.

13. Finally, at the AUASB June meeting a few AUASB members expressed support for a technological solution to be developed that assists with Navigation of the standard to further enhance its accessibility and understandability, but this is not something the Task Force is taking on as part of its revisions.

IAASB Approval

14. **It is very clear the ISA 315 ED Task Force intends to have approved at this upcoming IAASB meeting. The AUASB is therefore requested to a final ‘fatal flaw’ review of the ‘clean’ version of the standard at [Agenda Paper 4.2.1](#) and raise any major issues for the consideration of the AUASB Chair and to capture to feed back to the ISA 315 Task Force and other IAASB members.**
15. The AUASB Technical Group (ATG) have continued to monitor all the matters raised by the AUASB in its submission to the IAASB on ED 315, and how they have been addressed in redrafted ISA 315. Refer to Table 1 below which has tracked this over the last 12 months of AUASB meetings. Based on the fact all significant matters raised in the AUASB’s submission have now been predominantly addressed by the ISA 315 Task Force the ATG have raised no additional questions or concerns for the AUASB’s consideration. The ATG believes the standard is ready for approval and there is little or no benefit in the IAASB delaying approval, specifically:
 - Changes to the requirements don’t raise any red flags;
 - Changes to the definitions are minimal now they have been restated back into the requirements in many cases; and
 - The changes to the application material are significant in their number but not substantive in nature.
16. Overall the ATG has not reviewed any changes which fundamentally alter the standard from previous versions we have reviewed and the main concepts we raised concerns on when commenting on the ED have still been addressed.

Effective Date

17. Despite some requests to push back the effective date, the Task Force is proposing an effective date of periods beginning on or after 15 December 2021 and that an 18-month implementation period is appropriate to allow sufficient time to prepare for the changes in the revised standard. The ATG sees no issues with this. The AUASB in its submission on the ED supported an effective date of December 2020 (which has now blown out due to the volume of feedback received on the ED).

Re-exposure

18. The ISA 315 Task Force – with one exception (who interestingly is not named) – has prepared a paper outlining why re-exposure of ISA 315 is not required at [Agenda Item 2-H](#) of the IAASB Board Papers. Notwithstanding the extent of changes to respond to the feedback on the ED, the Task Force considered the nature and extent of the changes made since ED-315 are of not of such significance that re-exposure may be necessary. Specifically, in the view of the Task Force, most changes since the ED-315 was finalised relate to the presentation of the standard, do not

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represent substantial changes to the standard and are not therefore pertinent to a discussion about the robustness of the final standard, and whether the revised standard needs to be re-exposed.

19. The Task Force acknowledges that there is a broader conversation that certain Board members would like to have about the changes to the presentation to the standard and whether this needs to be replicated in (a) the ISAs currently being revised; and (b) all of the ISAs. In the view of the Task Force, this question is not one that should be addressed as part of the ISA 315 (Revised) project but should rather be dealt with more broadly as a separate topic for discussion by the IAASB.

Actions for the AUASB

1. Review Table 1 (below) and consider if you are satisfied with how matters raised in our ISA 315 ED submission have been addressed.
2. Read and provide any ‘fatal flaw’ comments on the redrafted ISA 315 at **Agenda Paper 4.2.1** (IAASB Agenda Item 2E - ISA 315 Full standard revised clean). NB: This will likely be the final opportunity for AUASB members to consider the revised requirements, definitions, application material and appendices.
3. Evaluate the proposed effective date for the proposed standard and provide feedback on the decision whether or not to re-expose the standard.

Table 1: Reconciliation of the AUASB submission to the updated ISA 315

Matters raised in the ED 315 submission by the AUASB	How the matters are addressed in redrafted ISA 315
<p><u>Complexity and length of standard</u></p> <ul style="list-style-type: none">• The increased length of ED 315 is a potential barrier to its understandability and consistent application.• Consider drafting standards for less complex entities, then adding application or guidance for more complex entities.• The introduction of many new definitions and concepts, or the distinction between concepts, add complexity to the standard.• Reassess whether some content currently in the application material of ED 315 should instead be included in other non-authoritative guidance.	<p>Addressed through new drafting style as well as simplifying requirements and removing set up or sign post requirements.</p> <p><i>NB: No change since June 2019</i></p>

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Matters raised in the ED 315 submission by the AUASB	How the matters are addressed in redrafted ISA 315
<p>Definition “significant classes of transactions, account balances and disclosures” and “relevant assertions”.</p> <p>We consider that the term “more than remote” is fundamentally different to “a reasonable possibility”, and this revised definition may result in more significant classes of transactions, account balances, or disclosures being identified than was intended.</p>	<ul style="list-style-type: none"> • Concern has been addressed the definitions are now: <ul style="list-style-type: none"> ○ Significant class of transaction, account balance or disclosure – A class of transactions, account balance or disclosure for which there is one or more relevant assertion. ○ Relevant assertions – An assertion about a class of transactions, account balance or disclosure is relevant when it has an identified risk of material misstatement. The determination of whether an assertion is a relevant assertion is made before consideration of controls.” • The ED 315 Task Force have been considering how to link the threshold to an identified risk of material misstatement to a concept already existing in the ISAs, and have proposed the following amendment to ISA 200: <p><u>New Definitions: Risk of Material Misstatement (Ref: Para. 13(n)) A15a.</u></p> <p><u>In determining identified risks of material misstatement, the auditor considers those risks for which a misstatement could be material, and the likelihood that the risk could occur (i.e., whether there is a reasonable possibility that the risk could occur). If there are risks that could result in a material misstatement and have a reasonable possibility of occurrence and that have not been addressed by the auditor’s procedures, then audit risk is not at an acceptably low level. The auditor’s judgment is necessary to identify which risks are identified risks of material.</u></p> <p><i>NB: No change since June 2019</i></p>

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<p><u>Inherent risk factors (IRF)</u></p> <ul style="list-style-type: none"> • Supportive of the concepts and definition. But consider it is overly complicated by having a requirement to explicitly take into account IRF. • Insufficient clarity in how to apply the concepts and definitions of the IRF and the current proposed definition of significant risk. • Inclusion of quantitative is potentially problematic. 	<p>The September 2019 version of ISA 315 reconsiders how reference to the inherent risk factors, in the requirement to obtain an understanding of the entity and the applicable financial reporting framework, has been articulated, to address some concerns expressed about potential inconsistency between the articulation in the requirement and the definition of inherent risk factors. Refer to Paragraphs 23 and 48 in Agenda Paper 4.2.1 for this detail.</p> <p>Also, Appendix 2 Understanding the IRF has been developed for inclusion in ISA 315 to assist.</p> <ul style="list-style-type: none"> • IRF are now included in the required understanding of the entity and its environment, because it is at this stage that the auditor will consider the events and conditions to which the inherent risk factors relate. (paragraph 23) The related application material has also been enhanced to explain how the inherent risk factors are considered when the auditor obtains an understanding about how the applicable financial reporting framework is applied, giving rise to the auditor’s understanding about whether classes of transactions, account balances or disclosures are subject to, or affected by, the inherent risk factors • IRF maintained in the requirement to assess inherent risk, and definition of significant risk. • Definition of IRF still includes “quantitative” however as the definition of significant has been changed from “likelihood or magnitude” to likelihood and magnitude”, this is no longer problematic.

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<p><u>Definition of significant risk and the spectrum of inherent risk</u></p> <ul style="list-style-type: none"> • More detail required on the spectrum of inherent risk i.e. how to assess where on the spectrum a risk resides • Definition of significant risk should be “likelihood <u>and</u> magnitude” as opposed to the current “likelihood <u>or</u> magnitude”. • The definition of significant risk should be amended to those “at the upper end of the spectrum of inherent risk” and not “close to the upper end of the spectrum of inherent risk”. 	<p>Matters partly addressed however more explanatory and appendix to assist with concepts.</p> <ul style="list-style-type: none"> • Concept of spectrum of inherent risk is retained and guidance on how to assess where on the spectrum a risk would reside with illustrations. • Changed the definition of significant risk to “likelihood of misstatement occurring <u>and</u> the magnitude of potential misstatement”. • Definition of significant risk retained as “close to the upper end of the spectrum of inherent risk” • Cautious about adding too much application material on how to assess on the spectrum as this requires professional judgement. Will add application material to clarify that: <ul style="list-style-type: none"> • in rare circumstances there may be an entity that does not have a significant risk • routine, non-complex transactions are not likely to give risk to significant risk when they do not involve subjectivity (eg trade receivables unlikely to be a SR but the valuation could be). <p>In summary the AUASB’s concerns have been considered and addressed except for the third point as the “close to” is proposed to be retained.</p> <p><i>NB: No change since June 2019</i></p>
<p><u>Flowcharts</u></p> <ul style="list-style-type: none"> • Supportive of being in appendices • Suggest they could be further enhanced to better present and emphasise the iterative and non-linear processes contained within the proposed standard 	<p>Will be simplified based on the updated standard and included in the pack of implementation materials produced after the IAASB approves the standard.</p>
<p><u>Introductory paragraphs</u></p> <ul style="list-style-type: none"> • Supportive • Paragraphs 4 and 5 – repetitive • The “spectrum of inherent risk” needs to be described in greater detail by including how a practitioner may assess at which point a risk resides on the spectrum, or alternatively referring to where this concept is specifically explained in the application material. 	<p>Although there were a number of respondents who were very supportive of the introductory paragraphs, in particular because the paragraphs “told the story” of ISA 315 (Revised), the Task Force has pared these paragraphs down to only reflect relationships with other ISAs and significant overall messages regarding the standard (such as the iterative nature of the standard), which is largely how the other ISAs use these paragraphs.</p> <p>Refer Paragraphs 2 – 10 of the redrafted ISA 315 at Agenda Paper 4.2.1 for the revised introductory paragraphs.</p>

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<p><u>Scalability</u></p> <ul style="list-style-type: none">• Overall concern ED 315 is not scalable to smaller and medium entities.• Terminology used in ED 315 should refer to “less complex entities”.• Recommend guidance and examples be included in the application material of the proposed standard on how to effectively scale the work effort in ED 315 to less complex entities, such as examples of: how to perform risk identification and assessment procedures for a less complex entity where a mainly substantive audit approach will be adopted; and how to perform risk identification and assessment procedures when the entity’s system of internal control may be less detailed and formalised.	<p>A main focus of the Task Force.</p> <p>Terminology has been changed and the application material includes “Scalability paragraphs”.</p> <p>Since June 2019 the Task Force has further considered the Board’s comments regarding the modified approach to the presentation of specific requirements in tables, which was intended to further clarify the nature and extent required for understanding the entity and its environment, and the applicable financial reporting framework, and the components of the entity’s system of internal control.</p>

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<p><u>Automated tools and techniques</u></p> <ul style="list-style-type: none"> • Agree with the approach taken of using examples to illustrate how automated tools and techniques may be used in risk assessment. • ED 315 could be further enhanced by addressing: <ul style="list-style-type: none"> ○ How automated tools and techniques may be used for risk assessment, and how they meet or impact the requirements of ED 315. This is to avoid automated tools and techniques being applied in addition to the current requirements. ○ What are the requirements in relation to understanding and/or obtaining evidence over the reliability of underlying data (information produced by the entity) used within automated tools and techniques that are used for risk assessment (including the nature, timing and extent of testing). ○ Risk factors relating to the use of big data and automated analytics technology. 	<p>The ISA 315 Task Force’s view continues to be that using automated tools and techniques is the way that a risk assessment procedure is carried out, and the Board cannot mandate its use (also taking into account that not all practitioners will have access to such tools). The Task Force has therefore continued to include the focused considerations around the use of automated tools and techniques in separate paragraphs, with changes or enhancements to address respondent comments as appropriate.</p> <p>Many of the issues that were raised in response to ED-315 do not relate to ISA 315 (Revised) specifically, but rather relate more broadly to the use of automated tools and techniques throughout the audit, and are therefore outside of the scope of the ISA 315 (Revised) project. These comments have therefore not been addressed as part of this project, but form part of the remit of the IAASB’s Technology Working Group’s work.</p>

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Table 1: Reconciliation of the AUASB submission to the updated ISA 315

Matters raised in the ED 315 submission by the AUASB	How the matters are addressed in redrafted ISA 315
<p><u>Professional scepticism</u></p> <ul style="list-style-type: none"> Supportive of the principle of obtaining an appropriate base of evidence for risk assessment, however we do not support using the term “sufficient appropriate audit evidence” 	<p>Matter addressed. The term “sufficient appropriate audit evidence” has been removed and the following requirements (underlined) added specifically to address:</p> <p>(17) The auditor shall <u>design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for: (a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and (b) The design of further audit procedures in accordance with ISA 330.</u></p> <p>[New] <u>The auditor shall design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.</u></p> <p>[New] 51A. <u>The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement at the financial statement and assertion level, and the design of further audit procedures. In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence relevant to risk assessment procedures, whether corroborative or contradictory</u></p> <p>The following has been removed from requirements and added to application material:</p> <p>Inquiry alone is not sufficient for this purpose. Risk assessment procedures by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion. This has been moved to application material – see paragraph A141c.</p> <p><i>NB: No change since June 2019</i></p>

Table 1: Reconciliation of the AUASB submission to the updated ISA 315

Matters raised in the ED 315 submission by the AUASB	How the matters are addressed in redrafted ISA 315
<p><u>Internal controls</u></p> <ul style="list-style-type: none"> • It is not sufficiently clear how controls including the understanding obtained over the system of internal control, impact the identification of risks of material misstatement. • Clarify the design and implementation testing required verses gaining an understanding. • More guidance on which controls reside in the Information System and Communication component as distinct from the Control Activities component, and the difference, if any, on the requirements in relation to the audit procedures to be performed on these controls. • Controls relevant to the audit – clarify the intention of 39(e). • Some of our stakeholders have expressed concern that for some less complex entities the controls over journals may not be documented and are difficult to test. 	<p>The ATG consider these points have been addressed and updated ISA 315 much clearer. Refer to question below</p> <ul style="list-style-type: none"> • The requirement to ‘obtain an understanding’ of each component of internal control has been deleted. Rather, a broad requirement to obtain an understanding of the relevant aspects of the components of the entity’s system of internal control has been combined with the requirement to obtain an understanding of the entity and its environment, and the applicable financial reporting framework/ Application material explains that the understanding is obtained by focusing on the relevant aspects of each component, with the relevant aspects that are required to be understood for each component now in the definitions. • The evaluations for each of the components have been kept separate (however, the entity’s process to monitor the system of internal control and the entity’s risk assessment process have been combined as they are similar in nature). Application material has been added to make clear that the broader term “understanding” means to obtain an understanding of the relevant aspects of that component (implicitly referring to the definition which contains the ‘relevant aspects’ to be understood) AND to perform the evaluation of the component as set out in each section. It is this ‘understanding’ that provides the basis for the identification and assessment of the risks of material misstatement. • The evaluation of the information system and communication component has been amended to distinguish this evaluation from that required from the evaluation required for controls in the control activities component (i.e., evaluating whether the policies that define information processing activities in the entity’s information system appropriately support the preparation of the financial statements versus evaluating whether identified controls in the control activities component are designed effectively and determining their implementation (D&I)). • The requirement for D&I has been simplified to apply to the identified controls in the control activities component, including GITCs, so that it is clear for which controls D&I is required. • Paragraph 39 Controls relevant to the audit have contained to “the control activities component”. Paragraph 39 e in ED 315 has been changed to paragraph 39 c to: Controls that are necessary for the auditor to identify to achieve the objectives in paragraph 17(a) and (b) because of where the assessments of the related risks of material misstatement at the assertion level fall on the spectrum of inherent risk; <p><i>NB: No change since June 2019</i></p>

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Table 1: Reconciliation of the AUASB submission to the updated ISA 315

Matters raised in the ED 315 submission by the AUASB	How the matters are addressed in redrafted ISA 315
<p><u>Information Technology</u></p> <ul style="list-style-type: none"> • Support the introduction of the new IT-related concepts and definitions. • Could be enhanced by including the risk factors relating to current and evolving technology which connect to organizational networks, such as infrastructure / software as a service solutions, wireless networks, blockchain, and other technology devices that connect to organisational networks. 	<p>Have modernised and added new definitions. Redrafted ISA 315 paragraph 40 requires the identification of the risks arising from IT and defined below.</p> <p><i>[New] Risks arising from IT – Susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of the entity’s information in the entity’s information system, due to the ineffective design or operation of the entity’s IT processes (see IT environment).</i></p> <p><i>General IT controls-</i> Control activities that support the continued proper operation of the IT environment, including the continued effective functioning of information processing controls and the integrity of information (i.e. the completeness, accuracy and validity of information) in the entity’s information system. General IT controls are controls over the entity’s IT processes. Also see the definition of IT environment.</p> <p><i>Information processing controls (new term for application controls) -</i> Control activities that directly support the actions to mitigate transactions and information processing risks in the entity’s information system. They may operate at the assertion level or may support the operation of other control activities at the assertion level. The objectives of information processing controls are to maintain the completeness, accuracy and validity of transactions and other information throughout processing. Such controls may be automated or manual and may rely on information or other controls, including other information processing controls that maintain the integrity of information.</p> <p><i>NB: No change since June 2019</i></p>

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Table 1: Reconciliation of the AUASB submission to the updated ISA 315

Matters raised in the ED 315 submission by the AUASB	How the matters are addressed in redrafted ISA 315
<p><u>Separate inherent and control risk assessment</u></p> <ul style="list-style-type: none"> Support the separate assessments of inherent and control risk at the assertion level. Support assessing control risk at maximum if not testing operating effectiveness. The current use of the singular term (“risks of material misstatement”) both before and after the separate assessment of inherent risk and control risk is confusing. Provide additional detail on how to assess control risk at various levels of the spectrum of risk. Describing in greater granularity in ED 315 the process the auditor undertakes to combine their separate inherent and control risk assessments. 	<ul style="list-style-type: none"> The requirement to identify risks of material misstatement has been simplified to make clear what needs to be identified and removing the “how.” The identification and assessment of ROMM has been simplified and doesn’t include the how. The order for determining the relevant assertions and significant classes of transactions, account balances and disclosures has been reversed and is after the identification of ROMM The inherent risk factors have been deleted from the identification of the risks of material misstatement at the assertion level, and only presented as part of the assessment of the risks of material misstatement at the assertion level, To address the concerns about assessing control risk at maximum when the auditor has no intention to test the operating effectiveness of controls, the Task Force has proposed that the requirement to assess control risk is conditional on the auditor’s intent to test the operating effectiveness of controls. If there is no such intention, the assessment of the risks of material misstatement is based on inherent risk (i.e., control risk is not taken into account). This would therefore eliminate the need to assess control risk at the “maximum.” The related application material has been amended accordingly. <p><i>NB: No change since June 2019</i></p>
<p><u>Stand back and ISA 330 para 18</u></p> <ul style="list-style-type: none"> Supportive of a standback in 315 but don’t need both Reconsider if the terms “quantitatively and qualitatively” are necessary in ISA 315 	<p>The stand back provision retained in both 315 and 330. The references to qualitative and quantitative in the context of materiality have removed.</p> <p>ED 315 Paragraph 53 proposed to read:</p> <p>For material classes of transactions, account balances or disclosures that have not been identified as significant classes of transactions, account balances or disclosures the auditor shall evaluate whether the auditor’s conclusion that there are no related risks of material misstatement remains appropriate.</p> <p>330 para 18 to remain as it is and application material to make it clear that the auditor would consider the most appropriate assertion when designing substantive audit procedures.</p> <p><i>NB: No change since June 2019</i></p>
<p><u>Public sector considerations</u></p> <p>The AUASB’s submission included that the public sector considerations had not been appropriately considered.</p>	<p>Separate paragraphs addressing ‘Considerations Specific to Public Sector Entities.’ have been added into the application guidance of the standard.</p>

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Material Presented

Agenda Item 4.2.0

ED 315 AUASB Board Meeting Summary Paper

Agenda Item 4.2.1

IAASB ED 315 Agenda Item 2E – ISA 315 Full standard revised clean

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Agenda Item

IAASB Main Agenda (September 2019)

2-E

Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

The clean version of the standard that follows is numbered to correspond to the paragraphs in **Agenda Item 2-A, 2-B, 2-C and 2-D** – therefore there are numbers that are missing as they have been deleted or moved. In the final standard, the standard will be renumbered and all cross-references updated accordingly.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements

Key Concepts in this ISA

2. ISA 200 deals with the overall objectives of the auditor in conducting an audit of the financial statements,¹ including to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.² Audit risk is a function of the risks of material misstatement and detection risk.³ ISA 200 explains that the risks of material misstatement may exist at two levels:⁴ the overall financial statement level; and the assertion level for classes of transactions, account balances and disclosures.
3. ISA 200 requires the auditor to exercise professional judgment in planning and performing an audit, and to plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.⁵
4. Risks at the financial statement level relate pervasively to the financial statements as a whole and potentially affect many assertions. Risks of material misstatement at the assertion level consist of two components, inherent and control risk:
 - Inherent risk is described as the susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - Control risk is described as the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

² ISA 200, paragraph 17

³ ISA 200, paragraphs 13(c)

⁴ ISA 200, paragraph A36

⁵ ISA 200, paragraphs 15–16

individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's system of internal control.

5. ISA 330 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.⁶ ISA 330 further explains that the auditor's assessment of the risks of material misstatement at the financial statement level, and the auditor's overall responses, is affected by the auditor's understanding of the control environment. ISA 330 also requires the auditor to design and perform further audit procedures whose nature, timing and extent are based on and responsive to the assessed risks of material misstatement at the assertion level.⁷
6. Risks of material misstatement identified and assessed by the auditor include both those due to error and those due to fraud. Although both are addressed by this ISA, the significance of fraud is such that further requirements and guidance are included in ISA 240⁸ in relation to risk assessment procedures and related activities to obtain information that is used to identify, assess and respond to the risks of material misstatement due to fraud.
7. ISA 200 explains that risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.⁹ For the identified risks of material misstatement at the assertion level, a separate assessment of inherent risk and control risk is required by this ISA. As explained in ISA 200, inherent risk is higher for some assertions and related classes of transactions, account balances and disclosures than for others. The degree to which inherent risk varies, is referred to in this ISA as the 'spectrum of inherent risk.'
8. The auditor's risk identification and assessment process is iterative and dynamic. The auditor's understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control are interdependent with concepts within the requirements to identify and assess the risks of material misstatement. In obtaining the understanding required by this ISA, initial expectations may be developed, which may be further refined as the auditor progresses through the risk identification and assessment process. In addition, this ISA requires the auditor to revise the risk assessments and modify further overall responses, and further audit procedures, based on audit evidence obtained from performing further audit procedures in accordance with ISA 330, or if new information is obtained.

Scalability

10. ISA 200 states that some ISAs include scalability considerations which illustrate the application of the requirements to entities whose nature and circumstances are less complex, as well as those that are more complex.¹⁰ This ISA is intended for audits of all entities, regardless of size or complexity and the application material therefore incorporates specific considerations specific to both less and

⁶ ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 5

⁷ ISA 330, paragraph 6

⁸ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁹ ISA 200, [paragraph A43a] (*conforming amendment*) and ISA 330, paragraph 6

¹⁰ ISA 200, paragraph A65a–A66

more complex entities where appropriate. While the size of an entity may be an indicator of its complexity, some smaller entities may be complex and some larger entities may be less complex.

Definitions

16. For purposes of the ISAs, the following terms have the meanings attributed below:

- (b) *Assertions* – Representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial statements which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework. Assertions are used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and in responding to the risks of material misstatement. (Ref: Para: A1–A2)
- (c) *Business risk* – A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity’s ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.
- (d) *Controls* – Policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance. In this context: (Ref: Para. A2a–A4a)
 - (i) Policies are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
 - (ii) Procedures are actions to implement policies.
- (e) *General information technology (IT) controls* – Controls over the entity’s IT processes that support the continued proper operation of the IT environment, including the continued effective functioning of information processing controls and the integrity of information (i.e. the completeness, accuracy and validity of information) in the entity’s information system. Also see the definition of *IT environment*.
- (ea) *Information processing controls* – Controls in the control activities component that directly address risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information) throughout processing in IT applications or manual information processes in the entity’s information system. (Ref: Para. A4b)
- (f) *Inherent risk factors* – Characteristics of events or conditions that affect susceptibility to misstatement, whether due to fraud or error, of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors¹¹ insofar as they affect inherent risk. (Ref: Para. A5–A6)
- (g) *IT environment* – The IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes, that an entity uses to support business operations and achieve business strategies. For the purposes of this ISA:

¹¹ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs A24–A27

- (i) An IT application is a program or a set of programs that is used in the initiation, processing, recording and reporting of transactions or information. IT applications include data warehouses and report writers.
 - (ii) The IT infrastructure comprises the network, operating systems, and databases and their related hardware and software.
 - (iii) The IT processes are the entity's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations.
- (h) *Relevant assertions* – An assertion about a class of transactions, account balance or disclosure is relevant when it has an identified risk of material misstatement. The determination of whether an assertion is a relevant assertion is made without taking into account any plans by the auditor to test the operating effectiveness of controls. (Ref: Para. A9)
- (ha) *Risks arising from the use of IT* – Susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information) in the entity's information system, due to ineffective design or operation of controls in the entity's IT processes (see IT environment).
- (i) *Risk assessment procedures* – The audit procedures designed and performed to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
- (j) *Significant class of transactions, account balance or disclosure* – A class of transactions, account balance or disclosure for which there is one or more relevant assertions.
- (k) *Significant risk* – An identified risk of material misstatement: (Ref: Para. A10)
- (i) For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which the inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or
 - (ii) That is to be treated as a significant risk in accordance with the requirements of other ISAs.¹²
- (l) *System of Internal Control* – The system designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. For the purposes of the ISAs, the system of internal control consists of five inter-related components:
- (i) Control environment.
 - (ii) The entity's risk assessment process.
 - (iii) The entity's process to monitor the system of internal control.

¹² ISA 240, paragraph 27 and ISA 550, *Related Parties*, paragraph 18

- (iv) The information system and communication.
- (v) Control activities.

Requirements

Risk Assessment Procedures and Related Activities

17. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for: (Ref: Para.A13–A16b)
- (a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and
 - (b) The design of further audit procedures in accordance with ISA 330.

The auditor shall design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may corroborate assertions made by management or towards excluding audit evidence that may be contradictory to such assertions.

18. The risk assessment procedures shall include the following: (Ref: Para. A17–A20a)
- (a) Inquiries of management and of other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists). (Ref: Para. A21–A29)
 - (b) Analytical procedures. (Ref: Para. A30–A34a)
 - (c) Observation and inspection. (Ref: Para. A35–A36)

Information from Other Sources

19. In obtaining audit evidence in accordance with paragraph 17, the auditor shall consider information from: (Ref: Para. A37–A38)
- (a) The auditor's acceptance or continuance of the client relationship or the audit engagement; and
 - (b) When applicable, other engagements performed by the engagement partner for the entity.
21. Where the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall evaluate whether such information remains relevant and reliable as audit evidence for the current audit. (Ref: Para. A39–A40)

Engagement Team Discussion

22. The engagement partner and other key engagement team members shall discuss the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement. (Ref: Para. A40a–A46)
- 22A. When there are engagement team members not involved in the engagement team discussion, the engagement partner shall determine which matters are to be communicated to those members.

Obtaining an Understanding of the Entity and its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control (Ref: Para. A46a)

Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework (Ref: Para. A47–A47h)

23. The auditor shall perform risk assessment procedures to obtain an understanding of:	
(a) The following aspects of the entity and its environment: <ul style="list-style-type: none"> (i) The entity’s organizational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT; (Ref: Para. A49–A63) (ii) Industry, regulatory and other external factors; (Ref: Para. A64–A69) and (iii) The measures used, internally and externally, to assess the entity’s financial performance; (Ref: Para. A70a–A78) 	and (c) Based on (a) and (b), the inherent risk factors that affect susceptibility to misstatement of assertions, and how they do so, in the preparation of the financial statements in accordance with the applicable financial reporting framework. (Ref: Para. A88a–A88d)
(b) The applicable financial reporting framework, and the entity’s accounting policies and the reasons for any changes thereto; (Ref: Para. A79–A82)	

24. The auditor shall evaluate whether the entity’s accounting policies are appropriate and consistent with the applicable financial reporting framework.

Understanding the Components of the Entity’s System of Internal Control (Ref: Para. A89 – A102)

Control Environment, the Entity’s Risk Assessment Process and the Entity’s Process to Monitor the System of Internal Control (Ref: Para. A104a–A104d)

Control environment

28. The auditor shall obtain an understanding of the control environment relevant to the preparation of the financial statements by performing risk assessment procedures to: (Ref: Para. A106 – A107)	
(a) Understand the set of controls, processes and structures that address: (Ref: Para. A108–A108a) <ul style="list-style-type: none"> (i) How management’s oversight responsibilities are carried out, such as the entity’s culture and management’s commitment to integrity and ethical values; (ii) When those charged with governance are separate from management, the independence of, and oversight over the entity’s system of internal control by, those charged with governance; 	and (b) Evaluate whether: (Ref: Para. A110a–A114b) <ul style="list-style-type: none"> (i) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; (ii) The control environment provides an appropriate foundation for the

<ul style="list-style-type: none"> (iii) The entity's assignment of authority and responsibility; (iv) How the entity attracts, develops, and retains competent individuals; and (v) How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control; 	<p>other components of the system of internal control considering the nature and size of the entity; and</p> <ul style="list-style-type: none"> (iii) Control deficiencies identified in the control environment undermine the other components of the system of internal control.
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The entity's risk assessment process

<p>30. The auditor shall obtain an understanding of the entity's risk assessment process relevant to the preparation of the financial statements by performing risk assessment procedures to:</p>	
<ul style="list-style-type: none"> (a) Understand the entity's process for: (Ref: Para. A117–A117a) <ul style="list-style-type: none"> (i) Identifying business risks relevant to financial reporting objectives; (ii) Assessing the significance of those risks, including the likelihood of their occurrence; and (iii) Addressing those risks; 	<p>and</p> <ul style="list-style-type: none"> (b) Evaluate whether the entity's risk assessment process is appropriate to the entity's circumstances considering the nature and size of the entity. (Ref: Para. A119a–A120)

31. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall:
- (a) Determine whether any such risks are of a kind that the auditor expects would have been identified by the entity's risk assessment process and, if so, obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement; and
 - (b) Consider the implications for the auditor's evaluation in paragraph 30(b).

The entity's process for monitoring the system of internal control

<p>31A. The auditor shall obtain an understanding of the entity's process for monitoring the system of internal control relevant to the preparation of the financial statements by performing risk assessment procedures to: (Ref: Para. A123–A124)</p>	
<ul style="list-style-type: none"> (a) Understand those aspects of the entity's process that address: <ul style="list-style-type: none"> (i) Ongoing and separate evaluations for monitoring the effectiveness of controls, and the identification and remediation of control deficiencies identified; (Ref: Para. A126a–A127) and 	<p>and</p> <ul style="list-style-type: none"> (c) Evaluate whether the entity's process for monitoring the system of internal control is appropriate to the entity's circumstances considering the nature and size of the entity. (Ref: Para. A135c)

<p>(ii) The entity's internal audit function, if any, including its nature, responsibilities and activities; (Ref: Para. A131)</p> <p>(b) Understand the sources of the information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose; (Ref: Para. A135a–A135b)</p>	
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Information System and Communication, and Control Activities (Ref: Para. A135d–A135l)

The information system and communication

<p>36. The auditor shall obtain an understanding of the entity's information system and communication relevant to the preparation of the financial statements by performing risk assessment procedures to: (Ref: Para. A135m)</p>	
<p>(a) Understand the entity's information processing activities, including its data and information, the resources to be used in such activities and the policies that define, for significant classes of transactions, account balances and disclosures: (Ref: Para. A136a–A146)</p> <p>(i) How information flows through the entity's information system, including how:</p> <p>a. Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, incorporated in the general ledger and reported in the financial statements; and</p> <p>b. Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements;</p> <p>(ii) The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in the information system;</p> <p>(iii) The financial reporting process used to prepare the entity's financial statements, including disclosures; and</p> <p>(iv) The entity's resources, including the IT environment, relevant to (a)(i) to (a)(iii) above;</p> <p>(b) Understand how the entity communicates significant matters that support the preparation of the financial statements and related reporting responsibilities in the</p>	<p>and</p> <p>(c) Evaluate whether the entity's information system and communication appropriately support the preparation of the entity's financial statements in accordance with the applicable financial reporting framework. (Ref: Para. A159(a))</p>

<p>information system and other components of the system of internal control: (Ref: Para. A158a–A159)</p> <ul style="list-style-type: none"> (i) Between people within the entity, including how financial reporting roles and responsibilities are communicated; (ii) Between management and those charged with governance; and (iii) With external parties, such as those with regulatory authorities; 	
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Control activities

<p>39. The auditor shall obtain an understanding of the control activities component by performing risk assessment procedures to: (Ref: Para. A160–A161a)</p>	
<ul style="list-style-type: none"> (a) Identify controls that address risks of material misstatement at the assertion level in the control activities component, as follows: <ul style="list-style-type: none"> (i) Controls that address risks that are determined to be a significant risk; (Ref: Para. A170–A172) (ii) Controls that address assessed risks for which the effect of the inherent risk factors on the assessment of inherent risk indicates that there is a reasonable possibility that the assessed risks could be significant risks but that the auditor determines are not significant risks, based on the auditor’s professional judgment; (Ref: Para. A173a–A173b) (iii) Controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments; (Ref: Para. A175–A175a) and (iv) Controls for which the auditor plans to test operating effectiveness in determining the nature, timing and extent of substantive testing, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; (Ref: Para. A175d–A178) (b) Based on controls identified in (a), identify the IT applications and the other aspects of the entity’s IT environment that are subject to risks arising from the use of IT; (Ref: Para. A179a–A188) (c) For such IT applications and other aspects of the IT environment identified in (b), identify: (Ref: Para. A188a–A189) 	<p>and</p> <ul style="list-style-type: none"> (d) For each control identified in (a) or (c)(ii): (Ref: Para. A194–A200) <ul style="list-style-type: none"> (i) Evaluate whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and (ii) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity’s personnel.

(i) The applicable risks arising from the use of IT; and (ii) The entity's general IT controls that address such risks;	
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Control Deficiencies Within the Entity's System of Internal Control

43. Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified. (Ref: Para. A200a–A200c)

Identifying and Assessing the Risks of Material Misstatement

Identifying Risks of Material Misstatement

45. The auditor shall identify the risks of material misstatement and determine whether they exist at: (Ref: Para. A201–A206)
- (a) The financial statement level; (Ref: Para. A206a–A207e) or
 - (b) The assertion level for classes of transactions, account balances, and disclosures. (Ref: Para. A208–A208a)
46. The auditor shall determine the relevant assertions and the related significant classes of transactions, account balances and disclosures. (Ref: Para. A211–A214)

Assessing Risks of Material Misstatement at the Financial Statement Level

47. The auditor shall assess the identified risks of material misstatement at the financial statement level. For each risk identified at the financial statement level, the auditor shall: (Ref: Para. A206a–A207e)
- (a) Determine whether such risks affect the assessment of risks at the assertion level; and
 - (b) Evaluate the nature and extent of their pervasive effect on the financial statements.

Assessing Risks of Material Misstatement at the Assertion Level

Assessing Inherent Risk

48. For identified risks of material misstatement at the assertion level, the auditor shall assess inherent risk by assessing the likelihood and magnitude of misstatement. In doing so, the auditor shall take into account how, and the degree to which: (Ref: Para. A220a–A228)
- (a) Inherent risk factors affect the susceptibility to misstatement of relevant assertions.
 - (b) The risks of material misstatement at the financial statement level affect the assessment of inherent risk for risks of material misstatement at the assertion level.
49. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks. (Ref: Para. A228a–A231b)

50. The auditor shall determine whether substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material misstatement at the assertion level. (Ref: Para. A231c–A231e)

Assessing Control Risk

51. If the auditor plans to test the operating effectiveness of controls, the auditor shall assess control risk. If the auditor does not plan to test the operating effectiveness of controls, the auditor's assessment of control risk shall be such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk. (Ref: Para. A232–A235a)

Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures

- 51A. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional risk assessment procedures. In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence obtained from the risk assessment procedures, whether corroborative or contradictory to assertions made by management. (Ref: Para. A239a–A239c)

Classes of Transactions, Account Balances and Disclosures that are Not Significant, but Which Are Material

52. For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, the auditor shall evaluate whether the auditor's determination remains appropriate. (Ref: Para. A240–A242)

Revision of Risk Assessment

53. If the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification and assessments of the risks of material misstatement, the auditor shall revise the identification and assessment. (Ref: Para. A243)

Documentation

54. The auditor shall include in the audit documentation:¹³ (Ref: Para. A244–A248)
- (a) The discussion among the engagement team and the significant decisions reached;
 - (b) Key elements of the auditor's understanding in accordance with paragraphs 23, 28, 30, 31A and 36; the sources of information from which the auditor's understanding was obtained; and the risk assessment procedures performed;
 - (c) The evaluation of the design of identified controls, and determination whether such controls have been implemented, in accordance with the requirements in paragraph 39.
 - (d) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures

¹³ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6–A7

alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made.

Application and Other Explanatory Material

Definitions (Ref: Para. 16)

Assertions (Ref: Para. 16(b))

- A1. Representations by management with respect to the recognition, measurement, presentation and disclosure of information in the financial statements for classes of transactions, account balances and disclosures, which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework, differ from written representations provided to the auditor by management, as required by ISA 580,¹⁴ to confirm certain matters or support other audit evidence.
- A2. Assertions that the auditor may use in addressing the requirements of this ISA are further described in paragraph A204.

Controls (Ref: Para. 16(d))

- A2a. Controls are embedded within the components of the entity's system of internal control.
- A3. Policies are implemented through the actions of personnel within the entity, or through their restraint from taking actions that would conflict with such policies.
- A4. Procedures may be mandated, through formal documentation or other communication by management or those charged with governance, or may result from behaviors that are not mandated but are rather conditioned by the entity's culture. Procedures may be enforced through the actions permitted by the IT applications used by the entity or other aspects of the entity's IT environment.
- A4a. Controls may be direct or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.

Information Processing Controls (Ref: Para. 16(ea))

- A4b. Risks to the integrity of information arise from susceptibility to ineffective implementation of the entity's information policies, which are policies that define the information flows, records and reporting processes in the entity's information system. Information processing controls are procedures that support effective implementation of the entity's information policies. Information processing controls

¹⁴ ISA 580, *Written Representations*

may be automated (i.e., embedded in IT applications) or manual (e.g., input or output controls) and may rely on other controls, including other information processing controls or general IT controls.

Inherent Risk Factors (Ref: Para. 16(f))

Appendix 2 sets out further considerations relating to understanding the inherent risk factors.

- A5. Inherent risk factors may be qualitative or quantitative and affect the susceptibility to misstatement of assertions. Qualitative inherent risk factors relating to the preparation of information required by the applicable financial reporting framework include:
- Complexity;
 - Subjectivity;
 - Change;
 - Uncertainty; and
 - Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk.
- A6. Other inherent risk factors, that affect susceptibility to misstatement of an assertion about a class of transactions, account balance or disclosure may include:
- The quantitative or qualitative significance of the class of transactions, account balance or disclosure, and of the items in relation to performance materiality; or
 - The volume or a lack of uniformity in the composition of the items to be processed through the class of transactions or account balance, or to be reflected in the disclosure.

Relevant Assertions (Ref: Para. 16(h))

- A9. A risk of material misstatement may relate to more than one assertion, in which case all the assertions to which such a risk relates are relevant assertions.

Significant Risk (Ref: Para. 16(k))

- A10. Significance can be described as the relative importance of a matter, and is judged by the auditor in the context in which the matter is being considered. In the context of inherent risk, significance may be considered in the context of how, and the degree to which, the inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur.

Risk Assessment Procedures and Related Activities (Ref: Para. 17–22A)

- A13. The risks of material misstatement to be identified and assessed include both those due to fraud and those due to error, and both are covered by this ISA. However, the significance of fraud is such that further requirements and guidance are included in ISA 240 in relation to risk assessment procedures and related activities to obtain information that is used to identify and assess the risks of material

misstatement due to fraud.¹⁵ In addition, the following ISAs provide further requirements and guidance on identifying and assessing risks of material misstatement regarding specific matters or circumstances:

- ISA 540 (Revised)¹⁶ in regard to accounting estimates;
- ISA 550¹⁷ in regard to related party relationships and transactions;
- ISA 570 (Revised)¹⁸ in regard to going concern; and
- ISA 600¹⁹ in regard to group financial statements.

A15a. Professional skepticism is necessary for the critical assessment of audit evidence gathered when performing risk assessment procedures, and assists the auditor in remaining alert for possible indications of management bias. Professional skepticism is an attitude that is applied by the auditor when making professional judgments that then provides the basis for the auditor's actions. The auditor applies their professional judgment in determining when they have audit evidence that provides an appropriate basis for risk assessment, and also in designing the auditor's responses to assessed risks of material misstatement.

A15c. The application of professional skepticism by the auditor may include:

- Questioning contradictory information and the reliability of documents;
- Considering responses to inquiries and other information obtained from management and those charged with governance;
- Being alert to conditions that may indicate possible misstatement due to error or fraud; and
- Considering whether audit evidence obtained supports the auditor's identification and assessment of the risks of material misstatement in light of the entity's nature and circumstances.

Why Obtaining Information in an Unbiased Manner is Important (Ref: Para. 17)

A15d. Obtaining information in an unbiased manner may provide potentially contradictory information, which may assist the auditor in exercising professional skepticism in identifying and assessing the risks of material misstatement.

Sources of Information (Ref: Para. 17)

A15e. Obtaining audit evidence from risk assessment procedures in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not

¹⁵ ISA 240, paragraphs 12–25

¹⁶ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

¹⁷ ISA 550, *Related Parties*

¹⁸ ISA 570 (Revised), *Going Concern*

¹⁹ ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

required to perform an exhaustive search to identify all possible sources of audit evidence. Sources of information for risk assessment procedures may include:

- Interactions with management, those charged with governance, and other key entity personnel, such as internal auditors.
- Certain external parties such as regulators, whether obtained directly or indirectly.
- The auditor's acceptance and continuance procedures and other engagements performed by the engagement partner for the entity.
- The auditor's previous experience with the entity and from audit procedures performed in previous audits, updated as appropriate.
- Publicly available information about the entity, for example entity-issued press releases, and materials for analysts or investor group meetings, analysts' reports or information about trading activity.

Regardless of the source of information, the auditor considers the relevance and reliability of the information to be used as audit evidence in accordance with ISA 500.²⁰

Scalability (Ref: Para. 17)

A16. The nature and extent of risk assessment procedures will vary based on the nature (e.g., size and complexity) and circumstances of the entity (e.g., the formality of the entity's policies and procedures, and processes and systems). The auditor uses professional judgment to determine the nature and extent of the risk assessment procedures to be performed to meet the objective stated in this ISA.

A16a. Although the extent to which an entity's policies and procedures, and processes and systems are formalized may vary, the auditor is still required to obtain the understanding in accordance with paragraphs 23, 28, 30, 31A, 36 and 39.

Examples:

Some entities, including less complex entities, and particularly owner-managed entities, may not have established structured processes and systems, such as a risk assessment process or a process to monitor the system of internal control, or may have established such processes or systems with limited documentation or a lack of consistency in how they are undertaken. When such systems and processes lack formality, the auditor may still be able to perform risk assessment procedures through observation and inquiry.

Other entities, typically more complex entities, are expected to have more formalized and documented policies and procedures. The auditor may use such documentation in performing risk assessment procedures.

A16b. The nature and extent of risk assessment procedures to be performed the first time an engagement is undertaken may be more extensive than procedures for a recurring engagement. In subsequent periods, the auditor may focus on changes that have occurred since the preceding period.

²⁰ ISA 500, *Audit Evidence*, paragraph 7

Types of Risk Assessment Procedures (Ref: Para. 18)

- A17. ISA 500²¹ explains the types of audit procedures that may be performed in obtaining audit evidence from risk assessment procedures and further audit procedures. The nature, timing and extent of the audit procedures may be affected by the fact that some of the accounting data and other evidence may only be available in electronic form or only at certain points in time.²² The auditor may perform substantive procedures or tests of controls, in accordance with ISA 330, concurrently with risk assessment procedures, when it is efficient to do so. Some of the audit evidence obtained in doing so, which supports the identification and assessment of risks of material misstatement, may also support the detection of misstatements at the assertion level or the evaluation of the operating effectiveness of controls.
- A18. Although the auditor is required to perform all the risk assessment procedures described in paragraph 18 in the course of obtaining the required understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control (see paragraphs 23–39), the auditor is not required to perform all of them for each requirement. Other procedures may be performed when the information to be obtained therefrom may be helpful in identifying risks of material misstatement. Examples of such procedures may include making inquiries of the entity's external legal counsel or external supervisors, or of valuation experts that the entity has used.

Automated Tools and Techniques (Ref: Para. 18)

- A20a. Using automated tools and techniques, the auditor may perform risk assessment procedures on large volumes of data (from the general ledger, sub-ledgers or other operational data) including for analysis, recalculations, reperformance or reconciliations.

Inquiries of Management and Others within the Entity (Ref: Para. 18(a))

Why Inquiries are Made of Management and Others Within the Entity

- A21. Much of the information obtained by the auditor to support an appropriate basis for the identification and assessment of risks, and the design of further audit procedures, may be obtained through inquiries of management and those responsible for financial reporting.
- A22. Inquiries of management and those responsible for financial reporting and of other appropriate individuals within the entity and other employees with different levels of authority may offer the auditor a varying perspectives when identifying and assessing risks of material misstatement.

Examples:

- Inquiries directed towards those charged with governance may help the auditor understand the extent of oversight over the preparation of the financial statements by management. ISA 260 (Revised)²³ identifies the importance of effective two-way communication in assisting the auditor to obtain information from those charged with governance in this regard.

²¹ ISA 500, paragraphs A14–A17 and A21–A25.

²² ISA 500, paragraph A12

²³ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 4(b)

- Inquiries of employees responsible for initiating, processing or recording complex or unusual transactions may help the auditor to evaluate the appropriateness of the selection and application of certain accounting policies.
- Inquiries directed towards in-house legal counsel may provide information about such matters as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the entity, warranties, post-sales obligations, arrangements (such as joint ventures) with business partners, and the meaning of contractual terms.
- Inquiries directed towards marketing or sales personnel may provide information about changes in the entity's marketing strategies, sales trends, or contractual arrangements with its customers.
- Inquiries directed towards the risk management function (or inquiries of those performing such roles) may provide information about operational and regulatory risks that may affect financial reporting.
- Inquiries directed towards IT personnel may provide information about system changes, system or control failures, or other IT-related risks.

Considerations Specific to Public Sector Entities

A24. When making inquiries of those who may have information that is likely to assist in identifying risks of material misstatement, auditors of public sector entities may obtain information from additional sources such as from the auditors that are involved in performance or other audits related to the entity.

Inquiries of the Internal Audit Function (Ref: Para 18(a))

Appendix 4 sets out considerations for understanding an entity's internal audit function.

Why inquiries are made of the internal audit function (if the function exists)

A25. If an entity has an internal audit function, inquiries of the appropriate individuals within the function may assist the auditor in understanding the entity and its environment, and the entity's system of internal control, in the identification and assessment of risks.

Considerations specific to public sector entities

A29. Auditors of public sector entities often have additional responsibilities with regard to internal control and compliance with applicable laws and regulations. Inquiries of appropriate individuals in the internal audit function may assist the auditors in identifying the risk of material non-compliance with applicable laws and regulations, and the risk of control deficiencies related to financial reporting.

Analytical Procedures (Ref: Para. 18(b))

Why Analytical Procedures are Performed as a Risk Assessment Procedure

- A30. Analytical procedures also help identify inconsistencies, unusual transactions or events, and amounts, ratios, and trends that indicate matters that may have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.
- A31. Analytical procedures performed as risk assessment procedures may therefore assist in identifying and assessing the risks of material misstatement by identifying aspects of the entity of which the auditor was unaware or identifying characteristics of events or conditions relevant to the auditor's consideration of the inherent risk factors, such as change.

Types of Analytical Procedures

A32. Analytical procedures performed as risk assessment procedures may:

- Include both financial and non-financial information, for example, the relationship between sales and square footage of selling space or volume of goods sold (non-financial).
- Use data aggregated at a high level. Accordingly, the results of those analytical procedures may provide a broad initial indication about the likelihood of a material misstatement.

Example:

In the audit of many entities, including those with less complex business models and processes, and a less complex information system, the auditor may perform a simple comparison of information, such as the change in interim or monthly account balances from balances in prior periods, to obtain an indication of potentially higher risk areas.

A34. This ISA deals with the auditor's use of analytical procedures as risk assessment procedures. ISA 520²⁴ deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures") and the auditor's responsibility to perform analytical procedures near the end of the audit. Accordingly, analytical procedures performed as risk assessment procedures are not required to be performed in accordance with the requirements of ISA 520. However, the requirements and application material in ISA 520 may provide useful guidance to the auditor when performing analytical procedures as part of the risk assessment process.

Automated tools and techniques

A34a. Analytical procedures can be performed using a number of tools or techniques, which may be automated. Applying automated analytical procedures to the data may be referred to as data analytics.

²⁴ ISA 520, *Analytical Procedures*

Example:

The auditor may use a spreadsheet to perform a comparison of actual recorded amounts to budgeted amounts, or may perform a more advanced procedure by extracting data from the entity's information system, and further analyzing this data using visualization techniques to identify classes of transactions, account balances or disclosures for which further specific risk assessment procedures may be warranted.

Observation and Inspection (Ref: Para. 18(c))

Why Observation and Inspection are Performed as Risk Assessment Procedures

A35. Because inquiry alone is not enough,²⁵ observation and inspection may support or corroborate inquiries of management and others, and may also provide information about the entity and its environment.

Scalability

A35a. Where policies or procedures are not documented, or the entity has less formalized controls, the auditor may still be able to obtain some audit evidence to support the identification and assessment of the risks of material misstatement through observation or inspection of the performance of the control.

Examples:

- The auditor may obtain an understanding of controls over an inventory count, even if they have not been documented by the entity, through direct observation.
- The auditor may be able to observe segregation of duties.
- The auditor may be able to observe passwords being entered.

Observation and Inspection as Risk Assessment Procedures

A35b. Risk assessment procedures may include observation or inspection of the following:

- The entity's operations.
- Internal documents (such as business plans and strategies), records, and internal control manuals.
- Reports prepared by management (such as quarterly management reports and interim financial statements) and those charged with governance (such as minutes of board of directors' meetings).
- The entity's premises and plant facilities.

²⁵ ISA 500, paragraph A2

- Information obtained from external sources such as trade and economic journals; reports by analysts, banks, or rating agencies; or regulatory or financial publications; or other external documents about the entity's financial performance (such as those referred to in paragraph A74).
- The behaviors and actions of management or those charged with governance (such as the observation of an audit committee meeting).

Automated Tools or Techniques

A35c. Automated tools or techniques may also be used to observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).

Considerations Specific to Public Sector Entities

A36. Risk assessment procedures performed by auditors of public sector entities may also include observation and inspection of documents prepared by management for the legislature, for example documents related to mandatory performance reporting.

Information from Other Sources (Ref: Para. 19)

- Why the Auditor Considers Information from Other Sources
- A37. Information obtained from other sources may be relevant to the identification and assessment of the risks of material misstatement by providing information and insights about:
 - The nature of the entity and its business risks, and what may have changed from previous periods.
 - The integrity and ethical values of management and those charged with governance, which may also be relevant to the auditor's understanding of the control environment.
 - The applicable financial reporting framework and its application to the nature and circumstances of the entity.

Other Relevant Sources

A38. Other relevant sources of information include:

- The auditor's acceptance or continuance of the client relationship or the audit engagement in accordance with ISA 220, including from procedures regarding the acceptance and continuance of client relationships and audit engagements, and the conclusions reached.²⁶
- Other engagements performed for the entity by the engagement partner. Such engagements may include agreed-upon procedures engagements or other audit or assurance engagements, including engagements to address incremental reporting requirements in the jurisdiction.

²⁶ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 12

Information from the Auditor's Previous Experience with the Entity and Previous Audits (Ref: Para. 21)

Why Information from Previous Audits is Important to the Current Audit

A39. The auditor's previous experience with the entity and from audit procedures performed in previous audits may provide the auditor with information that is relevant to the auditor's determination of the nature and extent of risk assessment procedures, and the identification and assessment of risks of material misstatement.

Nature of the Information from Previous Audits

A39a. Information from previous audits that may be important to the current audit may include:

- Past misstatements and whether they were corrected on a timely basis.
- The nature of the entity and its environment, and the entity's system of internal control (including control deficiencies).
- Significant changes that the entity or its operations may have undergone since the prior financial period.
- Those particular types of transactions and other events or account balances (and related disclosures) where the auditor experienced difficulty in performing the necessary audit procedures, for example, due to their complexity.

A40. If the nature or circumstances of the entity may have changed, or new information may have been obtained, the information from prior periods may no longer be relevant or reliable for the current audit.

Example:

The auditor may make inquiries and perform other appropriate risk assessment procedures such as a walkthrough of relevant systems, to determine whether the information from the prior period remains relevant.

Engagement Team Discussion (Ref: Para. 22–22A)

Why the Engagement Team is Required to Discuss the Application of the Applicable Financial Reporting Framework and the Susceptibility of the Entity's Financial Statements to Material Misstatement

A40a. The discussion among the engagement team about the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement:

- Provides an opportunity for more experienced engagement team members, including the engagement partner, to share their insights based on their knowledge of the entity. Sharing information contributes to an enhanced understanding by all engagement team members.
- Allows the engagement team members to exchange information about the business risks to which the entity is subject, how the inherent risk factors may affect the susceptibility to misstatement of classes of transactions, account balances and disclosures, and about how

and where the financial statements might be susceptible to material misstatement due to fraud or error.

- Assists the engagement team members to gain a better understanding of the potential for material misstatement of the financial statements in the specific areas assigned to them, and to understand how the results of the audit procedures that they perform may affect other aspects of the audit, including the decisions about the nature, timing and extent of further audit procedures. In particular, the discussion assists engagement team members in further considering contradictory information based on each member's own understanding of the nature and circumstances of the entity.
- Provides a basis upon which engagement team members communicate and share new information obtained throughout the audit that may affect the assessment of risks of material misstatement or the audit procedures performed to address these risks.

ISA 240 requires the engagement team discussion to place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur.²⁷

A40b. Professional skepticism is necessary for the critical assessment of audit evidence, and a robust and open engagement team discussion, including for recurring audits, may lead to improved identification and assessment of the risks of material misstatement. Another outcome from the discussion may be that the auditor identifies specific areas of the audit for which exercising professional skepticism may be particularly important, and may lead to the involvement of more experienced members of the engagement team who are appropriately skilled to be involved in the performance of audit procedures related to those areas.

Scalability

A41. When the engagement is carried out by a single individual, such as a sole practitioner, (i.e., where an engagement team discussion would not be possible), consideration of the matters referred to in paragraphs A40a and A43 nonetheless may assist the auditor in identifying where there may be risks of material misstatement.

A41a. When an engagement is carried out by a large engagement team, such as for an audit of group financial statements, it is not always necessary or practical for the discussion to include all members in a single discussion (for example, in a multi-location audit), nor is it necessary for all the members of the engagement team to be informed of all the decisions reached in the discussion. The engagement partner may discuss matters with key members of the engagement team including, if considered appropriate, those with specific skills or knowledge, and those responsible for the audits of components, while delegating discussion with others, taking into account of the extent of communication considered necessary throughout the engagement team. A communications plan, agreed by the engagement partner, may be useful.

²⁷ ISA 240, paragraph 16

Discussion of Disclosures in the Applicable Financial Reporting Framework

A43. As part of the discussion among the engagement team, consideration of the disclosure requirements of the applicable financial reporting framework assists in identifying early in the audit where there may be risks of material misstatement in relation to disclosures, even in circumstances where the applicable financial reporting framework only requires simplified disclosures. Matters the engagement team may discuss include:

- Changes in financial reporting requirements that may result in significant new or revised disclosures;
- Changes in the entity's environment, financial condition or activities that may result in significant new or revised disclosures, for example, a significant business combination in the period under audit;
- Disclosures for which obtaining sufficient appropriate audit evidence may have been difficult in the past; and
- Disclosures about complex matters, including those involving significant management judgment as to what information to disclose.

Considerations Specific to Public Sector Entities

A46. As part of the discussion among the engagement team by auditors of public sector entities, consideration may also be given to any additional broader objectives, and related risks, arising from the audit mandate or obligations for public sector entities.

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control (Ref: Para. 23–43)

Appendices 1 through 6 set out further considerations relating to obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.

Obtaining the Required Understanding (Ref: Para. 23–43)

A46a. Obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control is a dynamic and iterative process of gathering, updating and analyzing information and continues throughout the audit. Therefore, the auditor's expectations may change as new information is obtained.

Why an Understanding of the Entity and Its Environment, and the Applicable Financial Reporting Framework is Required (Ref: Para. 23–24)

A47. The auditor's understanding of the entity and its environment, and the applicable financial reporting framework, assists the auditor in understanding the events and conditions that are relevant to the entity, and in identifying inherent risk factors. Such information establishes a frame of reference within which the auditor identifies and assesses risks of material misstatement. This frame of reference also

assists the auditor in planning the audit and exercising professional judgment and professional skepticism throughout the audit, for example, when:

- Identifying and assessing risks of material misstatement of the financial statements in accordance with ISA 315 (Revised) or other relevant standards (e.g., relating to risks of fraud in accordance with ISA 240 or when identifying or assessing risks related to accounting estimates in accordance with ISA 540 (Revised));
- Determining materiality or performance materiality in accordance with ISA 320;²⁸ or
- Considering the appropriateness of the selection and application of accounting policies, and the adequacy of financial statement disclosures.

This understanding assists the auditor in identifying areas in the financial statements where material misstatements may be more likely to arise.

A47a. The auditor's understanding of the entity and its environment, and the applicable financial reporting framework, also informs how the auditor plans and performs further audit procedures, for example, when:

- Developing expectations for use when performing analytical procedures in accordance with ISA 520;²⁹
- Designing and performing further audit procedures to obtain sufficient appropriate audit evidence in accordance with ISA 330;³⁰ and
- Evaluating the sufficiency and appropriateness of audit evidence obtained (e.g., relating to assumptions or management's oral and written representations).

A47b. The auditor's understanding of the entity and its environment and the applicable financial framework may also assist the auditor in developing initial expectations about the classes of transactions, account balances and disclosures that may be significant classes of transactions, account balances and disclosures, which form the basis for the scope of the auditor's understanding of the entity's information system.

Scalability (Ref: Para. 23–24)

A47c. The nature and extent of the understanding needed is a matter of the auditor's professional judgment and varies from entity to entity based on the nature and circumstances of the entity, including:

- The size and complexity of the entity, including its IT environment;
- The auditor's previous experience with the entity;
- The nature of the entity's systems and processes, including whether they are formalized or not; and
- The nature and form of the entity's documentation.

²⁸ ISA 320, *Materiality in Planning and Performing an Audit*, paragraphs 10–11

²⁹ ISA 520, *Analytical Procedures*, paragraph 5

³⁰ ISA 330, *The Auditor's Responses to Assessed Risks*

A47e. The auditor’s risk assessment procedures to obtain the overall understanding may be less extensive in audits of less complex entities and more extensive for entities that are more complex. The depth of the overall understanding that is required by the auditor is expected to be less than that possessed by management in managing the entity.

A47ea. Some financial reporting frameworks allow smaller entities to provide simpler and less detailed disclosures in the financial statements. However, this does not relieve the auditor of the responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting and the framework as it applies to the entity.

A47eb. The entity’s use of IT and the nature and extent of changes in the IT environment may also affect the specialized skills that are needed to assist with obtaining the required understanding.

The Entity and Its Environment (Ref: Para. 23)

The Entity’s Organizational Structure, Ownership and Governance, and Business Model (Ref: Para. 23(a)(i))

The entity’s organizational structure and ownership (Ref: Para. 23(a)(i))

A49. An understanding of the entity’s organizational structure and ownership may enable the auditor to understand such matters as:

- The complexity of the entity’s structure.

Example:

• The entity may be a single entity or the entity’s structure may include subsidiaries, divisions or other components in multiple locations. Further, the legal structure may be different from the operating structure. Complex structures often introduce factors that may give rise to increased susceptibility to risks of material misstatement. Such issues may include whether goodwill, joint ventures, investments, or special-purpose entities are accounted for appropriately and whether adequate disclosure of such issues in the financial statements has been made.

- The ownership, and relationships between owners and other people or entities, including related parties. This understanding may assist in determining whether related party transactions have been appropriately identified, accounted for, and adequately disclosed in the financial statements.³¹

- The distinction between the owners, those charged with governance and management.

Example:

In less complex entities, owners of the entity may be involved in managing the entity, therefore there is little or no distinction. In contrast, such as in some listed entities, there

³¹ ISA 550 establishes requirements and provide guidance on the auditor’s considerations relevant to related parties.

may be a clear distinction between management, the owners of the entity, and those charged with governance.³²

- The entity's IT environment.

Examples:

An entity's IT environment may be relatively simple because it consists only of commercial software for which the entity does not have access to the underlying source code to which no changes can be made.

Alternatively, an entity may:

- Have multiple legacy IT systems in diverse businesses that are not well integrated resulting in a complex IT environment.
- Be using external or internal service providers for aspects of its IT environment (e.g., outsourcing the hosting of its IT environment to a third party or using a shared service center for central management of IT processes in a group).

Automated tools and techniques

A49a. The auditor may use automated tools and techniques to understand flows of transactions and processing as part of the auditor's procedures to understand the information system. An outcome of these procedures may be that the auditor obtains information about the entity's organizational structure or those with whom the entity conducts business (e.g., vendors, customers, related parties).

Considerations specific to public sector entities

A50. Ownership of a public sector entity may not have the same relevance as in the private sector because decisions related to the entity may be initiated outside of the entity as a result of political processes. Therefore, management may not have control over decisions that are made. Matters that may be relevant include understanding the ability of the entity to make unilateral decisions, and the ability of other public sector entities to control or influence the entity's mandate and strategic direction.

Example:

A public sector entity may be subject to laws or other directives from authorities that require it to obtain approval from parties external to the entity of its strategy and objectives prior to it implementing them. Therefore, matters related to understanding the legal structure of the entity may include applicable laws and regulations, and the classification of the entity (i.e., whether the entity is a ministry, department, agency or other type of entity).

³² ISA 260 (Revised), paragraphs A1 and A2, provide guidance on the identification of those charged with governance and explains that in some cases, some or all of those charged with governance may be involved in managing the entity.

Governance (Ref: Para. 23(a)(i))

Why the auditor obtains an understanding of governance

A51. Understanding the entity's governance may assist the auditor with understanding the entity's ability to provide appropriate oversight of its system of internal control. However, this understanding may also provide evidence of deficiencies, which may indicate an increase in the susceptibility of the entity's financial statements to risks of material misstatement.

Understanding the entity's governance

A51a. Matters that may be relevant for the auditor to consider in obtaining an understanding of the governance of the entity include:

- Whether any or all of those charged with governance are involved in managing the entity.
- The existence (and separation) of a non-executive Board, if any, from executive management.
- Whether those charged with governance hold positions that are an integral part of the entity's legal structure, for example as directors.
- The existence of sub-groups of those charged with governance such as an audit committee, and the responsibilities of such a group.
- The responsibilities of those charged with governance for oversight of financial reporting, including approval of the financial statements.

The Entity's Business Model (Ref: Para. 23(a)(i))

Appendix 1 sets out additional considerations for obtaining an understanding of the entity and its business model, as well as additional considerations for auditing special purpose entities.

Why the auditor obtains an understanding of the entity's business model and its related risks

A52. Understanding the entity's objectives, strategy and business model helps the auditor to understand the entity at a strategic level, and to understand the business risks the entity takes and faces. An understanding of the business risks that have an effect on the financial statements assists the auditor in identifying risks of material misstatement, since most business risks will eventually have financial consequences and, therefore, an effect on the financial statements.

Examples:

An entity's business model may rely on the use of IT in different ways:

- The entity sells shoes from a physical store, and uses an advanced stock and point of sale system to record the selling of shoes; or
- The entity sells shoes online so that all sales transactions are processed in an IT environment, including initiation of the transactions through a website.

For both of these entities the business risks arising from a significantly different business model would be substantially different, notwithstanding both entities sell shoes.

Understanding the entity's business model

A59. Not all aspects of the business model are relevant for the auditor's understanding. Business risks are broader than the risks of material misstatement of the financial statements, although business risks include the latter. The auditor does not have a responsibility to identify or assess all business risks because not all business risks give rise to risks of material misstatement.

A59a. Business risks increasing the susceptibility to risks of material misstatement may arise from:

- Inappropriate objectives or strategies, ineffective execution of strategies, or change or complexity.
- A failure to recognize the need for change may also give rise to business risk, for example, from:
 - The development of new products or services that may fail;
 - A market which, even if successfully developed, is inadequate to support a product or service; or
 - Flaws in a product or service that may result in legal liability and reputational risk.
- Incentives and pressures on management, which may result in intentional or unintentional management bias, and therefore affect the reasonableness of significant assumptions and the expectations of management or those charged with governance.

A61. Examples of matters that the auditor may consider when obtaining an understanding of the entity's business model, objectives, strategies and related business risks that may result in a risk of material misstatement of the financial statements include possible risks arising from:

- Industry developments, such as the lack of personnel or expertise to deal with the changes in the industry;
- New products and services that may lead to increased product liability;
- Expansion of the entity's business, and demand has not been accurately estimated;
- New accounting requirements where there has been incomplete or improper implementation;
- Regulatory requirements resulting in increased legal exposure;
- Current and prospective financing requirements, such as loss of financing due to the entity's inability to meet requirements;
- Use of IT, such as the implementation of a new IT system that will affect both operations and financial reporting; or
- The effects of implementing a strategy, particularly any effects that will lead to new accounting requirements.

A62. Ordinarily, management identifies business risks and develops approaches to address them. Such a risk assessment process is part of the entity’s system of internal control and is discussed in paragraph 30, and paragraphs A117–A120.

Considerations specific to public sector entities

A62a Entities operating in the public sector may create and deliver value in different ways to those creating wealth for owners but will still have a ‘business model’ with a specific objective. Matters public sector auditors may obtain an understanding of that are relevant to the business model of the entity, include:

- Knowledge of relevant government activities, including related programs.
- Program objectives and strategies, including public policy elements.

A63. For the audits of public sector entities, “management objectives” may be influenced by requirements to demonstrate public accountability and may include objectives which have their source in law, regulation or other authority.

Industry, Regulatory and Other External Factors (Ref: Para. 23(a)(ii))

Industry factors (Ref: Para. 23(a)(ii))

A64. Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments. Matters the auditor may consider include:

- The market and competition, including demand, capacity, and price competition.
- Cyclical or seasonal activity.
- Product technology relating to the entity’s products.
- Energy supply and cost.

A65. The industry in which the entity operates may give rise to specific risks of material misstatement arising from the nature of the business or the degree of regulation.

Example:

In the construction industry, long-term contracts may involve significant estimates of revenues and expenses that give rise to risks of material misstatement. In such cases, it is important that the engagement team include members with sufficient relevant knowledge and experience.³³

³³ ISA 220, paragraph 14

Regulatory factors (Ref: Para. 23(a)(ii))

A66. Relevant regulatory factors include the regulatory environment. The regulatory environment encompasses, among other matters, the applicable financial reporting framework and the legal and political environment and any changes thereto. Matters the auditor may consider include:

- Regulatory framework for a regulated industry, for example, prudential requirements, including related disclosures.
- Legislation and regulation that significantly affect the entity's operations, for example, labor laws and regulations.
- Taxation legislation and regulations.
- Government policies currently affecting the conduct of the entity's business, such as monetary, including foreign exchange controls, fiscal, financial incentives (for example, government aid programs), and tariffs or trade restriction policies.
- Environmental requirements affecting the industry and the entity's business.

A67. ISA 250 (Revised) includes some specific requirements related to the legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates.³⁴

Considerations specific to public sector entities

A68. For the audits of public sector entities, there may be particular laws or regulations that affect the entity's operations. Such elements may be an essential consideration when obtaining an understanding of the entity and its environment.

Other external factors (Ref: Para. 23(a)(ii))

A69. Other external factors affecting the entity that the auditor may consider include the general economic conditions, interest rates and availability of financing, and inflation or currency revaluation.

Measures Used to Assess the Entity's Financial Performance (Ref: Para. 23(a)(iii))

Why the auditor understands measures used by management

A70a. An understanding of the entity's measures assists the auditor in considering whether such measures, whether used externally or internally, create pressures on the entity to achieve performance targets. These pressures may motivate management to take actions that increase the susceptibility to misstatement due to management bias or fraud (e.g., to improve the business performance or to intentionally misstate the financial statements) (see ISA 240 for requirements and guidance in relation to the risks of fraud).

A70b Measures may also indicate to the auditor the likelihood with which risks of misstatement of related financial statement information exist. For example, performance measures may indicate that the entity has unusually rapid growth or profitability when compared to that of other entities in the same industry.

³⁴ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 13

Measures used by management

A70c. Management and others ordinarily measure and review those matters they regard as important. Inquiries of management may reveal that it relies on certain key indicators, whether publicly available or not, for evaluating financial performance and taking action. In such cases, the auditor may identify relevant performance measures, whether internal or external, by considering the information that the entity uses to manage its business. If such inquiry indicates an absence of performance measurement or review, there may be an increased risk of misstatements not being detected and corrected.

A70d. Key indicators used for evaluating financial performance may include:

- Key performance indicators (financial and non-financial) and key ratios, trends and operating statistics.
- Period-on-period financial performance analyses.
- Budgets, forecasts, variance analyses, segment information and divisional, departmental or other level performance reports.
- Employee performance measures and incentive compensation policies.
- Comparisons of an entity's performance with that of competitors.

Scalability

A73a. The procedures undertaken to understand the entity's measures may vary depending on the size or complexity of the entity, as well as the involvement of owners or those charged with governance in the management of the entity.

Examples:

- For some less complex entities, the terms of the entity's bank borrowings (i.e., bank covenants) may be linked to specific performance measures related to the entity's performance or financial position (e.g., a maximum working capital amount). The auditor's understanding of the performance measures used by the bank may help identify areas where there is increased susceptibility to the risk of material misstatement.
- For some entities whose nature and circumstances are more complex, such as those operating in the insurance or banking industries, performance or financial position may be measured against regulatory requirements (e.g., regulatory ratio requirements such as capital adequacy and liquidity ratios performance hurdles). The auditor's understanding of these performance measures may help identify areas where there is increased susceptibility to the risk of material misstatement.

Other considerations

A74. External parties may also review and analyze the entity's financial performance, in particular for entities where financial information is publicly available. The auditor may also consider publicly

available information to help the auditor further understand the business or identify contradictory information such as information from:

- Analysts or credit agencies.
- Taxation authorities.
- Regulators.
- Trade unions.
- Providers of finance.

Such financial information can often be obtained from the entity being audited.

A77a. The measurement and review of financial performance is not the same as the monitoring of the system of internal control (discussed as a component of the system of internal control in paragraphs A123–A135c), though their purposes may overlap:

- The measurement and review of performance is directed at whether business performance is meeting the objectives set by management (or third parties).
- In contrast, monitoring of the system of internal control is concerned with monitoring the effectiveness of controls including those related to management's measurement and review of financial performance.

In some cases, however, performance indicators also provide information that enables management to identify control deficiencies.

Considerations specific to public sector entities

A78. In addition to considering relevant measures used by a public sector entity to assess the entity's financial performance, auditors of public sector entities may also consider non-financial information such as achievement of public benefit outcomes (for example, the number of people assisted by a specific program).

The Applicable Financial Reporting Framework (Ref: Para. 23(b))

Understanding the Applicable Financial Reporting Framework

A79. Matters that the auditor may consider when obtaining an understanding of the entity's applicable financial reporting framework, and how it applies in the context of the nature and circumstances of the entity and its environment include:

- The entity's financial reporting practices in terms of the applicable financial reporting framework, such as:
 - Accounting principles and industry-specific practices, including for industry-specific significant classes of transactions, account balances and related disclosures in the financial statements (for example, loans and investments for banks, or research and development for pharmaceuticals).
 - Revenue recognition.

- Accounting for financial instruments, including related credit losses.
- Foreign currency assets, liabilities and transactions.
- Accounting for unusual or complex transactions including those in controversial or emerging areas (for example, accounting for cryptocurrency).
- An understanding of the entity's selection and application of accounting policies, including any changes thereto as well as the reasons therefore, may encompass such matters as:
 - The methods the entity uses to recognize, measure, present and disclose significant and unusual transactions.
 - The effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
 - Changes in the environment, such as changes in the applicable financial reporting framework or tax reforms that may necessitate a change in the entity's accounting policies.
 - Financial reporting standards and laws and regulations that are new to the entity and when and how the entity will adopt, or comply with, such requirements.

A80. Obtaining an understanding of the entity and its environment may assist the auditor in considering where changes in the entity's financial reporting (e.g., from prior periods) should be expected.

Example:

If the entity has had a significant business combination during the period, the auditor would likely expect changes in classes of transactions, account balances and disclosures associated with that business combination. Alternatively, if there were no significant changes in the financial reporting framework during the period the auditor's understanding may help confirm that the understanding obtained in the prior period remains applicable.

Considerations specific to public sector entities

A82. The applicable financial reporting framework in a public sector entity is determined by the legislative and regulatory frameworks relevant to each jurisdiction or within each geographical area. Matters that may be considered in the entity's application of the applicable financial reporting requirements, and how it applies in the context of the nature and circumstances of the entity and its environment, include whether the entity applies a full accrual-basis of accounting (such as the International Public Sector Accounting Standards), a cash-basis of accounting, or a hybrid.

How the Inherent Risk Factors Affect Susceptibility to Misstatement of Assertions (Ref: Para. 23(c))

Appendix 2 provides examples of events and conditions that may indicate susceptibility to risks of material misstatement, categorized by inherent risk factor.

Why the auditor considers the inherent risk factors when understanding the entity and its environment and the applicable financial reporting framework

A88a. Understanding the entity and its environment, and the applicable financial reporting framework, assists the auditor in identifying events and conditions, the characteristics of which may affect the susceptibility of assertions to misstatement. These characteristics are inherent risk factors. Accordingly, understanding the inherent risk factors (i.e., that affect the susceptibility of assertions to misstatement, and how they do so) assists the auditor in identifying and assessing the risk of material misstatement at the assertion level, and in performing further audit procedures in accordance with ISA 330. The inherent risk factors may also assist the auditor in assessing the likelihood and magnitude of a possible misstatement when assessing inherent risk.

The effect of the inherent risk factors on a class of transactions, account balance or disclosure

A88b. The extent of susceptibility to misstatement of a class of transactions, account balance or disclosure arising from complexity or subjectivity, is often closely related to the extent to which it is subject to change or uncertainty.

Example:

If the entity has an accounting estimate based on assumptions that are subject to significant inherent uncertainty, the measurement of the accounting estimate is likely to be affected by both subjectivity and uncertainty.

A88c. The greater the extent to which a class of transactions, account balance or disclosure is susceptible to misstatement because of complexity or subjectivity, the greater the need for the auditor to apply professional skepticism. Further, when a class of transactions, account balance or disclosure is susceptible to misstatement because of complexity, subjectivity, change or uncertainty, these inherent risk factors may create opportunity for management bias, whether unintentional or intentional, and affect susceptibility to misstatement due to management bias. The auditor's identification of risks of material misstatement, and assessment of inherent risk at the assertion level, are also affected by the interrelationships among the inherent risk factors.

A88d. Events or conditions that may affect susceptibility to misstatement due to management bias may also affect susceptibility to misstatement due to other fraud risk factors. Accordingly, this may be relevant information for use in accordance with paragraph 24 of ISA 240, which requires the auditor to evaluate whether the information obtained from the other risk assessment procedures and related activities indicates that one or more fraud risk factors are present.

Obtaining an Understanding of the Entity's System of Internal Control (Ref: Para. 28–43)

Appendix 3 further describes the nature of the entity's system of internal control and inherent limitations of internal control, respectively. Appendix 3 also provides further explanation of the components of a system of internal control for the purposes of the ISAs.

A89. The auditor's understanding of the entity's system of internal control is obtained through risk assessment procedures performed to understand and evaluate each of the components of the system of internal control as set out in paragraphs 28 to 39 of this ISA.

A89a. The components of the entity's system of internal control for the purpose of this ISA may not necessarily reflect how an entity designs, implements and maintains its system of internal control, or how it may classify any particular component. Entities may use different terminology or frameworks to describe the various aspects of the system of internal control. For the purpose of an audit, auditors may also use different terminology or frameworks provided all the components described in this ISA are addressed.

Scalability

A95a. The way in which the entity's system of internal control is designed, implemented and maintained varies with an entity's size and complexity. For example, less complex entities may use less structured or simpler controls (i.e., policies and procedures) to achieve their objectives.

Considerations Specific to Public Sector Entities

A96. Auditors of public sector entities often have additional responsibilities with respect to internal control, for example, to report on compliance with an established code of practice or reporting on spending against budget. Auditors of public sector entities may also have responsibilities to report on compliance with law, regulation or other authority. As a result, their considerations about the system of internal control may be broader and more detailed.

Information Technology in the Components of the Entity's System of Internal Control

Appendix 5 provides further guidance on understanding the entity's use of IT in the components of the system of internal control.

A97. The overall objective and scope of an audit does not differ whether an entity operates in a mainly manual environment, a completely automated environment, or an environment involving some combination of manual and automated elements (i.e., manual and automated controls and other resources used in the entity's system of internal control).

Understanding the Nature of the Components of the Entity's System of Internal Control

A102. The auditor's understanding of each of the components of the entity's system of internal control may affect the auditor's identification and assessment of the risks of material misstatement in different ways:

- The auditor's understanding of the entity's control environment, the entity's risk assessment process, and the entity's process to monitor controls components are more likely to affect the identification and assessment of risks of material misstatement at the financial statement level.
- The auditor's understanding of the entity's information system and communication, and the entity's control activities component, are more likely to affect the identification and assessment of risks of material misstatement at the assertion level.

Control Environment, The Entity's Risk Assessment Process and the Entity's Process to Monitor the System of Internal Control (Ref: Para. 28–31A)

A104a. The controls in the control environment, the entity's risk assessment process and the entity's process to monitor the system of internal control are primarily indirect controls (i.e., controls that are not sufficiently precise to prevent, detect or correct misstatements at the assertion level but which support other controls and may therefore have an indirect effect on the likelihood that a misstatement will be detected or prevented on a timely basis). However, some controls within these components may also be direct controls.

Why the Auditor is Required to Understand the Control Environment, The Entity's Risk Assessment Process and the Entity's Process to Monitor the System of Internal Control

A104b. The control environment provides an overall foundation for the operation of the other components of the system of internal control. The control environment does not directly prevent, or detect and correct, misstatements. It may, however, influence the effectiveness of controls in the other components of the system of internal control. Similarly, the entity's risk assessment process and its process for monitoring the system of internal control are designed to operate in a manner that also supports the entire system of internal control.

A104c. Because these components are foundational to the entity's system of internal control, any deficiencies in their operation could have pervasive effects to the preparation of the financial statements. Therefore, the auditor's understanding of these components affect the auditor's identification and assessment of risks of material misstatement at the financial statement level, and may also affect the identification and assessment of risks of material misstatement at the assertion level. Identified risks of material misstatement at the financial statement level affect the auditor's design of overall responses, including, as explained in ISA 330, an influence on the nature, timing and extent of the auditor's further procedures.³⁵

A104d. The auditor's intention to test the operating effectiveness of controls may also be influenced by the identified risks of material misstatement at the financial statement level because they may influence the auditor's expectations about the operating effectiveness of controls.

Obtaining an Understanding of the Control Environment (Ref: Para. 28)

Scalability

A106. The nature of the control environment in a less complex entity is likely to be different from the control environment in a more complex entity.

A106a. For example, those charged with governance in less complex entities may not include an independent or outside member, and the role of governance may be undertaken directly by the owner-manager where there are no other owners. Accordingly, some considerations about the entity's control environment may be less relevant or may not be applicable.

A107. In addition, audit evidence about elements of the control environment in less complex entities may not be available in documentary form, in particular where communication between management and

³⁵ ISA 330, paragraphs A1–A3

other personnel is informal, but the evidence may still be appropriately relevant and reliable in the circumstances.

Examples:

- The organizational structure in a less complex entity will likely be simpler and may include a small number of employees involved in roles related to financial reporting.
- If the role of governance is undertaken directly by the owner-manager, the auditor may determine that the independence of those charged with governance is not relevant.
- Less complex entities may not have a written code of conduct but, instead, develop a culture that emphasizes the importance of integrity and ethical behaviour through oral communication and by management example. Consequently, the attitudes, awareness and actions of management or the owner-manager are of particular importance to the auditor's understanding of a less complex entity's control environment.

Understanding the control environment (Ref: Para. 28(a))

A108. Audit evidence for the auditor's understanding of the control environment may be obtained through a combination of inquiries and other risk assessment procedures (i.e., corroborating inquiries through observation or inspection of documents).

A108a. In considering the extent to which management demonstrates a commitment to integrity and ethical values, the auditor may obtain an understanding through inquiries of management and employees about:

- How management communicates to employees its views on business practices and ethical behavior; and
- Inspecting management's written code of conduct and observing whether management acts in a manner that supports that code.

Evaluating the control environment (Ref: Para. 28(b))

A110a. The auditor's evaluation of the control environment is undertaken using the information from based on the understanding obtained in accordance with paragraph 28(a).

A113. Some entities may be dominated by a single individual who may exercise a great deal of discretion. The actions and attitudes of that individual may have a pervasive effect on the culture of the entity, which in turn may have a pervasive effect on the control environment. Such an effect may be positive or negative.

Example:

Direct involvement by a single individual may be key to enabling the entity to meet its growth and other objectives, and can also contribute significantly to an effective system of internal control. On the other hand, such concentration of knowledge and authority can also lead to an increased susceptibility to misstatement through management override of controls.

A114. The auditor may consider how the different elements of the control environment may be influenced by the philosophy and operating style of senior management taking into account the involvement of independent members of those charged with governance.

A114a. Although the control environment may provide an appropriate foundation for the system of internal control and may help reduce the risk of fraud, an appropriate control environment is not necessarily an effective deterrent to fraud.

Example:

Human resource policies and procedures directed toward hiring competent financial, accounting, and IT personnel may mitigate the risk of errors in processing and recording financial information. However, such policies and procedures may not mitigate the override of controls by senior management (e.g., to overstate earnings).

A114b. The auditor's evaluation of the control environment as it relates to the entity's use of IT may include such matters as:

- Whether governance over IT is commensurate with the nature and size of the entity and its business operations enabled by IT, including the complexity or maturity of the entity's technology platform or architecture and the extent to which the entity relies on IT applications to support its financial reporting.
- The management organizational structure regarding IT and the resources allocated (for example, whether the entity has invested in an appropriate IT environment and necessary enhancements, or whether a sufficient number of appropriately skilled individuals have been employed including when the entity uses commercial software (with no or limited modifications)).

Obtaining an Understanding of the Entity's Risk Assessment Process (Ref: Para. 30–31)

Understanding the entity's risk assessment process (Ref: Para. 30(a))

A117. As explained in paragraph A59, not all business risks give rise to risks of material misstatement. In understanding how management and those charged with governance have identified business risks relevant to the preparation of the financial statements, and have decided about actions to address those risks, matters the auditor may consider include how management or, as appropriate, those charged with governance, have:

- Specified objectives with sufficient precision and clarity to enable the identification and assessment of the risks relating to the objectives;
- Identified the risks to achieving the entity's objectives and analyzed the risks as a basis for determining how the risks should be managed; and
- Considered the potential for fraud when considering the risks to achieving the entity's objectives.³⁶

³⁶ See paragraph 18(a) of ISA 240

A117a. The auditor may consider the implications of such business risks for the preparation of the entity's financial statements and other aspects of its system of internal control.

Evaluating whether the entity's risk assessment process is appropriate (Ref: Para. 30(b))

A119a. The auditor's evaluation of the appropriateness of the entity's risk assessment process is undertaken based on the understanding obtained in accordance with paragraph 30(a).

Scalability

A120. Whether the entity's risk assessment process is appropriate to the entity's circumstances considering the nature and size of the entity is a matter of the auditor's professional judgment.

Example:

In some less complex entities, and particularly owner-managed entities, an appropriate risk assessment may be performed through the direct involvement of management or the owner-manager (e.g., the manager or owner-manager may routinely devote time to monitoring the activities of competitors and other developments in the market place to identify emerging business risks). The evidence of this risk assessment occurring in these types of entities is often not formally documented, but it may be evident from the discussions the auditor has with management that management are in fact performing risk assessment procedures.

Obtaining an Understanding of the Entity's Process to Monitor the Entity's System of Internal Control (Ref: Para. 31A)

Scalability

A123. In less complex entities, and in particular owner-manager entities, the auditor's understanding of the entity's process to monitor the system of internal control is often focused on how management or the owner-manager's is directly involved in operations, as there may not be any other monitoring activities.

Example:

Management may receive complaints from customers about inaccuracies in their monthly statement that alerts the owner-manager to issues with the timing of when customer payments are being recognized in the accounting records.

A124. For entities where there is no formal process for monitoring the system of internal control, understanding the process to monitor the system of internal control may include understanding periodic reviews of management accounting information that are designed to contribute to how the entity prevents or detects misstatements.

Understanding the entity's process to monitor the system of internal control (Ref: Para. 31A(a))

A126a. Matters that may be relevant for the auditor to consider when understanding how the entity monitors its system of internal control include:

- The design of the monitoring activities, for example whether it is periodic or ongoing monitoring;
- The performance and frequency of the monitoring activities;
- The evaluation of the results of the monitoring activities, on a timely basis, to determine whether the controls have been effective; and
- How identified deficiencies have been addressed through appropriate remedial actions, including timely communication of such deficiencies to those responsible for taking remedial action.

A127. The auditor may also consider how the entity's process to monitor the system of internal control addresses monitoring information processing controls that involve the use of IT. This may include, for example:

- Controls to monitor complex IT environments that:
 - Evaluate the continuing design effectiveness of information processing controls and modify them, as appropriate, for changes in conditions; or
 - Evaluate the operating effectiveness of information processing controls.
- Controls that monitor the permissions applied in automated information processing controls that enforce the segregation of duties.
- Controls that monitor how errors or control deficiencies related to the automation of financial reporting are identified and addressed.

Understanding the entity's internal audit function (Ref: Para. 31A(a)(ii))

Appendix 4 sets out further considerations relating to the entity's internal audit function.

A131. The auditor's inquiries of appropriate individuals within the internal audit function help the auditor obtain an understanding of the nature of the internal audit function's responsibilities. If the auditor determines that the function's responsibilities are related to the entity's financial reporting, the auditor may obtain further understanding of the activities performed, or to be performed, by the internal audit function by reviewing the internal audit function's audit plan for the period, if any, and discussing that plan with the appropriate individuals within the function. This understanding, together with the information obtained from the auditor's inquiries, may also provide information that is directly relevant to the auditor's identification and assessment of the risks of material misstatement.

Other sources of information used in the entity's process to monitor the system of internal control

Understanding the sources of information (Ref: Para. 31A(b))

Why the auditor is required to understand the sources of information used for the entity's monitoring of the system of internal control

A135a. The auditor's understanding of the sources of information used by the entity in monitoring the entity's system of internal control, including whether the information used is relevant and reliable, assists the auditor in evaluating whether the entity's process to monitor the entity's system of internal control is appropriate. If management assumes that information used for monitoring is relevant and reliable without having a basis for that assumption, errors that may exist in the information could potentially lead management to draw incorrect conclusions from its monitoring activities.

Other sources of information

A135b. Management's monitoring activities may use information in communications from external parties such as customer complaints or regulator comments that may indicate problems or highlight areas in need of improvement.

Evaluating whether the entity's process to monitor the system of internal control is appropriate (Ref: Para. 31A(c))

A135c. The auditor's evaluation of the appropriateness of the entity's process to monitor the system of internal control is based on the auditor's understanding of the entity's process to monitor the system of internal control.

The Information System and Communication, and Control Activities (Ref: Para. 36–39)

Why the Auditor is Required to Understand the Information System and Communication and Controls in the Control Activities Component

A135d. The auditor understands the entity's information system and communication because understanding the entity's policies that define the flows of transactions and other aspects of the entity's information processing activities relevant to the preparation of the financial statements, and evaluating whether the component appropriately supports the preparation of the entity's financial statements support the auditor's identification and assessment of risks of material misstatement at the assertion level. This understanding and evaluation may also result in the identification of risks of material misstatement at the financial statement level when the results of the auditor's procedures are inconsistent with expectations about the entity's system of internal control that may have been set based on information obtained during the engagement acceptance or continuance process.

A135h. The auditor is required to identify specific controls in the control activities component and evaluate the design and determine whether the controls have been implemented, as it assists the auditor's understanding about management's approach to addressing certain risks (in particular those that are higher on the spectrum of inherent risk) and therefore informs the design and performance of substantive procedures responsive to these risks as required by ISA 330. Even when the auditor does not plan to test the operating effectiveness of identified controls, the auditor's understanding

may still affect the design of the nature, timing and extent of substantive audit procedures that are responsive to the related risks of material misstatement.

Example:

The results of these risk assessment procedures may inform the auditor's consideration of possible deviations in a population when designing audit samples.

A135i. The higher on the spectrum of inherent risk a risk is assessed, the more persuasive the audit evidence needs to be. As explained in ISA 330,³⁷ obtaining more persuasive evidence may involve obtaining evidence that is more relevant or reliable. The auditor's understanding of controls contributes to the audit evidence obtained for these risks and this understanding may further assist the auditor in designing further audit procedures to obtain more relevant and reliable audit evidence.

The Iterative Nature of the Auditor's Understanding and Evaluation of the Information System and Communication, and Control Activities

A135j. The auditor's identification and assessment of risks of material misstatement at the assertion level is influenced by both the auditor's understanding of the entity's policies for its information processing activities in the information system and communication, and the auditor's identification and evaluation of related controls in the control activities component.

A135k. As explained in paragraph A47b, the auditor's understanding of the entity and its environment and the applicable financial framework may assist the auditor in developing initial expectations about the classes of transactions, account balances and disclosures that may be significant classes of transactions, account balances and disclosures. The auditor's understanding of the information system includes understanding the policies that define flows of information relating to the entity's significant classes of transactions, account balances, and disclosures, and other related aspects of the entity's information processing activities. This information, and the information obtained from the auditor's evaluation of the information system assists the auditor's expectations about the significant classes of transactions, account balances and disclosures.

A135l. The auditor's identification and evaluation of controls in the control activities component may first focus on controls over journal entries and controls that the auditor plans to test in designing the nature, timing and extent of substantive procedures because such controls are identified independently of the auditor's risk assessments. The auditor may also controls in the control activities component that are required to be identify concurrently with the auditor's understanding of how information relating to significant classes of transactions, account balances and disclosures flows into, through, and out of the entity's information system.

A135m. The auditor's assessment of inherent risk may also drive the identification of controls in the control activities component. The auditor's identification and evaluation of controls relating to significant risks, and those risks that the auditor considered to have a reasonable possibility of being significant risks but determined not to be significant risks, may ordinarily only be identifiable when the auditor has assessed inherent risk at the assertion level in accordance with paragraphs 48. Furthermore,

³⁷ ISA 330, paragraph A19

controls addressing risks for which the auditor has determined that substantive procedures alone do not provide sufficient appropriate audit evidence (in accordance with paragraph 50) may also only be identifiable once the auditor's inherent risk assessments have been undertaken.

Obtaining an Understanding of the Information System and Communication (Ref: Para. 36)

Appendix 3, Paragraphs 14–18, sets out further considerations relating to the information system and communication.

Scalability

A135n. The information system, and related business processes, in less complex entities are likely to be less sophisticated than in larger entities, and to involve a less complex IT environment, but the role of the information system is just as important. Less complex entities with direct management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies. Understanding the relevant aspects of the entity's information system may therefore require less effort in an audit of a less complex entity, and may involve a greater amount of inquiry than observation or inspection of documentation. The need to obtain an understanding, however, remains important to identifying risks of material misstatement.

Obtaining an understanding of the information system (Ref: Para. 36(a))

A136a. Included within the entity's system of internal control are aspects that relate to the entity's reporting objectives, including its financial reporting objectives, but may also include aspects that relate to its operations or compliance objectives, when such aspects are relevant to financial reporting. Understanding how the entity initiates transactions and captures information as part of the auditor's understanding of the information system may include information about the entity's systems (its policies) designed to address compliance and operations objectives because such information is relevant to the preparation of the financial statements. *[From paragraph A94a]* Further, some entities may have information systems that are highly integrated such that controls may be designed in a manner to simultaneously achieve financial reporting, compliance and operational objectives, and combinations thereof.

A136b. Understanding the entity's information system also includes an understanding of resources to be used in such activities. Information about the human resources involved that may be relevant to understanding risks to the integrity of the information system include:

- The competence of the individuals undertaking the work;
- Whether there are adequate resources; and
- Is there appropriate segregation of duties.

A137a. Matters the auditor may consider when understanding the policies that define the flows of information relating to the entity's significant classes of transactions, account balances, and disclosures in the information system and communication component include the nature of:

- (a) The data or information relating to transactions, other events and conditions to be processed;

- (b) The information processing to maintain the integrity of that data or information; and
- (c) The information processes, personnel and other resources used in the information processing process.

A137b. Obtaining an understanding of the entity's business processes, which include how transactions are originated, assists the auditor in obtaining an understanding of the entity's information system in a manner that is appropriate to the entity's circumstances.

A141c. The auditor's understanding of the information system may be obtained in various ways and may include:

- Inquiries of relevant personnel about the procedures used to initiate, record, process and report transactions or about the entity's financial reporting process;
- Inspection of policy or process manuals or other documentation of the entity's information system;
- Observation of the performance of the policies or procedures by entity's personnel; or
- Selecting transactions and tracing them through the applicable process in the information system (i.e., performing a walk-through).

Inquiry alone, however, is not sufficient for such purposes.

Automated tools and techniques

A141e. The auditor may also use automated techniques to obtain direct access to, or a digital download from, the databases in the entity's information system that store accounting records of transactions. By applying automated tools or techniques to this information, the auditor may confirm the understanding obtained about how transactions flow through the information system by tracing journal entries, or other digital records related to a particular transaction, or an entire population of transactions, from initiation in the accounting records through to recording in the general ledger. Analysis of complete or large sets of transactions may also result in the identification of variations from the normal, or expected, processing procedures for these transactions, which may result in the identification of risks of material misstatement.

Information obtained from outside of the general and subsidiary ledgers

A142. Financial statements may contain information that is obtained from outside of the general and subsidiary ledgers. Examples of such information that the auditor may consider include:

- Information obtained from lease agreements relevant to disclosures in the financial statements.
- Information disclosed in the financial statements that is produced by an entity's risk management system.
- Fair value information produced by management's experts and disclosed in the financial statements.
- Information disclosed in the financial statements that has been obtained from models, or from other calculations used to develop accounting estimates recognized or disclosed in the

financial statements, including information relating to the underlying data and assumptions used in those models, such as:

- Assumptions developed internally that may affect an asset's useful life; or
- Data such as interest rates that are affected by factors outside the control of the entity.
- Information disclosed in the financial statements about sensitivity analyses derived from financial models that demonstrates that management has considered alternative assumptions.
- Information recognized or disclosed in the financial statements that has been obtained from an entity's tax returns and records.
- Information disclosed in the financial statements that has been obtained from analyses prepared to support management's assessment of the entity's ability to continue as a going concern, such as disclosures, if any, related to events or conditions that have been identified that may cast significant doubt on the entity's ability to continue as a going concern.³⁸

A143. Certain amounts or disclosures in the entity's financial statements (such as disclosures about credit risk, liquidity risk, and market risk) may be based on information obtained from the entity's risk management system. However, the auditor is not required to understand all aspects of the risk management system, and uses professional judgment in determining the necessary understanding.

The entity's use of information technology in the information system

Why does the auditor understand the IT environment relevant to the information system

A144. The auditor's understanding of the information system includes the IT environment relevant to the flows of transactions and processing of information in the entity's information system because the entity's use of IT applications or other aspects in the IT environment may give rise to risks arising from the use of IT.

A144a. The understanding of the entity's business model and how it integrates the use of IT may also provide useful context to the nature and extent of IT expected in the information system.

Understanding the entity's use of IT

A144b. The auditor's understanding of the IT environment may focus on identifying, and understanding the nature and number of, the specific IT applications and other aspects of the IT environment, that are relevant to the flows of transactions and processing of information in the information system. Changes in the flow of transactions, or information within the information system may result from program changes to IT applications, or direct changes to data in databases involved in processing, or storing those transactions or information.

A146. The auditor may identify the IT applications and supporting IT infrastructure concurrently with the auditor's understanding of how information relating to significant classes of transactions, account balances and disclosures flows into, through and out the entity's information system.

³⁸ See paragraphs 19–20 of ISA 570 (Revised), *Going Concern*

Obtaining an Understanding of the Entity's Communication (Ref: Para. 36(b))

Scalability

A158a. In larger, more complex entities, information the auditor may consider when understanding the entity's communication may come from policy manuals and financial reporting manuals.

A159. In less complex entities, communication may be less structured (e.g., formal manuals may not be used) due to fewer levels of responsibility and management's greater visibility and availability. Regardless of the size of the entity, open communication channels facilitate the reporting of exceptions and acting on them.

Evaluating Whether the Relevant Aspects of the Information System Support the Preparation of the Entity's Financial Statements (Ref: Para. 36(c))

A159a. The auditor's evaluation of whether the entity's information system and communication appropriately supports the preparation of the financial statements is undertaken based on the understanding obtained in paragraphs 36(a)–(b).

Control Activities (Ref: Para. 39)

Controls in the Control Activities Component (Ref: Para. 39)

A160. The control activities component includes controls that are designed to ensure the proper application of policies (which are also controls) in all the other components of the entity's system of internal control, and includes both direct and indirect controls.

Example:

The controls that an entity has established to ensure that its personnel are properly counting and recording the annual physical inventory relate directly to the risks of material misstatement relevant to the existence and completeness assertions for the inventory account balance.

A160a. The auditor's identification and evaluation of controls in the control activities component is focused on information processing controls, which are controls related to the entity's information system. However, the auditor is not required to identify and evaluate all information processing controls related to the entity's policies that define the flows of transactions and other aspects of the entity's information processing activities for the significant classes of transactions, account balances and disclosures.

A160b. There may also be direct controls that exist in the control environment, the entity's risk assessment process or the entity's process to monitor the system of internal control, which may be identified in accordance with paragraph 39. However, the more indirect the relationship between controls that support other controls and the control that is being considered, the less effective that control may be in preventing, or detecting and correcting related, misstatements.

Example:

A sales manager's review of a summary of sales activity for specific stores by region ordinarily is only indirectly related to the risks of material misstatement relevant to the completeness assertion for sales revenue. Accordingly, it may be less effective in addressing those risks than controls more directly related thereto, such as matching shipping documents with billing documents.

A160c. Paragraph 39 also requires the auditor to identify and evaluate general IT controls for IT applications and other aspects of the IT environment that the auditor has determined to be subject to risks arising from the use of IT, because general IT controls support the continued effective functioning of information processing controls. Similarly, a general IT control alone is typically not sufficient to address a risk of material misstatement at the assertion level.

A160d. The controls that the auditor is required to identify and evaluate the design and determine the implementation of, in accordance with paragraph 39 are those:

- On which the auditor plans to test the operating effectiveness of in determining the nature, timing and extent of substantive procedures because the evaluation of such controls provides the basis for the auditor's design of test of control procedures in accordance with ISA 330. Such controls include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.
- That address risks of material misstatement at the assertion level that have been assessed as higher on the spectrum of inherent risk because ISA 330 requires more persuasive audit evidence the higher the auditor's assessment of risk³⁹. Such controls include controls that address significant risks, controls that address risks that could be but are not significant risks, and controls over journal entries. The auditor's identification and evaluation of such controls may provide the auditor with a greater understanding of the risks of material misstatement, including the identification of additional risks of material misstatement. This understanding also provides the basis for the auditor's design of the nature, timing and extent of substantive audit procedures that are responsive to the related assessed risks of material misstatement.

A160e. Controls in the control activities component are required to be identified when such controls meet one or more of the criteria included in paragraph 39(a). However, when multiple controls each achieve the same objective, it is unnecessary to identify each of the controls related to such objective.

Types of Controls in the Control Activities Component (Ref: Para. 39)

A160f. Examples of controls in the control activities component include authorizations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls, including those addressing safeguarding of assets.

A160g. Controls in the control activities component may also include controls established by management that address risks of material misstatement related to disclosures not being prepared in accordance

³⁹ ISA 330, paragraph 7(b)

with the applicable financial reporting framework. Such controls may relate to information included in the financial statements that is obtained from outside of the general and subsidiary ledgers.

A160h. Regardless of whether controls are within the IT environment or manual systems, controls may have various objectives and may be applied at various organizational and functional levels.

Scalability

A161. Controls in the control activities component for less complex entities are likely to be similar to those in larger entities, but the formality with which they operate may vary. Further, in less complex entities, more controls may be directly applied by management.

Example:

Management's sole authority for granting credit to customers and approving significant purchases can provide strong control over important account balances and transactions.

A161a. It may be less practicable to establish segregation of duties in less complex entities that have fewer employees. However, in an owner-managed entity, the owner-manager may be able to exercise more effective oversight through direct involvement than in a larger entity, which may compensate for the generally more limited opportunities for segregation of duties. Although, as also explained in ISA 240, domination of management by a single individual can be a potential control deficiency since there is an opportunity for management override of controls.⁴⁰

Controls that Address Risks of Material Misstatement at the Assertion Level (Ref: Para. 39(a))

Controls that address risks that are determined to be a significant risk (Ref: Para. 39(a)(i))

A170. Regardless of whether the auditor plans to test the operating effectiveness of controls that address significant risks, the understanding obtained about management's approach to addressing those risks may inform the design and performance of substantive procedures responsive to significant risks as required by ISA 330.⁴¹ Although risks relating to significant non-routine or judgmental matters are often less likely to be subject to routine controls, management may have other responses intended to deal with such risks. Accordingly, the auditor's understanding of whether the entity has designed and implemented controls for significant risks arising from non-routine or judgmental matters may include whether and how management responds to the risks. Such responses may include:

- Controls such as a review of assumptions by senior management or experts.
- Documented processes for accounting estimations.
- Approval by those charged with governance.

⁴⁰ ISA 240, paragraph A28

⁴¹ ISA 330, paragraph 21

Example:

Where there are one-off events such as the receipt of a notice of a significant lawsuit, consideration of the entity's response may include such matters as whether it has been referred to appropriate experts (such as internal or external legal counsel), whether an assessment has been made of the potential effect, and how it is proposed that the circumstances are to be disclosed in the financial statements.

A172. ISA 240⁴² requires the auditor to understand controls related to assessed risks of material misstatement due to fraud (which are treated as significant risks), and further explains that it is important for the auditor to obtain an understanding of these controls that management has designed, implemented and maintained to prevent and detect fraud.

Controls that address risks that could be but are not determined to be significant risks (Ref: Para. 39(a)(ii))

A173a. Where the assessments of the risks of material misstatement at the assertion level fall on the spectrum of inherent risk, as well as the determination of significant risks, is a matter of the auditor's professional judgment. Whether the auditor identifies controls that address assessed risks for which the effect of the inherent risk factors indicates that there is a reasonable possibility that the assessed risks could be a significant risk but have not been determined to be a significant risk is also a matter of professional judgment.

A173b. The guidance in paragraph A173a also applies to controls that address risks that could but but are not determined to be significant risks.

Controls over journal entries (Ref: Para. 39(a)(iii))

A175. Controls that address risks of material misstatement at the assertion level that are expected to be identified for all audits are controls over journal entries, because the manner in which an entity incorporates information from transaction processing into the general ledger ordinarily involves the use of journal entries, whether standard or non-standard, or automated or manual. The extent to which other controls are identified may vary based on the nature of the entity and the auditor's planned approach to further audit procedures.

Example:

In an audit of a less complex entity, the entity's information system may not be complex and the auditor may not plan to rely on the operating effectiveness of controls. Further, the auditor may not have identified any significant risks or any other risks of material misstatement for which it is necessary for the auditor to evaluate the design of controls and determine that they have been implemented. In such an audit, the auditor may determine that there are no identified controls other than the entity's controls over journal entries.

⁴² ISA 240, paragraphs 28 and A33

Automated tools and techniques

A175a. In manual general ledger systems, non-standard journal entries may be identified through inspection of ledgers, journals, and supporting documentation. When automated procedures are used to maintain the general ledger and prepare financial statements, such entries may exist only in electronic form and may therefore be more easily identified through the use of automated techniques.

Example:

In the audit of a less complex entity, the auditor may be able to extract a total listing of all journal entries into a simple spreadsheet. It may then be possible for the auditor to sort the journals by applying a variety of filters such as dollar amount, name of the journal preparer or reviewer, entries that gross up the balance sheet and income statement only, or to view the listing by the date the journal entry was posted to the general ledger, to assist the auditor in designing their response to the risks identified relating to journal entries.

Controls for which the auditor plans to test the operating effectiveness (Ref: Para. 39(a)(iv))

A175d. The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible or practicable to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with ISA 330,⁴³ to design and perform tests of controls that address such risks of material misstatement when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. As a result, when such controls exist that address these risks, they are required to be identified and evaluated.

A176. In other cases, when the auditor plans to take into account the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures in accordance with ISA 330, such controls are also required to be identified because ISA 330⁴⁴ requires the auditor to design and perform tests of those controls.

Examples:

The auditor may plan to test the operating effectiveness of controls:

- Over routine classes of transactions because such testing may be more effective or efficient for large volumes of homogenous transactions.
- Over the completeness and accuracy of information produced by the entity (e.g., controls over the preparation of system-generated reports), to determine the reliability of that information, when the auditor intends to take into account the operating effectiveness of those controls in designing and performing further audit procedures.
- Relating to operations and compliance objectives when they relate to data the auditor evaluates or uses in applying audit procedures.

⁴³ ISA 330, paragraph 8(b)

⁴⁴ ISA 330, paragraph 8(a)

A177. The auditor's plans to test the operating effectiveness of controls may also be influenced by the identified risks of material misstatement at the financial statement level. For example, if deficiencies are identified related to the control environment, this may affect the auditor's overall expectations about the operating effectiveness of direct controls.

Identifying IT Applications and Other Aspects of the IT Environment , Risks Arising from the Use of IT and General IT Controls (Ref: Para. 39(b)–(c))

Appendix 5 includes example characteristics of IT applications and other aspects of the IT environment, and guidance related to those characteristics, that may be relevant in identifying IT applications and other aspects of the IT environment subject to risks arising from the use of IT.

Identifying IT applications and other aspects of the IT environment (Ref: Para. 39(b))

Why the auditor identifies risks arising from the use of IT and general IT controls related to identified IT applications and other aspects of the IT environment

A179a. Understanding the risks arising from the use of IT and the general IT controls implemented by the entity to address those risks may affect:

- The auditor's decision about whether to test the operating effectiveness of controls to address risks of material misstatement at the assertion level;

Example:

When general IT controls are not designed effectively or appropriately implemented to address risks arising from the use of IT (e.g., controls do not appropriately prevent or detect unauthorized program changes or unauthorized access to IT applications), this may affect the auditor's decision to rely on automated controls within the affected IT applications.

- The auditor's assessment of control risk at the assertion level;

• **Example:**

• The ongoing operating effectiveness of an information processing control may depend on certain general IT controls that prevent or detect unauthorized program changes to the IT information processing control (i.e. program change controls over the related IT application). In such circumstances, the expected operating effectiveness (or lack thereof) of the general IT control may affect the auditor's assessment of control risk (e.g., control risk may be higher when such general IT controls are expected to be ineffective or if the auditor does not plan to test the general IT controls).

- The auditor's strategy for testing information produced by the entity that is produced by or involves information from the entity's IT applications;

Example:

When information produced by the entity to be used as audit evidence is produced by IT applications, the auditor may determine to test controls over system-generated reports, including identification and testing of the general IT controls that address risks of inappropriate or unauthorized program changes or direct data changes to the reports.

- The auditor's assessment of inherent risk at the assertion level; or

Example:

When there are significant or extensive programming changes to an IT application to address new or revised reporting requirements of the applicable financial reporting framework, this may be an indicator of the complexity of the new requirements and their effect on the entity's financial statements. When such extensive programming or data changes occur, the IT application is also likely to be subject to risks arising from the use of IT.

- The design of further audit procedures.

Example:

Information processing controls depend on general IT controls, the auditor may determine to test the operating effectiveness of the general IT controls, which will then require the design of tests of control procedures for those general IT controls. If, in the same circumstances, the auditor determines not to test the operating effectiveness of the general IT controls, or the general IT controls are expected to be ineffective, the related risks arising from the use of IT may need to be addressed through the design of substantive procedures. However, the risks arising from the use of IT may not be able to be addressed when such risks relate to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence. In such circumstances, the auditor may need to consider the implications for the audit opinion.

Identifying IT applications that are subject to risks arising from the use of IT

A180. For the IT applications relevant to the information system, understanding the nature and complexity of the specific IT processes and general IT controls that the entity has in place may assist the auditor in determining which IT applications the entity is relying upon to accurately process and maintain the integrity of information in the entity's information system. Such IT applications may be subject to risks arising from the use of IT.

A180a. Identifying the IT applications that are subject to risks arising from the use of IT involves taking into account controls identified by the auditor because such controls may involve the use of IT or rely on IT. The auditor may focus on whether an IT application includes automated controls that management is relying on and that the auditor has identified, including controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence. The auditor may

also consider how information is stored and processed in the information system relating to significant classes of transactions, account balances and disclosures and whether management is relying on general IT controls to maintain the integrity of that information.

A180b. The controls identified by the auditor may depend on system-generated reports, in which case the IT applications that produce those reports may be subject to risks arising from the use of IT. In other cases, the auditor may not plan to rely on controls over the system-generated reports and plan to directly test the inputs and outputs of such reports, in which case the auditor may not identify the related IT applications as being subject to risks arising from IT.

Scalability

A180c. The extent of the auditor's understanding of the IT processes, including the extent to which the entity has general IT controls in place, will vary with the nature and the circumstances of the entity and its IT environment, as well as based on the nature and extent of controls identified by the auditor. The number of IT applications that are subject to risks arising from the use of IT also will vary based on these factors.

Examples:

- An entity that uses commercial software and does not have access to the source code to make any program changes is unlikely to have a process for program changes, but may have a process or procedures to configure the software (e.g., the chart of accounts, reporting parameters or thresholds). In addition, the entity may have a process or procedures to manage access to the application (e.g., a designated individual with administrative access to the commercial software). In such circumstances, the entity is unlikely to have or need formalized general IT controls.
- In contrast, a larger entity may rely on IT to a great extent and the IT environment may involve multiple IT applications and the IT processes to manage the IT environment may be complex (e.g., dedicated IT department exists that develops and implements program changes and manages access rights), including that the entity has implemented formalized general IT controls over its IT processes.
- When management is not relying on automated controls or general IT controls to process transactions or maintain the data, and the auditor has not identified any automated controls or other information processing controls (or any that depend on general IT controls), the auditor may plan to directly test any information produced by the entity involving IT and may not identify any IT applications that are subject to risks arising from the use of IT.
- When management relies on an IT application to process or maintain data and the volume of data is significant, and management relies upon the IT application to perform automated controls that the auditor has also identified, the IT application is likely to be subject to risks arising from the use of IT.

A180d. When an entity has greater complexity in its IT environment, identifying the IT applications and other aspects of the IT environment, determining the related risks arising from the use of IT, and identifying general IT controls is likely to require the involvement of team members with specialized

skills in IT. Such involvement is likely to be essential, and may need to be extensive, for complex IT environments.

Identifying other aspects of the IT environment that are subject to risks arising from the use of IT

A188. The other aspects of the IT environment that may be subject to risks arising from the use of IT include the network, operating system and databases, and in certain circumstances interfaces between IT applications. Other aspects of the IT environment are also not identified when the auditor does not identify IT applications that are subject to risks arising from the use of IT. When the auditor has identified IT applications that are subject to risks arising from IT, other aspects of the IT environment (e.g., database, operating system, network) are likely to be identified because such aspects support and interact with the identified IT applications.

Identifying Risks Arising from the Use of IT and General IT Controls (Ref: Para. 39(c))

Appendix 6 sets out considerations for understanding general IT controls.

A188a. In identifying the risks arising from the use of IT, the auditor may consider the nature of the identified IT application or other aspect of the IT environment and the reasons for it being subject to risks arising from the use of IT. For some identified IT applications or other aspects of the IT environment, the auditor may identify applicable risks arising from the use of IT that relate primarily to unauthorized access or unauthorized program changes, as well as that address risks related to inappropriate data changes (e.g., the risk of inappropriate changes to the data through direct database access or the ability to directly manipulate information).

A189. The extent and nature of the applicable risks arising from the use of IT vary depending on the nature and characteristics of the identified IT applications and other aspects of the IT environment. Applicable IT risks may result when the entity uses external or internal service providers for identified aspects of its IT environment (e.g., outsourcing the hosting of its IT environment to a third party or using a shared service center for central management of IT processes in a group). Applicable risks arising from the use of IT may also be identified related to cybersecurity. It is more likely that there will be more risks arising from the use of IT when the volume or complexity of automated application controls is higher and management is placing greater reliance on those controls for effective processing of transactions or the effective maintenance of the integrity of underlying information.

Evaluating the Design, and Determining Implementation of, Identified Controls in the Control Activities Component (Ref: Para 39(d))

A194. Evaluating the design of an identified control involves the auditor's consideration of whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements (i.e., the control objective).

A194a. The auditor determines the implementation of an identified control by establishing that the control exists and that the entity is using it. There is little point in the auditor assessing the implementation of a control that is not designed effectively. Therefore, the auditor evaluates the design of a control first. An improperly designed control may represent a control deficiency.

A198. Risk assessment procedures to obtain audit evidence about the design and implementation of identified controls in the control activities component may include:

- Inquiring of entity personnel.
- Observing the application of specific controls.
- Inspecting documents and reports.

Inquiry alone, however, is not sufficient for such purposes.

A198a. The auditor may conclude that a control, which is effectively designed and implemented, may be appropriate to test in order to take its operating effectiveness into account in designing substantive procedures. However, when a control is not designed or implemented effectively, there is no benefit in testing it. When the auditor plans to test a control, the information obtained about the extent to which the control addresses the risk(s) of material misstatement is an input to the auditor's control risk assessment at the assertion level.

A199. Evaluating the design and determining the implementation of identified controls in the control activities component is not sufficient to test their operating effectiveness. However, for automated controls, the auditor may plan to test the operating effectiveness of automated controls by identifying and testing general IT controls that provide for the consistent operation of an automated control instead of performing tests of operating effectiveness on the automated controls directly. Obtaining audit evidence about the implementation of a manual control at a point in time does not provide audit evidence about the operating effectiveness of the control at other times during the period under audit. Tests of the operating effectiveness of controls, including tests of indirect controls, are further described in ISA 330.⁴⁵

A200. When the auditor does not plan to test the operating effectiveness of identified controls, the auditor's understanding may still assist in the design of the nature, timing and extent of substantive audit procedures that are responsive to the related risks of material misstatement.

Example:

The results of these risk assessment procedures may inform the auditor's consideration of possible deviations in a population when designing audit samples.

Control Deficiencies Within the Entity's System of Internal Control (Ref: Para. 43)

A200a. In performing the evaluations of each of the components of the entity's system of internal control,⁴⁶ the auditor may determine that certain of the entity's policies in a component are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that assists the auditor in identifying control deficiencies.

⁴⁵ ISA 330, paragraphs 8–11

⁴⁶ Paragraphs 28(b), 30(b), 31A(c), 36(c) and 39(d)

A200c. If the auditor has identified one or more control deficiencies, ISA 265⁴⁷ requires the auditor to determine whether, individually or in combination, the deficiencies constitute a significant deficiency. The auditor uses professional judgment in determining whether a deficiency represents a significant control deficiency.⁴⁸

Examples:

Circumstances that may indicate a significant control deficiency exists include matters such as:

- The identification of fraud of any magnitude that involves senior management;
- Identified internal processes that are inadequate relating to the reporting and communication of deficiencies noted by internal audit;
- Previously communicated deficiencies that are not corrected by management in a timely manner;
- Failure by management to respond to significant risks, for example, by not implementing controls over significant risks; and
- The restatement of previously issued financial statements.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 45–54)

Why the Auditor Identifies and Assesses the Risks of Material Misstatement

A201. Risks of material misstatement are identified and assessed by the auditor in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk.

A201a. Information gathered by performing risk assessment procedures is used as audit evidence to provide the basis for the identification and assessment of the risks of material misstatement. For example, the audit evidence obtained when evaluating the design of identified controls and determining whether those controls have been implemented, in the control activities component, is used as audit evidence to support the risk assessment. The basis for the risk assessment also provides evidence for the basis for the auditor to design overall responses to address the assessed risks of material misstatement at the financial statement level, as well as the nature, timing and extent of further audit procedures to be performed in accordance with ISA 330.

A202a. Identifying the risks of material misstatement also provides the basis for the auditor's determination of relevant assertions, which assists the auditor's determination of the significant classes of transactions, account balances and disclosures.

⁴⁷ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraph 8

⁴⁸ ISA 265, paragraphs A6–A7 set out indicators of significant deficiencies, and matters to be considered in determining whether a deficiency, or a combination of deficiencies, in internal control constitute a significant deficiency.

Assertions

Why the Auditor Uses Assertions

A202b. In identifying and assessing the risks of material misstatement, the auditor uses assertions to consider the different types of potential misstatements that may occur. Assertions for which the auditor has identified related risks of material misstatement are relevant assertions.

The Use of Assertions

A203. In identifying and assessing the risks of material misstatement, the auditor may use the assertions as described in paragraph A204(a)–(b) below or may express them differently provided all aspects described below have been covered. The auditor may choose to combine the assertions about classes of transactions and events, and related disclosures, with the assertions about account balances, and related disclosures.

A204. Assertions used by the auditor in considering the different types of potential misstatements that may occur may fall into the following categories:

- (a) Assertions about classes of transactions and events, and related disclosures, for the period under audit:
 - (i) Occurrence—transactions and events that have been recorded or disclosed, have occurred, and such transactions and events pertain to the entity.
 - (ii) Completeness—all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.
 - (iii) Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.
 - (iv) Cutoff—transactions and events have been recorded in the correct accounting period.
 - (v) Classification—transactions and events have been recorded in the proper accounts.
 - (vi) Presentation—transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.
- (b) Assertions about account balances, and related disclosures, at the period end:
 - (i) Existence—assets, liabilities, and equity interests exist.
 - (ii) Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
 - (iii) Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.

- (iv) Accuracy, valuation and allocation—assets, liabilities, and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.
- (v) Classification—assets, liabilities and equity interests have been recorded in the proper accounts.
- (vi) Presentation—assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

A205. The assertions described in paragraph A204(a)–(b) above, adapted as appropriate, may also be used by the auditor in considering the different types of misstatements that may occur in disclosures not directly related to recorded classes of transactions, events, or account balances.

Example:

An example of such a disclosure includes where the entity may be required by the applicable financial reporting framework to describe its exposure to risks arising from financial instruments, including how the risks arise; the objectives, policies and processes for managing the risks; and the methods used to measure the risks.

Considerations Specific to Public Sector Entities

A206. When making assertions about the financial statements of public sector entities, in addition to those assertions set out in paragraph A204(a)–(b), management may often assert that transactions and events have been carried out in accordance with law, regulation or other authority. Such assertions may fall within the scope of the financial statement audit.

Risks of Material Misstatement at the Financial Statement Level (Ref: Para. 45(a) and Para. 47)

Why the Auditor Identifies and Assesses Risks of Material Misstatement at the Financial Statement Level

A206a. The auditor identifies risks of material misstatement at the financial statement level to determine whether the risks have a pervasive effect on the financial statements, and would therefore require an overall response in accordance with ISA 330.⁴⁹

A206aa. In addition, risks of material misstatement at the financial statement level may also affect individual assertions, and identifying these risks may assist the auditor in assessing risks of material misstatement at the assertion level, and in designing further audit procedures to address the identified risks.

⁴⁹ ISA 330, paragraph 5

Identifying and Assessing Risks of Material Misstatement at the Financial Statement Level

A207. Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole, and potentially affect many assertions. Risks of this nature are not necessarily risks identifiable with specific assertions at the class of transactions, account balance, or disclosure level (e.g., risk of management override of controls). Rather, they represent circumstances that may pervasively increase the risks of material misstatement at the assertion level. The auditor's evaluation of whether risks identified relate pervasively to the financial statements supports the auditor's assessment of the risks of material misstatement at the financial statement level. In other cases, a number of assertions may be identified as susceptible to the risk, and may therefore affect the auditor's risk identification and assessment of risks of material misstatement at the assertion level.

Example:

The entity faces operating losses and liquidity issues and is reliant on funding that has not yet been secured. In such a circumstance, the auditor may determine that the going concern basis of accounting gives rise to a risk of material misstatement at the financial statement level. In this situation, the accounting framework may need to be applied using a liquidation basis, which would likely affect all assertions pervasively.

A207a. The auditor's identification and assessment of risks of material misstatement at the financial statement level is influenced by the auditor's understanding of the entity's system of internal control, in particular the auditor's understanding of the control environment, the entity's risk assessment process and the entity's process to monitor the system of internal control, and:

- The outcome of the related evaluations required by paragraphs 28(b), 30(b) and 31A(c); and
- Any control deficiencies identified in accordance with paragraph 43.

In particular, risks at the financial statement level may arise from deficiencies in the control environment or from external events or conditions such as declining economic conditions.

A207b. Risks of material misstatement due to fraud may be particularly relevant to the auditor's consideration of the risks of material misstatement at the financial statement level.

Example:

The auditor understands from inquiries of management that the entity's financial statements are to be used in discussions with lenders in order to secure further financing to maintain working capital. The auditor may therefore determine that there is a greater susceptibility to misstatement due to other fraud risk factors (i.e., the susceptibility of the financial statements to material misstatement because of the risk of fraudulent financial reporting, such as overstatement of assets and revenue and under-statement of liabilities and expenses to ensure that financing will be obtained).

A207c. The auditor's understanding, including the related evaluations, of the control environment and other components of the system of internal control may raise doubts about the ability of the financial

statements to be audited, such that it may affect the auditor's expectations about the ability to obtain audit evidence on which to base the audit opinion or be cause for withdrawal from the engagement.

Examples:

- In evaluating the entity's control environment, the auditor has concerns about the integrity of the entity's management, which may be so serious as to cause the auditor to conclude that the risk of management misrepresentation in the financial statements is such that an audit cannot be conducted.
- In evaluating the entity's information system and communication, the auditor determines that significant changes in the IT environment have been poorly managed, with little oversight from management and those charged with governance. The auditor concludes that there are significant concerns about the condition and reliability of the entity's accounting records. In such circumstances, the auditor may determine that it is unlikely that sufficient appropriate audit evidence will be available to support an unmodified opinion on the financial statements.

A207d. ISA 705 (Revised)⁵⁰ establishes requirements and provides guidance in determining whether there is a need for the auditor to express a qualified opinion or disclaim an opinion or, as may be required in some cases, to withdraw from the engagement where withdrawal is possible under applicable law or regulation.

Considerations Specific to Public Sector Entities

A207e. For public sector entities, the identification of risks at the financial statement level may include consideration of matters related to the political climate, public interest and program sensitivity.

Risks of Material Misstatement at the Assertion Level (Ref: Para. 45(b))

Appendix 2 sets out examples, in the context of the inherent risk factors, of events and conditions that may indicate susceptibility to misstatement that may be material.

A208. Risks of material misstatements that do not relate pervasively to the financial statements are risks of material misstatement at the assertion level.

A208a. The identification of risks of material misstatement at the assertion level is performed before consideration of any related controls, and is based on the auditor's consideration of those misstatements that could (i.e., have a reasonable possibility to) occur, and be material if they were to occur.⁵¹

⁵⁰ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁵¹ Proposed ISA 200, paragraphs 13(n) and A51a

Relevant Assertions and Significant Classes of Transactions, Account Balances and Disclosures (Ref: Para. 46)

Why Relevant Assertions and Significant Classes of Transactions, Account Balances and Disclosures are Determined

A211. In determining the relevant assertions, the auditor considers the information gathered from the auditor's risk assessment procedures to understand the entity and its environment, the applicable financial reporting framework and the entity's system of internal control (i.e, the information about the identified risks of material misstatement and the assertions that they may affect).

Automated Tools and Techniques

A213. The auditor may use automated techniques to assist in the identification of significant classes of transactions, account balances and disclosures.

Examples:

- An entire population of transactions may be analyzed using automated tools and techniques to understand their nature, source, size and volume. By applying automated techniques, the auditor may, for example, identify that an account with a zero balance at period end was comprised of numerous offsetting transactions and journal entries occurring during the period, indicating that the account balance or class of transactions may be significant (e.g., a payroll clearing account). This same payroll clearing account may also identify expense reimbursements to management (and other employees), which could be a significant disclosure due to these payments being made to related parties.
- By analyzing the flows of an entire population of revenue transactions, the auditor may more easily identify a significant class of transactions that had not previously been identified.

Disclosures that May be Significant

A214. Significant disclosures include both quantitative and qualitative disclosures for which there is one or more relevant assertions. Examples of disclosures that have qualitative aspects and that may have relevant assertions and may therefore be considered significant by the auditor include disclosures about:

- Liquidity and debt covenants of an entity in financial distress.
- Events or circumstances that have led to the recognition of an impairment loss.
- Key sources of estimation uncertainty, including assumptions about the future.
- The nature of a change in accounting policy, and other relevant disclosures required by the applicable financial reporting framework, where, for example, new financial reporting requirements are expected to have a significant impact on the financial position and financial performance of the entity.
- Share-based payment arrangements, including information about how any amounts recognized were determined, and other relevant disclosures.

- Related parties, and related party transactions.
- Sensitivity analysis, including the effects of changes in assumptions used in the entity's valuation techniques intended to enable users to understand the underlying measurement uncertainty of a recorded or disclosed amount.

Assessing Risks of Material Misstatement at the Assertion Level

Assessing Inherent Risk (Ref: Para. 48–50)

Assessing the likelihood and magnitude of the risks of material misstatement at the assertion level (Ref: Para: 48)

Why the auditor assesses likelihood and magnitude of risks of material misstatement at the assertion level

A220a. The auditor assesses the likelihood and magnitude of material misstatement for identified risks of material misstatement because the significance of the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur determines where on the spectrum of inherent risk the identified risk is assessed, which informs the auditor's design of further audit procedures to address the risk.

A220b. Assessing the inherent risk of identified risks of material misstatement also assists the auditor in determining significant risks. The auditor determines significant risks because specific responses to significant risks are required in accordance with ISA 330 and other ISAs.

A221. The inherent risk factors influence the auditor's assessment of the likelihood and magnitude of misstatement for the identified risks of material misstatement at the assertion level. The greater the degree to which a class of transactions, account balance or disclosures is susceptible to material misstatement, the higher the inherent risk assessment is likely to be. Considering the influence of the inherent risk factors assists the auditor in appropriately assessing the risks of material misstatement and designing a more precise response to an assessed risk of material misstatement.

Spectrum of inherent risk

A221a. In assessing inherent risk, the auditor uses professional judgment in determining the significance of the combination of the likelihood and magnitude of a misstatement.

A221b. The assessed inherent risk relating to a particular risk of material misstatement at the assertion level represents a judgment within a range, from lower to higher, on the spectrum of inherent risk. The judgment about where in the range the inherent risk is assessed may vary based on the nature, size and complexity of the entity, and takes into account the assessed likelihood and magnitude of the misstatement and the inherent risk factors.

A222. In considering the magnitude of a misstatement, the auditor considers the qualitative and quantitative aspects of the possible misstatement (i.e., misstatements in assertions about classes of transactions, account balances or disclosures may be judged to be material due to size, nature or circumstances).

A222a. The auditor uses the significance of the combination of the likelihood and magnitude of a possible misstatement to assist in determining where on the spectrum of inherent risk (i.e., the range) inherent risk is assessed. The higher the combination of likelihood and magnitude, the higher the assessment

of inherent risk; the lower the combination of likelihood and magnitude, the lower the assessment of inherent risk.

A222b. For a risk to be assessed as higher on the spectrum of inherent risk, it does not mean that both the magnitude and likelihood need to be assessed as high. Rather, it is the intersection of the magnitude and likelihood of the material misstatement on the spectrum of inherent risk that will determine whether the assessed inherent risk is higher or lower on the spectrum of inherent risk. A higher inherent risk assessment may also arise from different combinations of likelihood and magnitude, for example a higher inherent risk assessment could result from a lower likelihood but a very high magnitude.

A225. In order to develop appropriate strategies for responding to risks of material misstatement, the auditor may designate risks of material misstatement within categories along the spectrum of inherent risk, based on their assessment of inherent risk. These categories may be described in different ways. Regardless of the method of categorization used, the auditor's assessment of inherent risk is appropriate when the design and implementation of further audit procedures to address the identified risks of material misstatement at the assertion level is appropriately responsive to the assessment of inherent risk and the reasons for that assessment.

Pervasive Risks of Material Misstatement at the Assertion Level (Ref: Para 48(a))

A226. In assessing the identified risks of material misstatement at the assertion level, the auditor may conclude that some risks of material misstatement relate more pervasively to the financial statements as a whole and potentially affect many assertions, in which case the auditor may update the identification of risks of material misstatement at the financial statement level.

A227. In circumstances in which risks of material misstatement are identified as financial statement level risks due to their pervasive effect on a number of assertions, and are identifiable with specific assertions, the auditor is required to take into account those risks when assessing the inherent risk for risks of material misstatement at the assertion level.

Considerations Specific to Public Sector Entities

A228. In exercising professional judgment as to the assessment of the risk of material misstatement, public sector auditors may consider the complexity of the regulations and directives, and the risks of non-compliance with authorities.

Significant Risks (Ref: Para. 49)

Why significant risks are determined and the implications for the audit

A228a. The significance of a risk of material misstatement at the assertion level is considered in the context of the implications of the assessment of its inherent risk for the performance of the audit, including the nature, timing and extent of the auditor's further audit procedures, and the persuasiveness of the audit evidence that will be required to reduce audit risk to an acceptably low level. When a risk is determined to be a significant risk, the design and implementation of an appropriate response to address the assessed risk may include, for example, the use of more experienced engagement team

members, including those with specialized skills, to perform audit procedures or audit work may involve the use of experts. In addition, the ISAs set out required responses, including:

- Controls that address significant risks are required to be identified in accordance with paragraph 39(a)(i), with a requirement to evaluate whether the control has been designed effectively and implemented in accordance with paragraph 39(d).
- ISA 330 requires controls that address significant risks to be tested in the current period (when the auditor intends to rely on the operating effectiveness of such controls) and substantive procedures to be planned and performed that are specifically responsive to the identified significant risk.⁵²
- ISA 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of risk.⁵³
- ISA 260 (Revised) requires communicating with those charged with governance about the significant risks identified by the auditor.⁵⁴
- ISA 701 requires the auditor to take into account significant risks when determining those matters that required significant auditor attention, which are matters that may be key audit matters.⁵⁵
- Review of audit documentation by the engagement partner on or before the date of the auditor's report which allows significant matters, including significant risks, to be resolved on a timely basis to the engagement partner's satisfaction.⁵⁶
- ISA 600 requires more involvement by the group engagement partner if the significant risk relates to a component in a group audit and for the group engagement team to direct the work required at the component by the component auditor.⁵⁷

A229. Required responses to significant risks may also be appropriate for risks assessed as higher on the spectrum of inherent risk where there is a reasonable possibility that the assessed risks could be significant risks but that the auditor has determined is not a significant risk.

Determining significant risks

A229a. In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity, and will not necessarily be the same for an entity period

⁵² ISA 330, paragraphs 15 and 21

⁵³ ISA 330, paragraph 7(b)

⁵⁴ ISA 260 (Revised), paragraph 15

⁵⁵ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraph 9

⁵⁶ ISA 220, paragraphs 17–A19

⁵⁷ ISA 600, paragraphs 30 and 31

on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed.

A229aa. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA. ISA 240 provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.⁵⁸

Example:

- Cash at a supermarket retailer would ordinarily be determined to be a high likelihood of possible misstatement (due to the risk of cash being misappropriated), however the magnitude would typically be very low (due to the low levels of physical cash handled in the stores). The combination of these two factors on the spectrum of inherent risk would be unlikely to result in the existence of cash being determined to be a significant risk.
- An entity is in negotiations to sell a business segment. The auditor considers the effect on goodwill impairment, and may determine there is a higher likelihood of possible misstatement and a higher magnitude due to the impact of the inherent risk factors of judgment, uncertainty, and susceptibility to management bias or other fraud risk factors. This may result in goodwill impairment being determined to be a significant risk.

A229b. The auditor also takes into the account the relative effects of the inherent risk factors when assessing inherent risk. The lower the effect of the inherent risk factors, the lower the assessed risk is likely to be. However, risks of material misstatement that may be assessed as having higher inherent risk and may therefore be determined to be a significant risk, may arise from matters such as the following:

- Transactions for which there are multiple acceptable accounting treatments such that subjectivity is involved.
- Accounting estimates that have high estimation uncertainty or complex models.
- Complexity in data collection and processing to support account balances.
- Account balances or quantitative disclosures that involve complex calculations.
- Accounting principles that may be subject to differing interpretation.
- Changes in the entity's business that involve changes in accounting, for example, mergers and acquisitions.

⁵⁸ ISA 240, paragraphs 26–28

Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence (Ref: Para. 51)

Why risks for which substantive procedures alone do not provide sufficient appropriate audit evidence are required to be identified

A231a. Due to the nature of a risk of material misstatement, and the control activities that address that risk, in some circumstances the only way to obtain sufficient appropriate audit evidence is to test the operating effectiveness of controls. Accordingly, there is a requirement for the auditor to identify any such risks because of the implications for the design and performance of further audit procedures in accordance with ISA 330 to address risks of material misstatement at the assertion level.

A231b. Paragraph 39(a)(iv) also requires the identification of controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence because the auditor is required, in accordance with ISA 330,⁵⁹ to design and perform tests of such controls.

Determining risks for which substantive procedures alone do not provide sufficient appropriate audit evidence

A231d. Where routine business transactions are subject to highly automated processing with little or no manual intervention, it may not be possible to perform only substantive procedures in relation to the risk. This may be the case in circumstances where a significant amount of an entity's information is initiated, recorded, processed, or reported only in electronic form such as in an information system that involves a high-degree of integration across its IT applications. In such cases:

- Audit evidence may be available only in electronic form, and its sufficiency and appropriateness usually depend on the effectiveness of controls over its accuracy and completeness.
- The potential for improper initiation or alteration of information to occur and not be detected may be greater if appropriate controls are not operating effectively.

Example:

It is typically not possible to obtain sufficient appropriate audit evidence relating to revenue for a telecommunications entity based on substantive procedures alone. This is because the evidence of call or data activity does not exist in a form that is observable. Instead, substantial controls testing is typically performed to determine that the origination and completion of calls, and data activity is correctly captured (e.g., minutes of a call or volume of a download) and recorded correctly in the entity's billing system.

A231e. ISA 540 (Revised) provides further guidance related to accounting estimates about risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.⁶⁰ In relation to accounting estimates this may not be limited to automated processing, but may also be applicable to complex models.

⁵⁹ ISA 330, paragraph 8

⁶⁰ ISA 540 (Revised), paragraphs A87–A89

Assessing Control Risk (Ref: Para. 51)

A232. The auditor's plans to test the operating effectiveness of controls is based on the expectation that controls are operating effectively, and this will form the basis of the auditor's assessment of control risk. The initial expectation of the operating effectiveness of controls is based on the auditor's evaluation of the design, and the determination of implementation, of the identified controls in the control activities component. Once the auditor has tested the operating effectiveness of the controls in accordance with ISA 330, the auditor will be able to confirm the initial expectation about the operating effectiveness of controls. If the controls are not operating effectively as expected, then the auditor will need to revise the control risk assessment in accordance with paragraph 53.

A233. The auditor's assessment of control risk may be performed in different ways depending on preferred audit techniques or methodologies, and may be expressed in different ways.

A234. If the auditor plans to test the operating effectiveness of controls, a combination of controls may be necessary to test to address the assessed inherent risk for the risk of material misstatement. The auditor may expect to test both direct and indirect controls, including general IT controls, and, if so, takes into account the combined expected effect of the controls when assessing control risk. If the control to be tested does not fully address the assessed inherent risk of the risk of material misstatement, the auditor determines the implications on the design of further audit procedures to reduce audit risk to an acceptably low level.

A235a. When the auditor plans to test the operating effectiveness of an automated control, the auditor may also plan to test the operating effectiveness of the relevant general IT controls that support the continued functioning of that automated control to address the risks arising from the use of IT, and to provide a basis for the auditor's expectation that the automated control operated effectively throughout the period. When the auditor expects related general IT controls to be ineffective, this determination may affect the auditor's assessment of control risk at the assertion level and the auditor's further audit procedures may need to include substantive procedures to address the applicable risks arising from the use of IT. Further guidance about the procedures that the auditor may perform in these circumstances is provided in ISA 330.⁶¹

Evaluating Audit Evidence Obtained from Risk Assessment Procedures (Ref: Para 51A)

Why the Auditor Evaluates Audit Evidence from Risk Assessment Procedures

A239a. Audit evidence obtained from performing risk assessment procedures provides the basis for the identification and assessment of the risk of material misstatement, which provides the basis for the auditor's design of the nature, timing and extent of further audit procedures in accordance with ISA 330. Accordingly, the auditor's consideration of the nature and sufficiency of audit evidence from the risk assessment procedures is important to support the appropriateness of the auditor's risk assessments.

⁶¹ ISA 330, paragraphs A29–A31

The Evaluation of the Audit Evidence

A239aa. Audit evidence from risk assessment procedures comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions.⁶² Obtaining audit evidence from risk assessment procedures in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.

Professional skepticism

A239c. In evaluating the audit evidence from the risk assessment procedures, the auditor considers whether sufficient understanding about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control has been obtained to be able to identify the risks of material misstatement, as well as whether there is any evidence that is contradictory that may indicate a risk of material misstatement.

Classes of Transactions, Account Balances and Disclosures that are Not Significant, but are Material (Ref: Para. 52)

A240. As explained in ISA 320,⁶³ materiality and audit risk are considered when identifying and assessing the risks of material misstatement in classes of transactions, account balances and disclosures. The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial reporting needs of users of the financial statements.⁶⁴ For the purpose of this ISA and paragraph 18 of ISA 330, classes of transactions, account balances or disclosures are material if omitting, misstating or obscuring information about them could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole.

A241. There may be classes of transactions, account balances or disclosures that are material but have not been determined to be significant classes of transactions, account balances or disclosures (i.e., there are no relevant assertions identified).

Example:

The entity may have a disclosure about executive compensation for which the auditor has not identified a risk of material misstatement. However, the auditor may determine that this disclosure is material based on the considerations in paragraph A240.

A242. Audit procedures to address classes of transactions, account balances or disclosures that are material but are not determined to be significant are addressed in ISA 330.⁶⁵ When a class of transactions, account balance or disclosure is determined to be significant as required by paragraph

⁶² ISA 500, paragraph A1

⁶³ ISA 320, paragraph A1

⁶⁴ ISA 320, paragraph 4

⁶⁵ ISA 330, paragraph 18

46, the class of transactions, account balance or disclosure is also treated as a material class of transactions, account balance or disclosure for the purposes of paragraph 18 of ISA 330.

Revision of Risk Assessment (Ref: Para. 53)

A243. During the audit, information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based.

Example:

The entity's risk assessment may be based on an expectation that certain controls are operating effectively. In performing tests of those controls, the auditor may obtain audit evidence that they were not operating effectively at relevant times during the audit. Similarly, in performing substantive procedures the auditor may detect misstatements in amounts or frequency greater than is consistent with the auditor's risk assessments. In such circumstances, the risk assessment may not appropriately reflect the true circumstances of the entity and the further planned audit procedures may not be effective in detecting material misstatements. Paragraphs 16 and 17 of ISA 330 provide further guidance about evaluating the operating effectiveness of controls.

Documentation (Ref: Para. 54)

Scalability

A244. The manner in which the requirements of paragraph 54 are documented is for the auditor to determine using professional judgment.

A245. More detailed documentation, that is sufficient to enable an experienced auditor, having no previous experience with the audit, to understand the nature, timing and extent of the audit procedures performed, may be required to support the rationale for difficult judgments made.

A246. For the audits of less complex entities, the form and extent of documentation may be simple in form and relatively brief. The form and extent of the auditor's documentation is influenced by the nature, size and complexity of the entity and its system of internal control, availability of information from the entity and the audit methodology and technology used in the course of the audit. It is not necessary to document the entirety of the auditor's understanding of the entity and matters related to it. Key elements⁶⁶ of understanding documented by the auditor may include those on which the auditor based the assessment of the risks of material misstatement. However, the auditor is not required to document every inherent risk factor that was taken into account in identifying and assessing the risks of material misstatement at the assertion level.

⁶⁶ ISA 230, paragraph 8

Example:

In audits of less complex entities the documentation may be incorporated in the auditor's documentation of the overall strategy and audit plan.⁶⁷ Similarly, for example, the results of the risk assessment may be documented separately, or may be documented as part of the auditor's documentation of further audit procedures.⁶⁸

A247. For recurring audits, certain documentation may be carried forward, updated as necessary to reflect changes in the entity's business or processes.

A248. Paragraph A7 of ISA 230 notes that, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism. For example, when the audit evidence obtained from risk assessment procedures includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in evaluating whether the audit evidence provides an appropriate basis for the auditor's identification and assessment of the risks of material misstatement. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

- Paragraph 22, which requires a discussion among key engagement team members of the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement;
- Paragraphs 23 (b) and 24, which require the auditor to obtain an understanding of the reasons for any changes to the entity's accounting policies and to evaluate whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework;
- Paragraphs 28 (b), 30 (b), 31 (b), 31A (b), 36 (c), 39 (d) and 43, which require the auditor to evaluate, based on the required understanding obtained, whether the components of the entity's system of internal control are appropriate to the entity's circumstances considering the nature and size of the entity, and to determine whether one or more control deficiencies have been identified;
- Paragraph 51A, which requires the auditor to take into account all audit evidence obtained from risk assessment procedures, whether corroborative or contradictory to assertions made by management, and to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement; and
- Paragraph 52, which requires the auditor to evaluate, when applicable, whether the auditor's determination that there are no risks of material misstatement for a material class of transactions, account balance or disclosure.

⁶⁷ ISA 300, *Planning an Audit of Financial Statements*, paragraphs 7 and 9

⁶⁸ ISA 330, paragraph 28

Appendix 1

(Ref: Para. A52–A63)

Considerations for Understanding the Entity and its Business Model

This appendix explains the objectives and scope of the entity's business model and provides examples of matters that the auditor may consider in understanding the activities of the entity that may be included in the business model. The auditor's understanding of the entity's business model, and how it is affected by its business strategy and business objectives, may assist the auditor in identifying business risks that may have an effect on the financial statements. In addition, this may assist the auditor in identifying risks of material misstatement.

Objectives and Scope of an Entity's Business Model

1. An entity's business model describes how an entity considers, for example its organizational structure, operations or scope of activities, business lines (including competitors and customers thereof), processes, growth opportunities, globalization, regulatory requirements and technologies. The entity's business model describes how the entity creates, preserves and captures financial or broader value, such as public benefits, for its stakeholders.
2. Strategies are the approaches by which management plans to achieve the entity's objectives, including how the entity plans to address the risks and opportunities that it faces. An entity's strategies are changed over time by management, to respond to changes in its objectives and in the internal and external circumstances in which it operates.
3. A description of a business model typically includes:
 - The scope of the entity's activities, and why it does them.
 - The entity's structure and scale of its operations.
 - The markets or geographical or demographic spheres, and parts of the value chain, in which it operates, how it engages with those markets or spheres (main products, customer segments and distribution methods), and the basis on which it competes.
 - The entity's business or operating processes (e.g., investment, financing and operating processes) employed in performing its activities, focusing on those parts of the business processes that are important in creating, preserving or capturing value.
 - The resources (e.g., financial, human, intellectual, environmental and technological) and other inputs and relationships (e.g., customers, competitors, suppliers and employees) that are necessary or important to its success.
 - How the entity's business model integrates the use of IT in its interactions with customers, suppliers, lenders and other stakeholders through IT interfaces and other technologies.
4. A business risk may have an immediate consequence for the risk of material misstatement for classes of transactions, account balances, and disclosures at the assertion level or the financial statement

level. For example, the business risk arising from a significant fall in real estate market values may increase the risk of material misstatement associated with the valuation assertion for a lender of medium-term real estate backed loans. However, the same risk, particularly in combination with a severe economic downturn that concurrently increases the underlying risk of lifetime credit losses on its loans, may also have a longer-term consequence. The resulting net exposure to credit losses may cast significant doubt on the entity's ability to continue as a going concern. If so, this could have implications for management's, and the auditor's, conclusion as to the appropriateness of the entity's use of the going concern basis of accounting, and determination as to whether a material uncertainty exists. Whether a business risk may result in a risk of material misstatement is, therefore, considered in light of the entity's circumstances. Examples of events and conditions that may indicate risks of material misstatement are indicated in **Appendix 2**.

Activities of the Entity

5. Examples of matters that the auditor may consider when obtaining an understanding of the activities of the entity (included in the entity's business model) include:
 - (a) Business operations such as:
 - Nature of revenue sources, products or services, and markets, including involvement in electronic commerce such as Internet sales and marketing activities.
 - Conduct of operations (for example, stages and methods of production, or activities exposed to environmental risks).
 - Alliances, joint ventures, and outsourcing activities.
 - Geographic dispersion and industry segmentation.
 - Location of production facilities, warehouses, and offices, and location and quantities of inventories.
 - Key customers and important suppliers of goods and services, employment arrangements (including the existence of union contracts, pension and other post-employment benefits, stock option or incentive bonus arrangements, and government regulation related to employment matters).
 - Research and development activities and expenditures.
 - Transactions with related parties.
 - (b) Investments and investment activities such as:
 - Planned or recently executed acquisitions or divestitures.
 - Investments and dispositions of securities and loans.
 - Capital investment activities.
 - Investments in non-consolidated entities, including partnerships, joint ventures and special-purpose entities.

- (c) Financing and financing activities such as:
- Ownership structure of major subsidiaries and associated entities, including consolidated and non-consolidated structures.
 - Debt structure and related terms, including off-balance-sheet financing arrangements and leasing arrangements.
 - Beneficial owners (local, foreign, business reputation and experience) and related parties.
 - Use of derivative financial instruments.

Nature of Special-Purpose Entities

6. A special-purpose entity (sometimes referred to as a special-purpose vehicle) is an entity that is generally established for a narrow and well-defined purpose, such as to effect a lease or a securitization of financial assets, or to carry out research and development activities. It may take the form of a corporation, trust, partnership or unincorporated entity. The entity on behalf of which the special-purpose entity has been created may often transfer assets to the latter (for example, as part of a derecognition transaction involving financial assets), obtain the right to use the latter's assets, or perform services for the latter, while other parties may provide the funding to the latter. As ISA 550 indicates, in some circumstances, a special-purpose entity may be a related party of the entity.⁶⁹
7. Financial reporting frameworks often specify detailed conditions that are deemed to amount to control, or circumstances under which the special-purpose entity should be considered for consolidation. The interpretation of the requirements of such frameworks often demands a detailed knowledge of the relevant agreements involving the special-purpose entity.

⁶⁹ ISA 550, paragraph A7

Appendix 2

(Ref: Para. 16(f), 23(c), A5-A6, A88a-A88d)

Understanding the Inherent Risk Factors

This appendix provides further explanation about the inherent risk factors, as well as matters that the auditor may consider in understanding and applying the inherent risk factors in identifying and assessing the risks of material misstatement at the assertion level.

The Inherent Risk Factors

1. The inherent risk factors are characteristics of events or conditions that affect susceptibility to misstatement, whether due to fraud or error, of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors⁷⁰ insofar as they affect inherent risk. In obtaining the understanding of the entity and its environment, and the applicable financial reporting framework, in accordance with paragraph 23(a) and (b), the auditor considers the inherent risk factors that affect susceptibility to misstatement of assertions, and how they do so, in the preparation of the financial statements.
2. Inherent risk factors relating to the preparation of information required by the applicable financial reporting framework (referred to in this paragraph as “required information”) include:
 - *Complexity*—arises either from the nature of the information or in the way that the required information is prepared, including when such preparation processes are more inherently difficult to apply. For example, complexity may arise:
 - In calculating supplier rebate provisions because it may be necessary to take into account different commercial terms with many different suppliers, or many interrelated commercial terms that are all relevant in calculating the rebates due; or
 - When there are many potential data sources, with different characteristics used in making an accounting estimate, the processing of that data involves many inter-related steps, and the data is therefore inherently more difficult to identify, capture, access, understand or process.
 - *Subjectivity*—arises from inherent limitations in the ability to prepare required information in an objective manner, due to limitations in the availability of knowledge or information, such that management may need to make an election or subjective judgment about the appropriate approach to take and about the resulting information to include in the financial statements. Because of different approaches to preparing the required information, different outcomes could result from appropriately applying the requirements of the applicable financial reporting framework. As limitations in knowledge or data increase, the subjectivity in the judgments that could be made by reasonably knowledgeable and independent individuals, and the diversity in possible outcomes of those judgments will also increase.

⁷⁰ ISA 240, paragraphs A24–A27

- *Change*—results from events or conditions that, over time, affect the entity’s business or the economic, accounting, regulatory, industry or other aspects of the environment in which it operates, when the effects of those events or conditions are reflected in the required information. Such events or conditions may occur during, or between, financial reporting periods. For example, change may result from developments in the requirements of the applicable financial reporting framework, or in the entity and its business model, or in the environment in which the entity operates. Such change may affect management’s assumptions and judgments, including as they relate to management’s selection of accounting policies or how accounting estimates are made or related disclosures are determined.
 - *Uncertainty*—arises when the required information cannot be prepared based only on sufficiently precise and comprehensive data that is verifiable through direct observation. In these circumstances, an approach may need to be taken that applies the best available knowledge to prepare the information using sufficiently precise and comprehensive observable data, to the extent available, and reasonable assumptions supported by the best available data, when it is not. Constraints on the availability of knowledge or data, which are not within the control of management (subject to cost constraints where applicable) are sources of uncertainty and their effect on the preparation of the required information cannot be eliminated. For example, estimation uncertainty arises when the required monetary amount cannot be determined with precision and the outcome of the estimate is not known before the date the financial statements are finalized.
 - *Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk*—susceptibility to management bias results from conditions that create susceptibility to intentional or unintentional failure by management to maintain neutrality in preparing the information. Management bias is often associated with certain conditions that have the potential to give rise to management not maintaining neutrality in exercising judgment (indicators of potential management bias), which could lead to a material misstatement of the information that would be fraudulent if intentional. Such indicators include incentives or pressures insofar as they affect inherent risk (for example, as a result of motivation to achieve a desired result, such as a desired profit target or capital ratio), and opportunity, not to maintain neutrality. Factors relevant to the susceptibility to misstatement due to fraud in the form of fraudulent financial reporting or misappropriation of assets are described in paragraphs A1 to A5 of ISA 240.
3. When complexity is an inherent risk factor, there may be an inherent need for more complex processes in preparing the information, and such processes may be inherently more difficult to apply. As a result, applying them may require specialized skills or knowledge, and may require the use of a management’s expert.
 4. When management judgment is more subjective, the susceptibility to misstatement due to management bias, whether unintentional or intentional, may also increase. For example, significant management judgment may be involved in making accounting estimates that have been identified as having high estimation uncertainty, and conclusions regarding methods, data and assumptions may reflect unintentional or intentional management bias.

Examples of Events or Conditions that May Indicate the Existence of Risks of Material Misstatement

5. The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement in the financial statements, either at the financial statement level or the assertion level. The examples provided by inherent risk factor cover a broad range of events and conditions; however, not all events and conditions are relevant to every audit engagement and the list of examples is not necessarily complete. The events and conditions have been categorized by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among the inherent risk factors, the example events and conditions also are likely to be subject to, or affected by, other inherent risk factors to varying degrees.

Relevant Inherent Risk Factor:	Examples of Events and Conditions That May Indicate the Existence of Risks of Material Misstatement at the Assertion Level:
Complexity	Regulatory: <ul style="list-style-type: none"> • Operations that are subject to a high degree of complex regulation. Business model: <ul style="list-style-type: none"> • The existence of complex alliances and joint ventures. Applicable financial reporting framework: <ul style="list-style-type: none"> • Accounting measurements that involve complex processes. Transactions: <ul style="list-style-type: none"> • Use of off-balance sheet finance, special-purpose entities, and other complex financing arrangements.
Subjectivity	Applicable financial reporting framework: <ul style="list-style-type: none"> • A wide range of possible measurement criteria of an accounting estimate. For example, management's recognition of depreciation or construction income and expenses. • Management's selection of a valuation technique or model for a non-current asset, such as investment properties.
Change	Economic conditions: <ul style="list-style-type: none"> • Operations in regions that are economically unstable, for example, countries with significant currency devaluation or highly inflationary economies. Markets: <ul style="list-style-type: none"> • Operations exposed to volatile markets, for example, futures trading. Customer loss: <ul style="list-style-type: none"> • Going concern and liquidity issues including loss of significant customers.

Relevant Inherent Risk Factor:	Examples of Events and Conditions That May Indicate the Existence of Risks of Material Misstatement at the Assertion Level:
	<p>Industry model:</p> <ul style="list-style-type: none"> • Changes in the industry in which the entity operates. <p>Business model:</p> <ul style="list-style-type: none"> • Changes in the supply chain. • Developing or offering new products or services, or moving into new lines of business. <p>Geography:</p> <ul style="list-style-type: none"> • Expanding into new locations. <p>Entity structure:</p> <ul style="list-style-type: none"> • Changes in the entity such as large acquisitions or reorganizations or other unusual events. • Entities or business segments likely to be sold. <p>Human resources competence:</p> <ul style="list-style-type: none"> • Changes in key personnel including departure of key executives. <p>IT:</p> <ul style="list-style-type: none"> • Changes in the IT environment. • Installation of significant new IT systems related to financial reporting. <p>Applicable financial reporting framework:</p> <ul style="list-style-type: none"> • Application of new accounting pronouncements. <p>Capital:</p> <ul style="list-style-type: none"> • New constraints on the availability of capital and credit. <p>Regulatory:</p> <ul style="list-style-type: none"> • Inception of investigations into the entity’s operations or financial results by regulatory or government bodies.
Uncertainty	<p>Reporting:</p> <ul style="list-style-type: none"> • Events or transactions that involve significant measurement uncertainty, including accounting estimates, and related disclosures. • Pending litigation and contingent liabilities, for example, sales warranties, financial guarantees and environmental remediation.
Susceptibility to misstatement due	<p>Reporting:</p>

Relevant Inherent Risk Factor:	Examples of Events and Conditions That May Indicate the Existence of Risks of Material Misstatement at the Assertion Level:
to management bias or other fraud risk factors insofar as they affect inherent risk	<ul style="list-style-type: none"> • Opportunities for management and employees to engage in fraudulent financial reporting, including omission, or obscuring, of significant information in disclosures. <p>Transactions:</p> <ul style="list-style-type: none"> • Significant transactions with related parties. • Significant amount of non-routine or non-systematic transactions including intercompany transactions and large revenue transactions at period end. • Transactions that are recorded based on management’s intent, for example, debt refinancing, assets to be sold and classification of marketable securities.

Other events or conditions that may indicate risks of material misstatement at the financial statement level:

- Lack of personnel with appropriate accounting and financial reporting skills.
- Control deficiencies, especially those not addressed by management.
- Past misstatements, history of errors or a significant amount of adjustments at period end.

Appendix 3

(Ref: Para. 16(l), 28–39, A102–A200)

Understanding the Entity’s System of Internal Control

1. The entity’s system of internal control may be reflected in policy and procedures manuals, systems and forms, and the information embedded therein, and is effected by people. The system of internal control is implemented by management, those charged with governance, and other personnel based on the structure of the entity. The system of internal control can be applied, based on the decisions of management, those charged with governance and other personnel and in the context of legal or regulatory requirements, to the operating model of the entity, the legal entity structure, or a combination of these.
2. This appendix further explains the components of, as well as the limitations of, the entity’s system of internal control as set out in paragraphs 16(l), 27–39, and A102–A200, as they relate to a financial statement audit.
3. Included within the entity’s system of internal control are aspects that relate to the entity’s reporting objectives, including its financial reporting objectives, but may also include aspects that relate to its operations or compliance objectives, when such aspects are relevant to financial reporting.

Example:

Controls over compliance with laws and regulations may be relevant to financial reporting when such controls are relevant to the entity’s preparation of contingency disclosures in the financial statements.

Components of the System of Internal Control

Control Environment

4. The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity’s system of internal control, and its importance in the entity. The control environment sets the tone of an organization, influencing the control consciousness of its people, and provides the overall foundation for the operation of the other components of the system of internal control.
5. An entity’s control consciousness is influenced by those charged with governance, because one of their roles is to counterbalance pressures on management in relation to financial reporting that may arise from market demands or remuneration schemes. The effectiveness of the design of the control environment in relation to participation by those charged with governance is therefore influenced by such matters as:
 - Their independence from management and their ability to evaluate the actions of management.
 - Whether they understand the entity’s business transactions.

- The extent to which they evaluate whether the financial statements are prepared in accordance with the applicable financial reporting framework, including whether the financial statements include adequate disclosures.
6. The control environment encompasses the following elements:
- (a) *How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values.* The effectiveness of controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them. Integrity and ethical behavior are the product of the entity's ethical and behavioral standards or codes of conduct, how they are communicated (e.g., through policy statements), and how they are reinforced in practice (e.g., through management actions to eliminate or mitigate incentives or temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts). The communication of entity policies on integrity and ethical values may include the communication of behavioral standards to personnel through policy statements and codes of conduct and by example.
 - (b) *When those charged with governance are separate from management, how those charged with governance demonstrate independence from management and exercise oversight of the entity's system of internal control.* An entity's control consciousness is influenced significantly by those charged with governance. Considerations may include whether there are sufficient individuals who are independent from management and objective in their evaluations and decision-making; how those charged with governance identify and accept oversight responsibilities and whether those charged with governance retain oversight responsibility for management's design, implementation and conduct of the entity's system of internal control. The importance of the responsibilities of those charged with governance is recognized in codes of practice and other laws and regulations or guidance produced for the benefit of those charged with governance. Other responsibilities of those charged with governance include oversight of the design and effective operation of whistle blower procedures.
 - (c) *How the entity assigns authority and responsibility in pursuit of its objectives.* This may include considerations about:
 - Key areas of authority and responsibility and appropriate lines of reporting;
 - Policies relating to appropriate business practices, knowledge and experience of key personnel, and resource provided for carrying out duties; and
 - Policies and communications directed at ensuring that all personnel understand the entity's objectives, know how their individual actions interrelate and contribute to those objectives, and recognize how and for what they will be held accountable.
 - (d) *How the entity attracts, develops, and retains competent individuals in alignment with its objectives.* This includes how the entity ensures the individuals have the knowledge and skills necessary to accomplish the tasks that define the individual's job, such as:
 - Standards for recruiting the most qualified individuals – with an emphasis on educational background, prior work experience, past accomplishments, and evidence of integrity and ethical behavior.

- Training policies that communicate prospective roles and responsibilities, including practices such as training schools and seminars that illustrate expected levels of performance and behavior; and
 - Periodic performance appraisals driving promotions that demonstrate the entity's commitment to the advancement of qualified personnel to higher levels of responsibility.
- (e) *How the entity holds individuals accountable for their responsibilities in pursuit of the objectives of the system of internal control.* This may be accomplished through, for example:
- Mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities and implement corrective actions as necessary;
 - Establishing performance measures, incentives and rewards for those responsible for internal control, including how the measures are evaluated and maintain their relevance;
 - How pressures associated with the achievement of internal control objectives impact the individual's responsibilities and performance measures; and
 - How the individuals are disciplined as necessary.

The appropriateness of the above matters will be different for every entity depending on its size, the complexity of its structure and the nature of its activities.

The Entity's Risk Assessment Process

7. The entity's risk assessment process is an iterative process for identifying and analyzing risks to achieving the entity's objectives, and forms the basis for how management or those charged with governance determine the risks to be managed.
8. For financial reporting purposes, the entity's risk assessment process includes how management identifies business risks relevant to the preparation of financial statements in accordance with the entity's applicable financial reporting framework, estimates their significance, assesses the likelihood of their occurrence, and decides upon actions to respond to and manage them and the results thereof. For example, the entity's risk assessment process may address how the entity considers the possibility of unrecorded transactions or identifies and analyzes significant estimates recorded in the financial statements.
9. Risks relevant to reliable financial reporting include external and internal events, transactions or circumstances that may occur and adversely affect an entity's ability to initiate, record, process, and report financial information consistent with the assertions of management in the financial statements. Management may initiate plans, programs, or actions to address specific risks or it may decide to accept a risk because of cost or other considerations. Risks can arise or change due to circumstances such as the following:
 - *Changes in operating environment.* Changes in the regulatory, economic or operating environment can result in changes in competitive pressures and significantly different risks.
 - *New personnel.* New personnel may have a different focus on or understanding of the system of internal control.

- *New or revamped information system.* Significant and rapid changes in the information system can change the risk relating to the entity's system of internal control.
- *Rapid growth.* Significant and rapid expansion of operations can strain controls and increase the risk of a breakdown in controls.
- *New technology.* Incorporating new technologies into production processes or the information system may change the risk associated with the entity's system of internal control.
- *New business models, products, or activities.* Entering into business areas or transactions with which an entity has little experience may introduce new risks associated with the entity's system of internal control.
- *Corporate restructurings.* Restructurings may be accompanied by staff reductions and changes in supervision and segregation of duties that may change the risk associated with the entity's system internal control.
- *Expanded foreign operations.* The expansion or acquisition of foreign operations carries new and often unique risks that may affect internal control, for example, additional or changed risks from foreign currency transactions.
- *New accounting pronouncements.* Adoption of new accounting principles or changing accounting principles may affect risks in preparing financial statements.
- *Use of IT.* Risks relating to:
 - Maintaining the integrity of data and information processing;
 - Risks to the entity business strategy that arise if the entity's IT strategy does not effectively supporting the entity's business strategy; or
 - Changes or interruptions in the entity's IT environment or turnover of IT personnel or when the entity does not make necessary updates to the IT environment or such updates are not timely.

The Entity's Process to Monitor the System of Internal Control

10. The entity's process to monitor the system of internal control is a continuous process to evaluate the effectiveness of the system of internal control, and to take necessary remedial actions on a timely basis. The entity's process to monitor the system of internal control may consist of ongoing activities, separate evaluations (conducted periodically), or some combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity and may include regular management and supervisory activities. The entity's process will likely vary in scope and frequency depending on the assessment of the risks by the entity.
11. The entity's process to monitor the system of internal control may include activities such as management's review of whether bank reconciliations are being prepared on a timely basis, internal

auditors'⁷¹ evaluation of sales personnel's compliance with the entity's policies on terms of sales contracts, and a legal department's oversight of compliance with the entity's ethical or business practice policies. Monitoring is done also to ensure that controls continue to operate effectively over time. For example, if the timeliness and accuracy of bank reconciliations are not monitored, personnel are likely to stop preparing them.

12. Controls related to the entity's process to monitor the system of internal control, including those that monitor underlying automated controls, may be automated or manual, or a combination of both. For example, an entity may use automated monitoring controls over access to certain technology with automated reports of unusual activity to management, who manually investigate identified anomalies.
13. When distinguishing between a monitoring activity and a control related to the information system, the underlying details of the activity are considered, especially when the activity involves some level of supervisory review. As also explained in the application material, supervisory reviews are not automatically classified as monitoring activities and it may be a matter of judgment whether a review is classified as a control related to the information system or a monitoring activity. For example, the intent of a monthly completeness control would be to detect and correct errors, where a monitoring activity would ask why errors are occurring and assign management the responsibility of fixing the process to prevent future errors. In simple terms, a control related to the information system responds to a specific risk, whereas a monitoring activity assesses whether controls within each of the five components of the system of internal control are operating as intended.
14. Monitoring activities may include using information from communications from external parties that may indicate problems or highlight areas in need of improvement. Customers implicitly corroborate billing data by paying their invoices or complaining about their charges. In addition, regulators may communicate with the entity concerning matters that affect the functioning of the system of internal control, for example, communications concerning examinations by bank regulatory agencies. Also, management may consider in performing monitoring activities any communications relating to the system of internal control from external auditors.

The Information System and Communication

15. The information system relevant to the preparation of the financial statements in consists of activities and policies, and accounting and supporting records, designed and established to:
 - Initiate, record and process entity transactions (as well as to capture, process and disclose information about events and conditions other than transactions) and to maintain accountability for the related assets, liabilities, and equity;
 - Resolve incorrect processing of transactions, for example, automated suspense files and procedures followed to clear suspense items out on a timely basis;
 - Process and account for system overrides or bypasses to controls;

⁷¹ The objectives and scope of internal audit functions typically include activities designed to evaluate or monitor the effectiveness of the entity's internal control. ISA 610 (Revised), *Using the Work of Internal Auditors*, and Appendix 4 of this ISA provides further guidance related to internal audit.

- Incorporate information from transaction processing in the general ledger (e.g., transferring of accumulated transactions from a subsidiary ledger);
 - Capture and process information relevant to the preparation of the financial statements for events and conditions other than transactions, such as the depreciation and amortization of assets and changes in the recoverability of assets; and
 - Ensure information required to be disclosed by the applicable financial reporting framework is accumulated, recorded, processed, summarized and appropriately reported in the financial statements.
16. An entity's business processes include the activities designed to:
- Develop, purchase, produce, sell and distribute an entity's products and services;
 - Ensure compliance with laws and regulations; and
 - Record information, including accounting and financial reporting information.

Business processes result in the transactions that are recorded, processed and reported by the information system.

17. The quality of information affects management's ability to make appropriate decisions in managing and controlling the entity's activities and to prepare reliable financial reports.
18. Communication, which involves providing an understanding of individual roles and responsibilities pertaining to the entity's system of internal control, may take such forms as policy manuals, accounting and financial reporting manuals, and memoranda. Communication also can be made electronically, orally, and through the actions of management.
19. Communication by the entity of the financial reporting roles and responsibilities and of significant matters relating to financial reporting involves providing an understanding of individual roles and responsibilities pertaining to the system of internal control relevant to financial reporting. It may include such matters as the extent to which personnel understand how their activities in the information system relate to the work of others and the means of reporting exceptions to an appropriate higher level within the entity.

Control Activities

20. Controls in the control activities component consist of controls related to all the components of the entity's system of internal control. Such controls include information processing controls and general IT controls, both of which may be manual or automated in nature. The greater the extent of automated controls, or controls involving automated aspects, that management uses and relies on in relation to its financial reporting, the more important it may become for the entity to implement general IT controls that address the continued functioning of the automated aspects of information processing controls. Controls in the control activities component may pertain to the following:
- *Authorization and approvals.* An authorization affirms that a transaction is valid (i.e. it represents an actual economic event or is within an entity's policy). An authorization typically takes the form of an approval by a higher level of management or of verification and a determination if the transaction is valid. For example, a supervisor approves an expense report

after reviewing whether the expenses seem reasonable and within policy. An example of an automated approval is when an invoice unit cost is automatically compared with the related purchase order unit cost within a pre-established tolerance level. Invoices within the tolerance level are automatically approved for payment. Those invoices outside the tolerance level are flagged for additional investigation.

- *Reconciliations* – Reconciliations compare two or more data elements. If differences are identified, action is taken to bring the data into agreement. Reconciliations generally address the completeness or accuracy of processing transactions.
- *Verifications* – Verifications compare two or more items with each other or compare an item with a policy, and may involve a follow-up action when the two items do not match or the item is not consistent with policy. Verifications generally address the completeness, accuracy, or validity of processing transactions.
- *Physical or logical controls, including those that address security of assets against unauthorized access, acquisition, use or disposal.* Controls that encompass:
 - The physical security of assets, including adequate safeguards such as secured facilities over access to assets and records.
 - The authorization for access to computer programs and data files (i.e., logical access).
 - The periodic counting and comparison with amounts shown on control records (for example, comparing the results of cash, security and inventory counts with accounting records).

The extent to which physical controls intended to prevent theft of assets are relevant to the reliability of financial statement preparation depends on circumstances such as when assets are highly susceptible to misappropriation.

- *Segregation of duties.* Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of duties is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties.

For example, a manager authorizing credit sales is not responsible for maintaining accounts receivable records or handling cash receipts. If one person is able to perform all these activities he or she could, for example, create a fictitious sale that could go undetected. Similarly, salespersons should not have the ability to modify product price files or commission rates.

Sometimes segregation is not practical, cost effective, or feasible. For example, less complex entities may lack sufficient resources to achieve ideal segregation, and the cost of hiring additional staff may be prohibitive. In these situations, management may institute alternative controls. In the example above, if the salesperson can modify product price files, a detective control activity can be put in place to have personnel unrelated to the sales function periodically review whether and under what circumstances the salesperson changed prices.

21. Certain controls may depend on the existence of appropriate supervisory controls established by management or those charged with governance. For example, authorization controls may be

delegated under established guidelines, such as investment criteria set by those charged with governance; alternatively, non-routine transactions such as major acquisitions or divestments may require specific high-level approval, including in some cases that of shareholders.

Limitations of Internal Control

22. Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity's financial reporting objectives. The likelihood of their achievement is affected by the inherent limitations of internal control. These include the realities that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human error. For example, there may be an error in the design of, or in the change to, a control. Equally, the operation of a control may not be effective, such as where information produced for the purposes of the system of internal control (for example, an exception report) is not effectively used because the individual responsible for reviewing the information does not understand its purpose or fails to take appropriate action.
23. Additionally, controls can be circumvented by the collusion of two or more people or inappropriate management override of internal control. For example, management may enter into side agreements with customers that alter the terms and conditions of the entity's standard sales contracts, which may result in improper revenue recognition. Also, edit checks in an IT application that are designed to identify and report transactions that exceed specified credit limits may be overridden or disabled.
24. Further, in designing and implementing controls, management may make judgments on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume.

Appendix 4

(Ref: Para 18(a), A25-A29, A129-A131)

Considerations for Understanding an Entity's Internal Audit Function

This appendix provides further considerations relating to understanding the entity's internal audit function when such a function exists.

Objectives and Scope of the Internal Audit Function

1. The objectives and scope of an internal audit function, the nature of its responsibilities and its status within the organization, including the function's authority and accountability, vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance. These matters may be set out in an internal audit charter or terms of reference.
2. The responsibilities of an internal audit function may include performing procedures and evaluating the results to provide assurance to management and those charged with governance regarding the design and effectiveness of risk management, the entity's system of internal control and governance processes. If so, the internal audit function may play an important role in the entity's process to monitor the entity's system of internal control. However, the responsibilities of the internal audit function may be focused on evaluating the economy, efficiency and effectiveness of operations and, if so, the work of the function may not directly relate to the entity's financial reporting.

Inquiries of the Internal Audit Function

3. If an entity has an internal audit function, inquiries of the appropriate individuals within the function may provide information that is useful to the auditor in obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, and in identifying and assessing risks of material misstatement at the financial statement and assertion levels. In performing its work, the internal audit function is likely to have obtained insight into the entity's operations and business risks, and may have findings based on its work, such as identified control deficiencies or risks, that may provide valuable input into the auditor's understanding of the entity and its environment, the applicable financial reporting framework, the system of internal control, the auditor's risk assessments or other aspects of the audit. The auditor's inquiries are therefore made whether or not the auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed.⁷² Inquiries of particular relevance may be about matters the internal audit function has raised with those charged with governance and the outcomes of the function's own risk assessment process.
4. If, based on responses to the auditor's inquiries, it appears that there are findings that may be relevant to the entity's financial reporting and the audit, the auditor may consider it appropriate to read related reports of the internal audit function. Examples of reports of the internal audit function that may be relevant include the function's strategy and planning documents and reports that have been prepared

⁷² The relevant requirements are contained in ISA 610 (Revised 2013).

for management or those charged with governance describing the findings of the internal audit function's examinations.

5. In addition, in accordance with ISA 240,⁷³ if the internal audit function provides information to the auditor regarding any actual, suspected or alleged fraud, the auditor takes this into account in the auditor's identification of risk of material misstatement due to fraud.
6. Appropriate individuals within the internal audit function with whom inquiries are made are those who, in the auditor's judgment, have the appropriate knowledge, experience and authority, such as the chief internal audit executive or, depending on the circumstances, other personnel within the function. The auditor may also consider it appropriate to have periodic meetings with these individuals.

Consideration of the Internal Audit Function in Understanding the Control Environment

7. In understanding the control environment, the auditor may consider how management has responded to the findings and recommendations of the internal audit function regarding identified control deficiencies relevant to the preparation of the financial statements, including whether and how such responses have been implemented, and whether they have been subsequently evaluated by the internal audit function.

Understanding the Role that the Internal Audit Function Plays in the Entity's Process to Monitor the System of Internal Control

8. If the nature of the internal audit function's responsibilities and assurance activities are related to the entity's financial reporting, the auditor may also be able to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the auditor in obtaining audit evidence. Auditors may be more likely to be able to use the work of an entity's internal audit function when it appears, for example, based on experience in previous audits or the auditor's risk assessment procedures, that the entity has an internal audit function that is adequately and appropriately resourced relative to the size of the entity and the nature of its operations, and has a direct reporting relationship to those charged with governance.
9. If, based on the auditor's preliminary understanding of the internal audit function, the auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed, ISA 610 (Revised 2013) applies.
10. As is further discussed in ISA 610 (Revised 2013), the activities of an internal audit function are distinct from other monitoring controls that may be relevant to financial reporting, such as reviews of management accounting information that are designed to contribute to how the entity prevents or detects misstatements.
11. Establishing communications with the appropriate individuals within an entity's internal audit function early in the engagement, and maintaining such communications throughout the engagement, can facilitate effective sharing of information. It creates an environment in which the auditor can be informed of significant matters that may come to the attention of the internal audit function when such matters may affect the work of the auditor. ISA 200 discusses the importance of the auditor planning

⁷³ ISA 240, paragraph 19

and performing the audit with professional skepticism, including being alert to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring such information to the auditor's attention. The auditor is then able to take such information into account in the auditor's identification and assessment of risks of material misstatement.

Appendix 5

(Ref: Para. 23(a), 36, A97, A179a)

Considerations for Understanding Information Technology (IT)

This appendix provides further matters that the auditor may consider in understanding the entity's use of IT in its system of internal control.

Understanding the Entity's Use of Information Technology in the Components of the System of Internal Control

1. An entity's system of internal control contains manual elements and automated elements (i.e., manual and automated controls and other resources used in the entity's system of internal control). An entity's mix of manual and automated elements varies with the nature and complexity of the entity's use of IT. An entity's use of IT affects the manner in which the information relevant to the preparation of the financial statements in accordance with the applicable financial reporting framework is processed, stored and communicated, and therefore affects the manner in which the system of internal control is designed and implemented. Each component of the system of internal control may use some extent of IT.

Generally, IT benefits an entity's system of internal control by enabling an entity to:

- Consistently apply predefined business rules and perform complex calculations in processing large volumes of transactions or data;
 - Enhance the timeliness, availability, and accuracy of information;
 - Facilitate the additional analysis of information;
 - Enhance the ability to monitor the performance of the entity's activities and its policies and procedures;
 - Reduce the risk that controls will be circumvented; and
 - Enhance the ability to achieve effective segregation of duties by implementing security controls in IT applications, databases, and operating systems.
2. The characteristics of manual or automated elements are relevant to the auditor's identification and assessment of the risks of material misstatement, and further audit procedures based thereon. Automated controls may be more reliable than manual controls because they cannot be as easily bypassed, ignored, or overridden, and they are also less prone to simple errors and mistakes. Automated controls may be more effective than manual controls in the following circumstances:
 - High volume of recurring transactions, or in situations where errors that can be anticipated or predicted can be prevented, or detected and corrected, through automation
 - Controls where the specific ways to perform the control can be adequately designed and automated.

Understanding the Entity’s Use of Information Technology in the Information System (Ref: Para. 36(a))

3. The entity’s information system may include the use of manual and automated elements, which also affect the manner in which transactions are initiated, recorded, processed, and reported. In particular, procedures to initiate, record, process, and report transactions may be enforced through the IT applications used by the entity, and how the entity has configured those applications. In addition, records in the form of digital information may replace or supplement records in the form of paper documents.
4. In obtaining an understanding of the IT environment relevant to the flows of transactions and information processing in the information system, the auditor gathers information about the nature and characteristics of the IT applications used, as well as the supporting IT infrastructure and IT. The following table includes examples of matters that the auditor may consider in obtaining the understanding of the IT environment and includes examples of typical characteristics of IT environments based on the complexity of IT applications used in the entity’s information system. However, such characteristics are directional and may differ depending on the nature of the specific IT applications in use by an entity.

	Examples of typical characteristics of:		
	Non-complex commercial software	Mid-size and moderately complex commercial software or IT applications	Large or complex IT applications (e.g., ERP systems)
Matters related to extent of automation and use of data:			
<ul style="list-style-type: none"> • The extent of automated procedures for processing, and the complexity of those procedures, including, whether there is highly automated, paperless processing 	N/A	N/A	Extensive and often complex automated procedures
<ul style="list-style-type: none"> • The extent of the entity’s reliance on system-generated reports in the processing of information. 	Simple automated report logic	Simple relevant automated report logic	Complex automated report logic; Report-writer software
<ul style="list-style-type: none"> • How data is input (i.e., manual input, customer or vendor input, or file load). 	Manual data inputs	Small number of data inputs or simple interfaces	Large number of data inputs or complex interfaces

<ul style="list-style-type: none"> How IT facilitates communication between applications, databases or other aspects of the IT environment, internally and externally, as appropriate, through system interfaces. 	No automated interfaces (manual inputs only)	Small number of data inputs or simple interfaces	Large number of data inputs or complex interfaces
<ul style="list-style-type: none"> The volume and complexity of data in digital form being processed by the information system, including whether accounting records or other information are stored in digital form and the location of stored data. 	Low volume of data or simple data that is able to be verified manually; Data available locally	Low volume of data or simple data	Large volume of data or complex data; Data warehouses; ⁷⁴ Use of internal or external IT service providers (e.g., third-party storage or hosting of data)
Matters related to the IT applications and IT infrastructure:			
<ul style="list-style-type: none"> The type of application (e.g., a commercial application with little or no customization, or a highly-customized or highly-integrated application that may have been purchased and customized, or developed in-house). 	Purchased application with little or no customization	Purchased application or simple legacy or low-end ERP applications with little or no customization	Custom developed applications or more complex ERPs with significant customization
<ul style="list-style-type: none"> The complexity of the nature of the IT applications and the underlying IT infrastructure. 	Small, simple laptop or client server-based solution	Mature and stable mainframe, small or simple client server, software as a service cloud	Complex mainframe, large or complex client server, web-facing, infrastructure as a service cloud

⁷⁴ A data warehouse is a central repository of integrated data from one or more disparate sources (such as multiple databases) from which reports may be generated or that may be used by the entity for other data analysis activities. A report-writer is an IT application that is used to extract data from one or more sources (such as a data warehouse, a database or an IT application) and present the data in a specified format.

<ul style="list-style-type: none"> Whether there is third-party hosting or outsourcing of IT. 	If outsourced, competent, mature, proven provider (e.g., cloud provider)	If outsourced, competent, mature, proven provider (e.g. cloud provider)	Competent, mature proven provider for certain applications and new or start-up provider for others
<ul style="list-style-type: none"> Whether the entity is using emerging technologies that affect its financial reporting. 	No use of emerging technologies	Limited use of emerging technologies in some applications	Mixed use of emerging technologies across platforms
Matters related to IT processes:			
<ul style="list-style-type: none"> The personnel involved in maintaining the IT environment (the number and skill level of the IT support resources that manage security and changes to the IT environment) 	Few personnel with limited IT knowledge to process vendor upgrades and manage access	Limited personnel with IT skills / dedicated to IT	Dedicated IT departments with skilled personnel, including programming skills
<ul style="list-style-type: none"> The complexity of processes to manage access rights 	Single individual with administrative access manages access rights	Few individuals with administrative access manages access rights	Complex processes managed by IT department for access rights
<ul style="list-style-type: none"> The complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment to cyber risks, particularly when there are web-based transactions or transactions involving external interfaces. 	Simple on-premise access with no external web-facing elements;	Some web-based applications with primarily simple, role-based security	Multiple platforms with web-based access and complex security models
<ul style="list-style-type: none"> Whether program changes have been made to the manner in which information is processed, and the extent of such changes during the period. 	Commercial software with no source code installed	Some commercial applications with no source code and other mature applications with a small number or simple changes;	New or large number or complex changes, several development cycles each year

		traditional systems development lifecycle	
<ul style="list-style-type: none"> The extent of change within the IT environment (e.g., new aspects of the IT environment or significant changes in the IT applications or the underlying IT infrastructure) 	Changes limited to version upgrades of commercial software	Changes consist of commercial software upgrades, ERP version upgrades, or legacy enhancements	New or large number or complex changes, several development cycles each year, heavy ERP customization
<ul style="list-style-type: none"> Whether there was a major data conversion during the period and, if so, the nature and significance of the changes made, and how the conversion was undertaken. 	Software upgrades provided by vendor. No data conversion features for upgrade.	Minor version upgrades for commercial software applications with limited data being converted	Major version upgrade, new release, platform change

Emerging Technologies

- Entities may use emerging technologies (e.g., blockchain, robotics or artificial intelligence) because such technologies may present specific opportunities to increase operational efficiencies or enhance financial reporting. When emerging technologies are used in the entity’s information system relevant to the preparation of the financial statements, the auditor may include such technologies in the identification of IT applications and other aspects of the IT environment that are subject to risks arising from the use of IT. While emerging technologies may be seen to be more sophisticated or more complex compared to existing technologies, the auditor’s responsibilities in relation to IT applications and identified general IT controls in accordance with paragraph 39 remain unchanged.

Scalability

- Obtaining an understanding of the entity’s IT environment may be more easily accomplished for a less complex entity that uses commercial software and when the entity does not have access to the source code to make any program changes. Such entities may not have dedicated IT resources but may have a person assigned in an administrator role for the purpose of granting employee access or installing vendor-provided updates to the IT applications. Specific matters that the auditor may consider in understanding the nature of a commercial accounting software package, which may be the single IT application used by a less complex entity in its information system, may include:
 - The extent to which the software is well established and has a reputation for reliability;
 - The extent to which it is possible for the entity to modify the source code of the software to include additional modules (i.e., add-ons) to the base software, or to make direct changes to data;

- The nature and extent of modifications that have been made to the software. Although an entity may not be able to modify the source code of the software, many software packages allow for configuration (e.g., setting or amending reporting parameters). These do not usually involve modifications to source code; however, the auditor may consider the extent to which the entity is able to configure the software when considering the completeness and accuracy of information produced by the software that is used as audit evidence; and
 - The extent to which data related to the preparation of the financial statements can be directly accessed (i.e., direct access to the database without using the IT application) and the volume of data that is processed. The greater the volume of data, the more likely the entity may need controls that address maintaining the integrity of the data, which may include general IT controls over unauthorized access and changes to the data.
7. Complex IT environments may include highly-customized or highly-integrated IT applications and may therefore require more effort to understand. Financial reporting processes or IT applications may be integrated with other IT applications. Such integration may involve IT applications that are used in the entity's business operations and that provide information to the IT applications relevant to the flows of transactions and information processing in the entity's information system. In such circumstances, certain IT applications used in the entity's business operations may also be relevant to the preparation of the financial statements. Complex IT environments also may require dedicated IT departments that have structured IT processes supported by personnel that have software development and IT environment maintenance skills. In other cases, an entity may use internal or external service providers to manage certain aspects of, or IT processes within, its IT environment (e.g., third-party hosting).

Identifying IT Applications that are Subject to Risks Arising from the use of IT

8. Through understanding the nature and complexity of the entity's IT environment, including the nature and extent of information processing controls, the auditor may determine which IT applications the entity is relying upon to accurately process and maintain the integrity of financial information. The identification of IT applications on which the entity relies, may affect the auditor's decision to test the automated controls within such IT applications, also assuming that such automated controls address identified risks of material misstatement. Conversely, if the entity is not relying on an IT application, the automated controls within such IT application are unlikely to be appropriate or sufficiently precise for purposes of operating effectiveness tests. Automated controls that may be identified in accordance with paragraph 39(a) may include, for example, automated calculations or input, processing and output controls, such as a three-way match of a purchase order, vendor shipping document, and vendor invoice. When automated controls are identified by the auditor and the auditor determines through the understanding of the IT environment that the entity is relying on the IT application that includes those automated controls, it may be more likely for the auditor to identify the IT application as one that is subject to risks arising from the use of IT.
9. In considering whether the IT applications for which the auditor has identified automated controls are subject to risks arising from the use of IT, the auditor is likely to consider whether, and the extent to which, the entity may have access to source code that enables management to make program changes to such controls or the IT applications. The extent to which the entity makes program or

configuration changes and the extent to which the IT processes over such changes are formalized may also be relevant considerations. The auditor is also likely to consider the risk of inappropriate access or changes to data.

10. System-generated reports that the auditor may intend to use as audit evidence may include, for example, a trade receivable aging report or an inventory valuation report. For such reports, the auditor may obtain audit evidence about the completeness and accuracy of the reports by substantively testing the inputs and outputs of the report. In other cases, the auditor may plan to test the operating effectiveness of the controls over the preparation and maintenance of the report, in which case the IT application from which it is produced is likely to be subject to risks arising from the use of IT. In addition to testing the completeness and accuracy of the report, the auditor may plan to test the operating effectiveness of general IT controls that address risks related to inappropriate or unauthorized program changes to, or data changes in, the report.
11. Some IT applications may include report-writing functionality within them while some entities may also utilize separate report-writing applications (i.e., report-writers). In such cases, the auditor may need to determine the sources of system-generated reports (i.e., the application that prepares the report and the data sources used by the report) to determine the IT applications subject to risks arising from the use of IT.
12. The data sources used by IT applications may be databases that, for example, can only be accessed through the IT application or by IT personnel with database administration privileges. In other cases, the data source may be a data warehouse that may itself be considered to be an IT application subject to risks arising from the use of IT.
13. The auditor may have identified a risk for which substantive procedures alone are not sufficient because of the entity's use of highly-automated and paperless processing of transactions, which may involve multiple integrated IT applications. In such circumstances, the controls identified by the auditor are likely to include automated controls. Further, the entity may be relying on general IT controls to maintain the integrity of the transactions processed and other information used in processing. In such cases, the IT applications involved in the processing and the storage of the information are likely subject to risks arising from the use of IT.

End-User Computing

14. Although audit evidence may also come in the form of system-generated output that is used in a calculation performed in an end-user computing tool (e.g., spreadsheet software or simple databases), such tools are not typically identified as IT applications in the context of paragraph 39(b). Designing and implementing controls around access and change to end-user computing tools may be challenging, and such controls are rarely equivalent to, or as effective as, general IT controls. Rather, the auditor may consider a combination of information processing controls, taking into account the purpose and complexity of the end-user computing involved, such as:
 - Information processing controls over the initiation and processing of the source data, including relevant automated or interface controls to the point from which the data is extracted (i.e. the data warehouse);

- Controls to check that the logic is functioning as intended, for example, controls which ‘prove’ the extraction of data, such as reconciling the report to the data from which it was derived, comparing the individual data from the report to the source and vice versa, and controls which check the formulas or macros; or
- Use of validation software tools, which systematically check formulas or macros, such as spreadsheet integrity tools.

Scalability

15. The entity’s ability to maintain the integrity of information stored and processed in the information system may vary based on the complexity and volume of the related transactions and other information. The greater the complexity and volume of data that supports a significant class of transactions, account balance or disclosure, the less likely it may become for the entity to maintain integrity of that information through information processing controls alone (e.g., input and output controls or review controls). It also becomes less likely that the auditor will be able to obtain audit evidence about the completeness and accuracy of such information through substantive testing alone when such information is used as audit evidence. In some circumstances, when volume and complexity of transactions are lower, management may have an information processing control that is sufficient to verify the accuracy and completeness of the data (e.g., individual sales orders processed and billed may be reconciled to the hard copy originally entered into the IT application). When the entity relies on general IT controls to maintain the integrity of certain information used by IT applications, the auditor may determine that the IT applications that maintain that information are subject to risks arising from the use of IT.

Example characteristics of an IT application that is likely not subject to risks arising from IT	Example characteristics of an IT application that is likely subject to risks arising from IT
<ul style="list-style-type: none"> • Standalone applications • The volume of data (transactions) is not significant. • The application’s functionality is not complex. • Each transaction is supported by original hard copy documentation. 	<ul style="list-style-type: none"> • Applications are interfaced. • The volume of data (transactions) is significant/ • The application’s functionality is complex as <ul style="list-style-type: none"> – The application automatically initiates transactions; and – – There are a variety of complex calculations underlying automated entries.
<p>IT application is likely not subject to risks arising from IT because:</p> <ul style="list-style-type: none"> • The volume of data is not significant and therefore management is not relying upon 	<p>IT application is likely subject to risks arising from IT because:</p> <ul style="list-style-type: none"> • Management relies on an application system to process or maintain data as the volume of data is significant.

<p>general IT controls to process or maintain the data.</p> <ul style="list-style-type: none"> • Management does not rely on automated controls or other automated functionality. The auditor has not identified automated controls in accordance with paragraph 39(a). • Although management uses system-generated reports in their controls, they do not rely on these reports. Instead, they reconcile the reports back to the hard copy documentation and verify the calculations in the reports. • We will directly test information produced by the entity used as audit evidence. 	<ul style="list-style-type: none"> • Management relies upon the application system to perform certain automated controls that the auditor has also identified.
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Other Aspects of the IT Environment that Are Subject to Risks Arising from the Use of IT

16. When the auditor identifies IT applications that are subject to risks arising from the use of IT, other aspects of the IT environment are also typically subject to risks arising from the use of IT. The IT infrastructure includes the databases, operating system, and network. Databases store the data used by IT applications and may consist of many interrelated data tables. Data in databases may also be accessed directly through database management systems by IT or other personnel with database administration privileges. The operating system is responsible for managing communications between hardware, IT applications, and other software used in the network. As such, IT applications and databases may be directly accessed through the operating system. A network is used in the IT infrastructure to transmit data and to share information, resources and services through a common communications link. The network also typically establishes a layer of logical security (enabled through the operating system) for access to the underlying resources.
17. When IT applications are identified by the auditor to be subject to risks arising from IT, the database(s) that stores the data processed by an identified IT application is typically also identified. Similarly, because an IT application's ability to operate is often dependent on the operating system and IT applications and databases may be directly accessed from the operating system, the operating system is typically subject to risks arising from the use of IT. The network may be identified when it is a central point of access to the identified IT applications and related databases or when an IT application interacts with vendors or external parties through the internet, or when web-facing IT applications are identified by the auditor.

Identifying Risks arising from the Use of IT and General IT Controls

18. Examples of risks arising from the use of IT include risks related to inappropriate reliance on IT applications that are inaccurately processing data, processing inaccurate data, or both, such as
- Unauthorized access to data that may result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions, or inaccurate recording of transactions. Particular risks may arise where multiple users access a common database.
 - The possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.
 - Unauthorized changes to data in master files.
 - Unauthorized changes to IT applications or other aspects of the IT environment.
 - Failure to make necessary changes to IT applications or other aspects of the IT environment.
 - Inappropriate manual intervention.
 - Potential loss of data or inability to access data as required.
19. The auditor's consideration of unauthorized access may include risks related to unauthorized access by internal or external parties (often referred to as cybersecurity risks). Such risks may not necessarily affect financial reporting, as an entity's IT environment may also include IT applications and related data that address operational or compliance needs. It is important to note that cyber incidents usually first occur through the perimeter and internal network layers, which tend to be further removed from the IT application, database and operating systems that affect the preparation of the financial statements. Accordingly, if information about a security breach has been identified, the auditor ordinarily first considers the extent to which such a breach had the potential to affect financial reporting. If financial reporting may be affected, the auditor may decide to understand, and test the related controls to determine the possible impact or scope of potential misstatements in the financial statements or may determine that the entity has provided adequate disclosures in relation to such security breach.
20. In addition, laws and regulations that may have a direct or indirect effect on the entity's financial statements may include data protection legislation. Considering an entity's compliance with such laws or regulations, in accordance with ISA 250 (Revised),⁷⁵ may involve understanding the entity's IT processes and general IT controls that the entity has implemented to address the relevant laws or regulations.
21. General IT controls are implemented to address risks arising from the use of IT. Accordingly, the auditor uses the understanding obtained about the identified IT applications and other aspects of the IT environment and the applicable risks arising from the use of IT in determining the general IT controls to identify. In some cases, an entity may use common IT processes across its IT environment or across certain IT applications, in which case common risks arising from the use of IT and common general IT controls may be identified.

⁷⁵ ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

22. In general, a greater number of general IT controls related to IT applications and databases are likely to be identified than for other aspects of the IT environment. This is because these aspects are the most closely concerned with the information processing and storage of information in the entity's information system. In identifying general IT controls, the auditor may consider controls over actions of both end users and of the entity's IT personnel or IT service providers.
23. Appendix 6 provides further explanation of the nature of the general IT controls typically implemented for different aspects of the IT environment. In addition, examples of general IT controls for different IT processes are provided.

Appendix 6

(Ref: Para. 39(c)(ii), A188a-A189)

Considerations for Understanding General IT Controls

This appendix provides further matters that the auditor may consider in understanding general IT controls.

1. The nature of the general IT controls typically implemented for each of the aspects of the IT environment
 - (a) Applications

General IT controls at the IT application layer will correlate to the nature and extent of application functionality and the access paths allowed in the technology. For example, more controls will be relevant for highly-integrated IT applications with complex security options than a legacy IT application supporting a small number of account balances with access methods only through transactions.
 - (b) Database

General IT controls at the database layer typically address risks arising from the use of IT related to unauthorized updates to financial reporting information in the database through direct database access or execution of a script or program.
 - (c) Operating system

General IT controls at the operating system layer typically address risks arising from the use of IT related to administrative access, which can facilitate the override of other controls. This includes actions such as compromising other user's credentials, adding new, unauthorized users, loading malware or executing scripts or other unauthorized programs.
 - (d) Network

General IT controls at the network layer typically address risks arising from the use of IT related to network segmentation, remote access, and authentication. Network controls may be relevant when an entity has web-facing applications used in financial reporting. Network controls are also may be relevant when the entity has significant business partner relationships or third-party outsourcing, which may increase data transmissions and the need for remote access.
2. Examples of general IT controls that may be exist by IT process include:
 - (a) Process to manage access:
 - o *Authentication*

Controls that ensure a user accessing the IT application or other aspect of the IT environment is using their own log-in credentials (i.e., the user is not using another user's credentials).

- *Authorization*
Controls that allow users to access the information necessary for their job responsibilities and nothing further, which facilitates appropriate segregation of duties.
 - *Provisioning*
Controls to authorize new users and modifications to existing users' access privileges.
 - *Deprovisioning*
Controls to remove user access upon termination or transfer.
 - *Privileged access*
Controls over administrative or powerful users' access.
 - *User access reviews*
Controls to recertify or evaluate user access for ongoing authorization over time.
 - *Security configuration controls*
Each technology generally has key configuration settings that help restrict access to the environment.
 - *Physical access*
Controls over physical access to the data center and hardware, as such access may be used to override other controls.
- (b) Process to manage program or other changes to the IT environment
- *Change management process*
Controls over the process to design, program, test and migrate changes to a production (i.e., end user) environment.
 - *Segregation of duties over change migration*
Controls that segregate access to make and migrate changes to a production environment.
 - *Systems development or acquisition or implementation*
Controls over initial IT application development or implementation (or in relation to other aspects of the IT environment).
 - *Data conversion*
Controls over the conversion of data during development, implementation or upgrades to the IT environment.
- (c) Process to manage IT Operations
- *Job scheduling*

Controls over access to schedule and initiate jobs or programs that may affect financial reporting.

- *Job monitoring*

Controls to monitor financial reporting jobs or programs for successful execution.

- *Backup and recovery*

Controls to ensure backups of financial reporting data occur as planned and that such data is available and able to be accessed for timely recovery in the event of an outage or attack.

- *Intrusion detection*

Controls to monitor for vulnerabilities and or intrusions in the IT environment.

The table below includes examples of general IT controls that may be identified to address example risks arising from the use of IT based on the nature of the identified IT application.

IT Process	Example Risks Arising from the Use of IT	Example General IT Controls	Non-complex commercial software	Mid-size and moderately complex commercial software or IT applications	Large or complex IT applications (e.g., ERP systems)
Manage Access	User-access privileges: Users have access privileges beyond those necessary to perform their assigned duties, which may create improper segregation of duties.	Management approves the nature and extent of user-access privileges for new and modified user access, including standard application profiles/roles, critical financial reporting transactions, and segregation of duties.	X – instead of user access reviews below	X	X
		Access for terminated and/or transferred users is removed or modified in a timely manner.	X – instead of user access reviews below	X	X

		User access is periodically reviewed.	X – instead of provisioning/ Deprovisioning controls above	X for certain applications	X
		Segregation of duties is monitored and conflicting access is either removed or mapped to mitigating controls, which are documented and tested.	N/A – no system enabled segregation	X for certain applications	X
		Privileged-level access (e.g., configuration, data and security administrators) is authorized and appropriately restricted.	X – likely at IT application layer only	X at IT application and certain layers of IT environment for platform	X at all layers of IT environment for platform
Manage Access	Direct data access: Inappropriate changes are made directly to financial data through means other than application transactions.	Access to application data files and/or database objects/tables/data is limited to authorized personnel, based on their job responsibilities and assigned role, and such access is approved by management.	N/A	X for certain applications and databases	X
Manage Access	System settings: Systems are not adequately configured or updated to restrict system access to	Access is authenticated through unique user IDs and passwords or other methods as a mechanism for validating that users	X – password authentication only	X – mix of password and multi-factor authentication	X

	properly authorized and appropriate users.	are authorized to gain access to the system. Password parameters meet company and/or industry standards (e.g., password minimum length and complexity, expiration, account lockout).			
		The key attributes of the security configuration are appropriately implemented.	N/A – no technical security configurations exist	X for certain applications and databases	X
Manage Change	Application changes: Inappropriate changes are made to application systems or programs that contain relevant automated controls (i.e., configurable settings, automated algorithms, automated calculations, and automated data extraction) and/or report logic.	Application changes are appropriately tested and approved before being moved into the production environment.	N/A-would verify no source code installed	X for non-commercial software	X
		Access to implement changes into the application production environment is appropriately restricted and segregated from the development environment.	N/A	X for non-commercial software	X
Manage Change	Database changes: Inappropriate changes are made to the database	Database changes are appropriately tested and approved before being moved into the production environment.	N/A – no database changes made at entity	X for non-commercial software	X

	structure and relationships between the data.				
Manage Change	System software changes: Inappropriate changes are made to system software (e.g., operating system, network, change-management software, access-control software).	System software changes are appropriately tested and approved before being moved to production.	N/A – no system software changes are made at entity	X	X
Manage Change	Data conversion: Data converted from legacy systems or previous versions introduces data errors if the conversion transfers incomplete, redundant, obsolete, or inaccurate data.	Management approves the results of the conversion of data (e.g., balancing and reconciliation activities) from the old application system or data structure to the new application system or data structure and monitors that the conversion is performed in accordance with established conversion policies and procedures.	N/A – Addressed through manual controls	X	X
IT Operations	Network: The network does not adequately prevent unauthorized users from	Access is authenticated through unique user IDs and passwords or other methods as a mechanism for	N/A – no separate network authentication method exists	X	X

	gaining inappropriate access to information systems.	validating that users are authorized to gain access to the system. Password parameters meet company and/or professional policies and standards (e.g., password minimum length and complexity, expiration, account lockout).			
		Network is architected to segment web-facing applications from the internal network, where ICFR relevant applications are accessed.	N/A – no network segmentation employed	X - with judgment	X - with judgment
		On a periodic basis, vulnerability scans of the network perimeter are performed by the network management team, which also investigates potential vulnerabilities.	N/A	X - with judgment	X - with judgment
		On a periodic basis, alerts are generated to provide notification of threats identified by the intrusion detection systems. These threats are investigated by the network management team.	N/A	X - with judgment	X - with judgment

		Controls are implemented to restrict Virtual Private Network (VPN) access to authorized and appropriate users.	N/A – no VPN	X - with judgment	X - with judgment
IT Operations	Data backup and recovery: Financial data cannot be recovered or accessed in a timely manner when there is a loss of data.	Financial data is backed up on a regular basis according to an established schedule and frequency.	N/A – relying on manual backups by finance team	X	X
IT Operations	Job scheduling: Production systems, programs, and/or jobs result in inaccurate, incomplete, or unauthorized processing of data.	Only authorized users have access to update the batch jobs (including interface jobs) in the job scheduling software.	N/A – no batch jobs	X for certain applications	X
		Critical systems, programs, and/or jobs are monitored, and processing errors are corrected to ensure successful completion.	N/A – no job monitoring	X for certain applications	X



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.3**

Meeting Date: 11 September 2019

Subject: ISA 600

Date Prepared: 26 August 2019

Action Required

For Information Purposes Only

A. Background

- 1 In December 2016 and following on from the IAASB’s Invitation to Comment, the IAASB approved a project proposal to revise ISA 600.
- 2 The key points raised by the AUASB in the invitation to comment included the following:
 - (a) Broadening to ISA to include all types of structures including for example branches, divisions, joint ventures;
 - (b) At the time of the ITC, the AUASB supported a combination of a top down/bottom up approach to scoping of group audits. Since the progression of ISA 315, the AUASB supports a top down risk-based approach – with audit effort responsive to the risk of material misstatement;
 - (c) Guidance on practical access issues;
 - (d) The ability of the group engagement team (GET) to direct and supervise the component teams work
 - (e) Greater clarity around the extent of involvement of the GET on component auditors;
 - (f) Guidance required in relation to component materiality;
 - (g) Guidance as to extent of documentation of the GETs involvement in the work of component auditors.
- 3 At the June IAASB meeting, the IAASB agreed the following principles:
 - (a) a risk-based approach to ISA 600 – to this end, the current drafting of ISA 600 has removed the definition and concepts of significant components, however the IAASB has requested the task force to clarify instances where it may be useful to identify components that are significant;

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- (b) making the drafting specific to special considerations for a group audit and not repeating the requirements of the foundational standards, that is draft requirements to address the special considerations (incremental to requirements of other ISAs).

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

4 The purpose of this Agenda Item is to update the AUASB as to progress made by the ISA 600 taskforce particularly in the areas of:

- (a) special considerations in a group audit (addressing AUASB comments in 2(a) and 2(b) above;
- (b) access (addressing AUASB comments in 2(c) above;
- (c) materiality ((addressing AUASB comments in 2(f) above; and
- (d) stand-back requirements.

5 In section C and D the ATG has highlighted the ISA 600 taskforces thinking in several areas and has highlighted the questions that the IAASB will be considering at the September 2019 IAASB meeting. In line with the AUASB international influencing strategy, AUASB members are encouraged to comment on any of these questions to inform the AUASB Chair of their views. The AUASB is specifically directed to the questions under paragraphs 8, 13, 17 and 19.

6 If the AUASB finds it useful, a link to marked-up ISA 600 can be found [[here](#)].

C. Proposed Revisions by the IAASB task force

C.1 Scope and Structure

7 The standard applies where the auditor is engaged to perform an audit of group financial statements. The task force has identified the following fundamental factors that are unique to group financial statements:

- (a) An entity with more than one component
 - (i) Group financial statements – Financial statements that include the financial information of more than one component.
 - (ii) Component – An entity or business unit for which financial information should be included in the group financial statements through a consolidation process
 - (iii) Consolidation process – for purposes of ISA 600 this includes the aggregation of branches, division, other operating units
 - (iv) Task force intends to issue implementation guidance to cover examples of when ISA 600 would apply.
- (b) The involvement of component auditors
 - (i) Under the risk-based approach, GET assesses ROMM and determines best strategy to obtain sufficient appropriate audit evidence (SAAE) which may

involve using the work of component auditors. Special considerations in using such work:

- Communication
- Involvement of GET
- Applying requirements of ISA 220 with respect to relevant ethical requirements and competence and capabilities of the engagement team.

8 The task force proposes to change the structure of the standard to place all requirements related to using the work of component auditors in one section – considered to enhance scalability.

Q1: The AUASB is asked for its views on:

(a) The special considerations in an audit of group financial statements, including in relation to the scope of the standard, and

(b) The proposed structure of the standard.

C.2 Access

9 The task force and IAASB have recognised that the standard can't enforce access to people and information but can develop guidance for situations where access is restricted.

10 There is new application material that explains the reasons for various access issues and explains how the group may overcome such issues.

11 The ATGs read of the application material indicates that where a component is material / financially significant and the GET is unable to obtain SAAE, this will need to be considered in terms of ISA 705

C.3 Group Wide Controls

12 The task force is proposing removing the definition of group wide controls and discuss testing controls more broadly in connection with the response to ROMM. The taskforce considers that the group wide controls definition was not well understood and that in practice there was overreliance on these controls.

C.4 Group Engagement Partner review of the overall group audit strategy and plan

13 The taskforce notes that the extant ISA 600 requires the GEP to review the overall group audit strategy and plan. The task force has 2 proposals:

(a) Delete this requirement as ISA 300 does not have the same requirement for the engagement partner

(b) Retain this requirement but modify the requirement to being involved rather than simply review; and support a consequential amendment to ISA 300 to extend this requirement to engagement partners.

Q2: The AUASB is asked for its views on the requirement for the group engagement partner to review the overall audit strategy and group audit plan, including the alternative of amending ISA 300 to extend the requirement for engagement partner review of the audit strategy and plan to all audits of financial statements.

D. Other aspects of the standard

D.1 Materiality

- 14 Feedback from the ITC indicated that there is confusion and variation in practice relating to the auditor's understanding of the concepts of component materiality, performance materiality and clearly trivial thresholds and that aggregation risk is not well understood.
- 15 The taskforce has agreed that guidance would be helpful regarding the factors that the auditor may consider in establishing materiality at the component level as well as thresholds to be used for identifying and communicating misstatements to the GET.
- 16 The taskforce also recognises that aggregation risk is particularly important to address in a group engagement as aggregation risk increases as the number of locations increases.
- 17 The taskforce will consider strengthening the requirement in ISA 600 to indicate that the clearly trivial threshold at the component level cannot exceed the threshold at the group level.

Q3: The AUASB is asked for its views on the following:

- a) How the concept of aggregation risk could most appropriately be addressed in the revised standard;
- b) Whether additional guidance should be included in the revised standard regarding the determination of component materiality, component performance materiality and the clearly trivial threshold, or whether such guidance can be provided outside of the standard;
- c) If there is a view that additional guidance should be included in the revised standard, the nature of such guidance.

D.2 Stand back

- 18 Extant ISA 600, paragraph 44, already contains stand back provisions. The taskforce is proposing the following amendments:

~~In applying the requirements of ISA 330, the auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. The group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion.~~

- 19 Additionally, the task force is considering application material supporting the stand back including guidance for the auditor to consider whether, in responding to assessed risks of material misstatement of the group financial statements, sufficient work has been done, including at components that are individually financially significant.

Q4: The AUASB is asked for its views on the Task Force's preliminary suggestion for the stand-back requirement and related application material. Does the AUASB have further suggestions for the related application material, particularly with respect to the sufficiency of work done at financially significant components?

E. The way forward:

- 20 The ISA 600 taskforce is working toward an approval of the exposure draft of ISA 600 at the March 2020 meeting with a full draft of the standard available at the December 2019 meeting.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.4**
Meeting Date: 11 September 2019
Subject: ISQM 1
Date Prepared: 30 August 2019

Action Required

For Information Purposes Only

A. Background

- 1 The IAASB issued ED-ISQM 1 in February 2019, with a comment period ending 1 July 2019.
- 2 The AUASB did extensive outreach on this Exposure Draft and submitted a response to the IAASB.
- 3 The ISQM 1 Taskforce has commenced their review of comments received for the September 2019 IAASB meeting.

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

- 4 The purpose of this Agenda Item is to update the AUASB as to the feedback received from respondents to the IAASB ED; and to update the AUASB as to the taskforces proposed way forward and revised timelines.
- 5 In section D.1 – D.4 the ATG has highlighted the respondents’ key concerns and the taskforces current thinking. The ATG have highlighted (in a box) the questions that the IAASB will consider at the forthcoming September 2019 IAASB meeting. In line with the AUASB international influencing strategy, AUASB members are encouraged to comment on any of these questions to inform the AUASB Chair of their views. The AUASB is specifically directed to the questions under paragraphs 14(c), 17(b) and 22.

C. Summary IAASB issues paper – feedback on ED-ISQM 1:

- 6 99 letters received, supportive of the concepts of a Quality Management System, but extensive concerns with the current drafting particularly in relation to scalability.
 - 7 The ISQM 1 taskforce at the September 2019 IAASB will cover the questions on exposure that address the fundamental issue of scalability (including the standard structure and risk
-

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assessment process). The remainder of the questions on exposure will be dealt with at later IAASB meetings.

- 8 The general issues raised by respondents in relation to the issues of scalability (including the standard structure and risk assessment process) were consistent with that of the AUASB and centred around:
- (a) Hybrid of risk-based and prescription. Perceived prescriptiveness of the standard and concern around a checklist mentality;
 - (b) Length, granularity and complexity of the standard;
 - (c) Lack of clarity around the risk assessment process (RAP) particularly with reference to establishing additional quality objectives beyond the standard and the identification and assessment of quality risks. Additionally, respondents were concerned about the level of granularity particularly around the extent of quality objectives and responses; while a lack of requirements in relation to quality risks;
 - (d) Concern around the extent of documentation required, with concern around documenting ‘if not why not’;
 - (e) Implementation concerns around time and resources as well as general time to entrench mindset changes and cultural changes across a firm;
 - (f) Application of the standard to non-audit/assurance services; and
 - (g) Concern that considering a) to f) above, this may lead to a decline in audit quality, with respondents seeking the IAASB to undertake a cost/benefit analysis.
- 9 The IAASB issues paper recognises the point specifically raised by the AUASB in relation to standards being legislative instruments, accordingly the prescriptiveness of the requirements exacerbates the challenges in demonstrating compliance with the standard.
- 10 The task force acknowledged the challenge around the need for more examples and guidance but that this could be taken to mean a general clarity of the requirements.
- 11 The IAASB will need to balance general respondents’ comments with comments received from the Monitoring Group members which in many instances held a view that the standard is not prescriptive enough (significant judgement allowed) which makes it difficult to enforce against.

D. The way forward:

- 12 The IAASB has indicated that the timing for approval of these QM standards has been pushed out to June 2020.
- 13 To address the central theme of scalability, (as highlighted in paragraph 7 and 8 above) the IAASB taskforce at the September 2019 IAASB is considering the following areas:
- (a) Components and structure to facilitate easier navigation
 - (b) Quality objectives and required specificity
 - (c) How to simplify the RAP

- (d) Whether ISQM 1 should apply to ALL engagements performed under IAASB standards.

D.1 *Components and Structure*

14 Respondents specific comments on exposure and task forces suggestions:

- (a) RAP and monitoring/remediation are processes (how something is managed) not components (what needs to be managed). Task forces considerations:
 - (i) Standard to clarify that these components are process in nature and introduce a requirement in each of these components that requires the firm to establish a process, so that it's clear these components are processes. E.g.: *The firm shall establish a risk assessment process that enables the firm to establish quality objectives, identify and asses quality risks to the achievement to the achievement of the quality objectives and design and implement responses to address quality risks.*
- (b) Moving RAP first – impacts on all components
 - (i) Move the RAP to the front of all the components – eases confusion about how the RAP relates to all components and may result in a reduction of introductory material
 - (ii) However – some elements from governance and leadership (assigning responsibilities for the system of quality management) will be moved upfront in the standard under the heading of system of quality management.
- (c) RAP shouldn't apply to monitoring and remediation
 - (i) Agreement by taskforce. Monitoring and Remediation requirements are more prescriptive than other components, as such requirement to establish quality objectives and responses is unlikely to provide much benefit. Refer paragraph 11(a)(ii) above, a requirement to establish a M&R process will be introduced to the standard instead of setting out required quality objectives. E.g.: *The firm shall establish a monitoring and remediation process that enables the evaluation of design, implementation and operation of the components of the system of quality management to determine whether the quality objectives have been met.*

Q1: Does the AUASB agree that the RAP should not apply to monitoring and remediation?

D.2 *Quality Objectives*

15 Respondents specific comments on exposure:

- (a) Required responses creates a perception that it is not risk-based;
- (b) Lack of quality risks;
- (c) Disproportionate required responses – suggests varying levels of importance;

- (d) Monitoring Group supports more prescriptive requirements to support inspections while other respondents would like to see reduced prescriptiveness
- 16 Task force recognises that that to address scalability concerns the approach to quality objectives and responses in individual components needs to be reconsidered as such task force is proposing:
- (a) Revise quality objectives to be a higher level
 - (b) Introduce risk considerations – combination of details from quality objectives and repurposing some responses. Taskforce considered:
 - (i) Instead of listing risks – provide conditions/events that could indicate risk
 - (ii) Not phrasing risks in the negative – so that the risks are not seen to be prescriptive
 - (c) Reducing responses – repurpose to risks, removing duplication, removing as otherwise appropriate.

D.3 Risk Assessment Process

- 17 Respondents specific comments on exposure and task force suggestions:
- (a) Too prescriptive/and two step (separate identification of risk and assessment of risk) process seen to be too complicated and somewhat duplicative.
 - (i) Task force aims to simplify the requirements into a one step process of identification and assessment to provide a basis for design and implementation of responses.
 - (b) Threshold at which quality risks is identified is too low (monitoring group do not hold this position).
 - (i) By introducing quality risks in each component – this will drive consistency in risk identification so a reduced need for a quality risk threshold.
 - (ii) Reconsideration of whether likelihood should continue to refer to reasonable possibility of occurrence – however the application material would no longer refer to more than remote.

Q2: Does the AUASB agree to keep the concept of reasonable possibility in the context of likelihood or is there another term?

- (c) Clarifying expectations when firms need to establish additional quality objectives and D&I beyond the requirements of the standard
 - (i) Task force will clarify that additional quality objectives is a consideration not a requirement – it is not expected to be common practice.
 - (ii) In relation to additional D&I – because the standard is expected to be redrafted with fewer responses, the requirements will clarify that in all cases D&I in addition to those listed in the standard will be required.

D.4 *Scope of Firms and services*

- 18 Respondents specifically commented that ISQM 1 is audit focused – is it appropriate to be applicable to related services engagements as a risk-based approach is not applicable to related services engagements.
- 19 Task force recognises that firm level quality management for related services engagement may be simpler because of the limited public interest of related services engagements and the nature of such engagements. Additionally, the task force acknowledges that there may be requirements not relevant or necessary for related services engagement for example independence.
- 20 Task force proposes having separate requirements for quality management of audit/assurance and that of related services engagements. Firms that perform audit/assurance and related services could then choose to apply full ISQM 1 to everything or ISQM 1 to audit/assurance and separate requirements for related services to the management of quality for related services.
- 21 Options taskforce is proposing, with taskforce preference being option a below:
- (a) New ISQM 3 – for quality management for related services engagement.
 - (b) Discreet requirements within ISQM 1
 - (c) Firm requirements directly into ISRS 4400/4410
- 22 The Taskforce recognises that option 18(a) above is a significant change in approach; and that a short survey to solicit stakeholder feedback supporting such an approach is appropriate.

Question 3:

- (a) Does the AUASB agree with the need to develop separate requirements for related services engagements?
- (b) If yes to (a) above, what is the preferred option as outlined in paragraph 21 above?
- (c) Does the AUASB agree with obtaining stakeholder feedback by way of a survey?



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.5**
Meeting Date: 11 September 2019
Subject: ISQM 2
Date Prepared: 3 September 2019

Action Required

For Information Purposes Only

A. Background

- 1 The IAASB issued ED-ISQM 2 in February 2019, with a comment period ending 1 July 2019.
- 2 The AUASB did extensive outreach on this Exposure Draft and submitted a response to the IAASB.
- 3 The ISQM 2 Taskforce has commenced their review of comments received.

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

- 4 The purpose of this Agenda Item is to update the AUASB as to the feedback received from respondents to the IAASB ED; and to update the AUASB as to the taskforces proposed way forward and revised timelines.
- 5 In section D.1 – D.2 the ATG has highlighted the respondents’ key concerns and the taskforces current thinking. The ATG have highlighted (in a box) the questions that the IAASB will consider at the forthcoming September 2019 IAASB meeting. In line with the AUASB international influencing strategy, AUASB members are encouraged to comment on any of these questions to inform the AUASB Chair of their views. The AUASB is specifically directed to the questions under paragraph 14 and 17.

C. Summary IAASB issues paper – feedback on ED-ISQM 2:

- 6 91 letters received, supportive of the concepts of a Engagement Quality Reviews (EQR), that is designed and implemented by the firm to address quality risks.
 - 7 The ISQM 2 taskforce at the September 2019 IAASB will cover the questions on exposure that address the two key issues raised:
-

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- (a) Scoping of engagements subject to an EQR in accordance with paragraph 37(e) of proposed ISQM 1 in particular, the concept of “significant public interest;” and
- (b) The objectivity of the EQR, including a cooling-off period for individuals moving into the role of EQR after having served as the engagement partner.

D. The way forward:

- 8 The IAASB has indicated that the timing for approval of these QM standards has been pushed out to June 2020.
- 9 In general, there was support for establishing a system of quality management, including the new quality management approach (QMA), and strong support for EQRs as a response, among others, that is designed and implemented by the firm to address quality risks.

D.1 Scope of Engagements subject to an EQR

10 *Respondents specific comments on exposure and task forces suggestions:*

- (a) There was strong support from a Monitoring Group member to strengthen the EQ review standard, identifying the expanded scope of engagements for which EQ reviews were required as an area where substantive improvements have been made to the extant standards.
- (b) Respondents noted that ED-ISQM 1 already requires a risk-based approach to determining engagements subject to an EQ review. In this regard, one respondent indicated that engagements of SPI would likely already be covered by other parts of the requirement in paragraph 37(e).
- (c) The concept of SPI cannot be consistently interpreted, and therefore may be confusing or may result in inconsistent application of the requirements.
- (d) Additional guidance about how SPI relates to PIE in the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) should be provided. Respondents encouraged the IAASB to work closely with the IESBA to align a common definition of SPI / PIE where appropriate, or clarify differences in terminology as needed.

11 **Proposed Changes to ISQM 2 Scope**

12 The TF proposes to:

- (a) Remove the requirement in paragraph 37(e)(ii) of ISQM 1 for an EQ review for audits of financial statements of entities that the firm determines are of SPI.
- (b) Add a requirement for audits or other engagements for which the firm determines that an EQ review is appropriate due to the nature of the entity (i.e., not in response to an assessed quality risk).

- (c) Change the order of the requirements in paragraph 37(e) to better reflect those engagements for which an EQ review is required (i.e., listed entities or by law or regulation) versus those for which the firm determines that an EQ review is appropriate (i.e., in response to an assessed quality risk, or due to the nature of the engagement).

13 Proposed Changes to the Requirement in para 37 (and related application material) ISQM 2:

37. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the engagement performance quality objectives, the firm shall include the following responses:

...

(e) Establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2, and that require an engagement quality review for: (Ref: Para. A101–A107)

(i) Audits of financial statements of listed entities;

(ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A103)

(ii) Audits of financial statements of entities that the firm determines are of significant public interest; and

(iii) Audits or other engagements for which:

a. An engagement quality review is required by law or regulation; or

b. the firm determines that an engagement quality review is:

a. an appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks.; or (Ref: A104–A105)

b. Appropriate due to the nature of the entity. (Ref: Para. A105A)

Other Entities for Which the Firm Determines an Engagement Quality Review is Appropriate

A105A. The firm may develop criteria for determining the types of engagements for which an engagement quality review is appropriate due to the nature of the entity. Factors that the firm may consider in developing such criteria include, for example:

- Entities that are characterized as a public interest entity in a particular jurisdiction, and for which an engagement quality review is not otherwise required by law or regulation.*
- Whether relevant ethical requirements for the engagement provide related guidance. For example, the IESBA Code provides a definition of “public interest entity” for purposes of requirements and guidance that relate specifically to such entities, but indicates that firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number, and a wide range, of stakeholders.*

Paragraph 400.8 of the IESBA Code further indicates that the factors to be considered include:

o The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples include financial institutions, such as banks and insurance companies, and pension funds.

o Size

o Number of employees.

14 ATG Views

The ATG agree that the proposed new requirement deals with the issue of significant PIE's as addressed in our submission and allows for the firms to determine that an EQR may be appropriate for audits or engagements which they determine is appropriate due to the nature of the entity.

The proposed AM at A105A is useful for the firms to determine which factors may be considered in developing such criteria. These are consistent with the IESBA Code (Code) even though it is unusual to see a reference to the Code within an ISA.

The AUASB is asked for its views on:

- a. The proposed changes to the requirements relating to the scope of engagements subject to an EQ review as described in paragraph 14 above; and
- b. The indicative drafting for the proposed requirements and application material as presented above, including whether the proposed application material in paragraph A105A will be helpful in explaining what is meant by 'appropriate due to the nature of the entity.'

D.2 Objectivity and Cooling-Off Period

15 Respondents specific comments on exposure:

- (a) Overall, respondents agreed that objectivity of the EQ reviewer is critical to the effectiveness of the EQ review (i.e., to an objective assessment of the significant judgments made by the engagement team).
 - (b) Regarding the firm establishing a cooling-off period, the standard should provide flexibility in determining an appropriate period based on the nature and circumstances of the engagement. In particular, respondents noted that a cooling-off period is appropriate for listed entities (and perhaps also for PIEs), but may not be necessary or appropriate for non listed entities. The flexibility implied in paragraph 28 of ED-ISQM 2 was noted as an important aspect of scalability for ISQM 2.
- 16** The TF acknowledges that threats to the objectivity of an engagement partner stepping into an EQR role is an important issue that needs to be addressed in the IESBA Code, or in ISQM 2 if not addressed in the IESBA Code. The TF also reaffirmed its strongly held view that threats to objectivity of the EQR in this circumstance are unique, and that it is unlikely (or certainly less likely) that an EQR would be able to objectively evaluate significant judgments with which he or she had recently been involved as the engagement partner. A specific "time out" after serving as an engagement partner may indeed be necessary so that the evaluation of significant judgments is objective (in fact and in appearance) and therefore an appropriate

response to assessed quality risks. Accordingly, in the absence of a cooling-off period in the IESBA Code, the TF proposes that a new requirement be added to ISQM 2 to address it.

17 ATG Views

The ATG agree that:

- a. Cooling-off period be addressed in ISQM 2 if not dealt with in the IESBA Code. The AUASB's view as stated in our submission was for the issue to be dealt with in the IESBA Code and the IAASB to work with IESBA to resolve appropriately; and
- b. That the cooling-off period should apply to Option 3 b below capturing all engagements for which an EQR is required or the firm has determined is appropriate.

Does the AUASB support the TF's recommendation that:

- a. The cooling-off period be addressed in ISQM 2 if not specifically addressed in the IESBA Code?
- b. If addressed in ISQM 2, firm policies or procedures be required to include an explicit cooling-off period to address threats to objectivity created when an individual steps into an EQR role after serving as the engagement partner?
3. Should a requirement or guidance regarding a cooling-off period apply to:
 - a. Audits of listed entities only, or all PIEs, or all audits?
 - b. Assurance engagements more broadly, i.e., for any engagement for which an EQR is required or for which the firm determines that an EQR is an appropriate response to assessed quality risks or is appropriate based on the nature of the entity?

Material Presented

Agenda Item 4.5

AUASB Board Meeting Summary Paper

Action Required

No.	Action Item	Responsibility	Due Date
1.	Provide feedback to ATG on key TF proposals on ISQM 2.	AUASB	11 Sept 2019

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.6**

Meeting Date: 11 September 2019

Subject: Proposed ISA 220 *Quality Management for an Audit of Financial Statements*

Prepared By: Tim Austin

Date Prepared: 2 September 2019

Action Required

For Information Purposes Only

A. Background

- 1 The IAASB issued ED-ISA 220 in February 2019, with a comment period ending 1 July 2019.
- 2 The AUASB did extensive outreach on this Exposure Draft and submitted a response to the IAASB on the suite of Quality Management Standards.
- 3 The ISA 220 Taskforce (the Taskforce) has commenced their review of comments received.
- 4 The ATG has highlighted in section C.1 – C.5 the global respondents' key concerns and in section D.1 – D.5 the Taskforce's current planned response to the issues.

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

- 5 To update and inform the AUASB on feedback the IAASB has received from respondents to ED-ISA 220:
 - (a) To communicate to the AUASB the ISA 220 Taskforce's (Taskforce's) proposed way forward and revised timelines; and
 - (b) For the AUASB to provide comment on any of the proposed actions to AUASB Chair in his capacity as an IAASB member, in line with the AUASB international influencing strategy.

Questions

1. Do AUASB Members have any comments regarding the proposed actions (D.1-D.5) that they wish to raise?

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C. Summary IAASB issues paper – feedback on ED-ISA 220:

- 6 Ninety-one comment letters were received by the IAASB. In general, there was strong support across all stakeholder groups and across jurisdictions for the revised *Quality Management System*. However, concerns were raised about the practical application of certain areas.
- 7 For the September 2019 IAASB Meeting the Taskforce has structured its paper to focus on three key issues for discussion:
- (a) Engagement Partner’s Role and Overall Responsibility;
 - (b) Engagement Team definition; and
 - (c) Scalability.
- 8 The Taskforce has highlighted the following areas in their paper but will consider them in more detail at the December 2019 IAASB meeting:
- (a) Direction, supervision and review; and
 - (b) Ability to depend on the firm’s system.
- 9 The remaining areas of professional scepticism, the modern auditing environment (including resources/technology) and documentation will be addressed at the December 2019 IAASB meeting.

C.1 Engagement Partner’s Role and Overall Responsibility

- 10 Overall, respondents agreed with the engagement partner’s role and overall responsibility for managing quality on an audit. Stakeholders requested further clarification on several matters, including:
- (a) How an engagement partner is able to meet the overall responsibility when it is not practical to oversee every aspect of audit quality (on a large engagement).
 - (b) Which requirements the engagement partner needs to fulfil personally.
 - (c) The stand-back should not be limited to the end of the audit engagement.
- 11 Stakeholders also suggested that the concept of delegating authority included in the application materials be elevated to the requirements or introduction section of ED 220, and that further clarification be provided around possible delegation.
- 12 This is largely consistent with the points raised in the AUASB submission.

C.2 Engagement Team Definition

- 13 Overall, respondents from the Monitoring Group and regulators were supportive of the extended definition whilst other respondents raised concerns with the practical application of the extended definition. The key concerns raised related to:
- (a) Independence considerations – The ethical code does not address independence in respect of component auditors. The independence requirements apply to every member of the engagement team, including those relating to, for example, financial interests, business relations and employment relationships.

- (b) Requirements are onerous for an engagement partner to personally fulfil. Respondents requested further clarity about what is meant by “performs audit procedures” to address concerns around the wide-ranging scope of the definition.
- 14 Whilst the independence aspect was not raised in the AUASB’s submission, concerns around the practical application of the requirements due to the expanded definition were expressed strongly.

C.3 Scalability

- 15 Overall, respondents considered that ED-220 was scalable. Respondents provided comments on how scalability could be improved for both small audits and “upwards scalability” for more complex audits including:
- (a) Implementation guidance on how to apply the requirements to large and more complex audits.
 - (b) Making requirements which are unlikely to apply to small audits conditional.
- 16 In its submission, the AUASB raised concern that the removal of paragraph 4 from the extant ISA 220 (ability to depend on the firm’s systems) may impact on the scalability of the standard for smaller auditors whilst in other areas of the AUASB’s response concerns were raised with the practical application of requirements in a larger audit. No other comments regarding scalability were raised in the AUASB’s submission.

C.4 Direction, Supervision and Review

- 17 Many respondents supported the requirements without comment whilst others identified issues in relation to:
- (a) The practical implications of the requirements and the proposed changes to the engagement team definition.
 - (b) The need for further clarification regarding responsibilities of engagement team members assigned supervisory roles.
 - (c) Whether all requirements were capable of being applied in a group audit.
- 18 These concerns are largely consistent with the points raised in the AUASB submission.

C.5 Ability to depend on the firm’s system

- 19 Overall, respondents from the Monitoring Group and regulators were supportive of the change. Other respondents expressed concern with the removal of paragraph 4 from the extant ISA 220 and the IAASB’s proposed approach of using the terms “shall be satisfied” and “shall determine” to differentiate between actions that can occur at a firm level and actions that must occur at an engagement level. In particular:
- (a) The revised approach is not clear unless the application material was read.

- (b) The situations where an engagement team can rely on the firm's systems should be more clearly articulated in the standard, as well as what is required of an engagement partner where they choose to rely on a firm's systems.

20 These concerns are consistent with the points raised in the AUASB submission.

D. The way forward:

21 As outlined above in paragraph 7, the IAASB will be discussing three key issues at the September 2019 IAASB meeting with the remaining areas planned to be addressed at the December 2019 IAASB meeting. No timeline beyond the December meeting has been provided in the papers.

22 The Taskforce's planned responses to the issues identified are outlined below.

D.1 Engagement Partner's Role and Overall Responsibility

23 Based on the feedback received, the Taskforce is planning to redraft paragraph 13 of the requirements to improve its understanding. Additionally, the Taskforce has identified all paragraphs in ED 220 which must be performed by the engagement partner personally and those requirements which could be assigned to other members of the engagement team. The Taskforce plans to amend the wording of the requirements, as needed, to better reflect which applies.

D.2 Engagement Team Definition

24 Based on the feedback received, the Taskforce has outlined two alternative approaches to the engagement team definition to address feedback raised by respondents and IESBA. At a high level the two approaches are:

- (a) The proposed definition from ED-220 remains (with possibly changes to improve clarity) and the Taskforce focuses on addressing the practical concerns raised.
- (b) Separate out quality management of component auditors to ISA 600 and retain the definition of engagement team from extant ISA 220.

25 In addition to the above, the Taskforce is planning to develop application material on what it means to "perform audit procedures" to better define who is part of the engagement team.

D.3 Scalability

26 The Taskforce considers that the other planned activities such as reviewing requirements to identify which must be performed by the engagement partner personally, are sufficient to address concerns for larger and more complex audits. To address issues for smaller audits, the Taskforce considers that the Appendix in the Explanatory Memorandum to ED-220, which identifies specific references in the ED to where scalability is addressed, should be sufficient.

D.4 Direction, Supervision and Review

- 27 The Taskforce considers that the other planned activities such as clarification of the work of assignees will be sufficient to address some of the concerns. The Taskforce also plans to clarify that areas which require increased professional judgement will also require greater engagement partner involvement.

D.5 Ability to depend on the firm's system

- 28 The Taskforce plans to clarify that the engagement partner can place reliance on the firm's systems but that reliance must be preceded by the engagement partner taking some actions to determine that reliance is warranted. Additionally, guidance on factors that may be taken into account in determining whether (and the degree to which) the engagement partner may depend on the firm's system is planned.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.7
Meeting Date: 11 September 2019
Subject: EER Assurance – Issues and Recommendations Phase 1 draft guidance.
Phase 2 draft guidance.
Date Prepared: 3 September 2019
Prepared By: Marina Michaelides

Action Required

For Information Purposes Only

Agenda Item Objectives	AUASB SMEs
<p>The objectives of this Agenda Item on EER are to provide an update on:</p> <ol style="list-style-type: none"> 1. Issues and Recommendations from Phase 1 draft guidance CP 2. Phase 2 draft guidance 	<p>Marina & Jo</p>
<p>1. Update on IAASB EER Task Force</p> <ul style="list-style-type: none"> ➤ Submissions to the IAASB on EER CP closed on 21 June 2019. ➤ 52 Submissions were received by the IAASB <p>Phase 1 EER Non Authoritative Guidance – Consultation Paper</p> <p>Key Issues noted in AUASB submission:</p> <ol style="list-style-type: none"> 1. Gain Momentum: Move quickly in line with the evolving nature of EER and to harness its current momentum. <ul style="list-style-type: none"> ➤ Phase 2 of IAPN is well underway with the remaining challenges: Scope, Narrative Information, Future Oriented Information and Preparing the Assurance Report in development and feedback being sought at Sept IAASB meeting. ➤ EER TF to present combined Phase 1 and Phase 2 guidance to IAASB December meeting. 2. Reporting Frameworks: Whilst the guidance purports to be reporting framework-neutral, there is an overriding Sustainability Reporting and Global Reporting Initiative (GRI) theme. This manifests itself in significant gaps emerging with respect to relevant examples for other types of reporting, such as Integrated Reporting <IR>. No examples are provided throughout the guidance in relation to the fundamental subject matter of an <IR>, such as the business model, strategy or value creation. 	

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- Several respondents noted that the draft guidance was overly focused on GRI/sustainability reporting, and that this may limit its value to practitioners addressing EER reports under other frameworks. Recommendations included taking examples from a broader range of EER reports, such as management commentary or integrated reports. However, other respondents noted that attempting to make the guidance applicable to all types of EER reports could result in it being overly complicated and difficult to apply.
- The guidance could address the different implications of the non-prescriptive nature of some EER frameworks, such as the Integrated Reporting Framework, the IASB’s Management Commentary Practice Statement and the UK Strategic Report:

The TF proposes to draw out, through the use of examples in the guidance, the different considerations that may apply when frameworks include criteria that are relatively more or less prescriptive.

Refer **TF proposals** at 3 as well.

3. **Examples:** Further work is needed on the examples provided throughout the guidance, including:
 - a. **Themed Examples:** Flow an example EER assurance process through the challenges, i.e. work through an example EER assurance engagement from start-to-finish, anchoring on an example relevant to each challenge. This may work well in an appendix.
 - b. **Financial Examples:** Acknowledge that EER assurance practitioners will come from a wide range of backgrounds, some financial, some non-financial. With this in mind, include financial examples with non-financial examples, where possible.
- The phase 1 guidance is already long and complex and, with the addition of the phase 2 material, it could be seen to lack practical usefulness and could be difficult to use. Respondents suggested a closer focus on providing practical guidance in the specific context of EER engagements, and avoiding excessive background material, conceptual content or repetition of material in ISAE 3000 (Revised).

The TF proposes to enhance the guidance by providing a broader range of examples to illustrate the application of the guidance in the context of different frameworks, and to show scalability. Consideration has been given to an end-to-end case study, but the development of such case studies is complex and time-consuming and may be disproportionate to the benefit to be derived. **The TF proposes** to develop a number of longer, more complex examples to illustrate the various concepts discussed in the guidance. In order to balance the length of the guidance with usefulness, to include shorter examples in the main body of the guidance, alongside the topic to which they relate, but to include longer examples in an Appendix to the guidance, cross referenced from the main body of the guidance.

4. **Reasonable versus Limited Assurance:** Remains a “grey area” for EER assurance practitioners, with guidance needed in terms of scope, work effort, output and value. Although practitioners acknowledge coverage of these areas in ISAE 3000 (Revised), they acknowledged the guidance could provide more in addressing the differences between the two engagements. Given the objectives of this guidance, this represents an opportunity to build greater understanding and consistency and a more robust approach to EER assurance engagements.
 - Several noted that additional guidance would be helpful in applying differential requirements for limited and reasonable assurance engagements (e.g., for engagement

acceptance, understanding the system of internal control, risk assessment procedures, nature and extent of procedures to obtain sufficient appropriate evidence) as these present challenges to practitioners. Examples that compare and contrast such engagements would be helpful.

The TF is proposing to provide this compare and contrast through the detailed examples throughout the guidance.

5. **Boundaries of an EER engagement:** the potential blurring of the lines between what the role of the assurance practitioner vs preparer, with regard to materiality, materiality process, subject matter and suitable criteria.

This issue is not specifically dealt with in the issues paper but may be addressed further in the proposed changes to the preconditions chapter 3.

6. **Materiality:** Materiality in scoping an EER assurance engagement is widely accepted as a core component and is therefore suggested for inclusion in the guidance. There is a need to encompass more than just the impact in a materiality determination, for example, <IR> relates to strategy, business model and short, medium and long term value creation for an entity. The needs of the users of EER is crucial to the materiality determination. Links to examples of materiality disclosure from publicly available EER assurance reports would add value.

The TF proposes to: update the guidance for the new terminology; include in the guidance a number of examples to illustrate how criteria are further developed and applied to determine outcomes that are relevant to user decision-making; to make clearer in the guidance the linkage between the preconditions in Chapter 3 and the process the entity uses to develop the criteria and apply them; and to further consider whether determining the users of the EER report is a criterion used by the entity in developing further criteria as part of the materiality process, and therefore should be made available to the intended users.

The TF proposes to further clarify the relevance to the practitioner of considering the entity's materiality process, using such an analogy, whilst clarifying that the practitioner is not required to do so but is required to determine whether the resulting criteria are suitable.

7. **Subjective Statements:** EER assurance practitioners highlighted a strong need for guidance in relation to the assurance of qualitative statements, i.e. narrative, where evidence requirements may prove challenging for the assurance practitioner to meet.

TF has commenced work on this area under Phase 2 Chapter 11 and 12.

Chapters 11 and 12 include draft phase 2 guidance developed to date on narrative and future-oriented information, which includes guidance to address:

- The need for the preconditions to be met, including the need for processes and controls that provide a reasonable basis for the subject matter information;
- How subjective statements may be revised to be more factual in nature and possible courses of action if they are not revised;
- What constitutes 'other information'.

Any comments to the ATG on the draft would be appreciated.

8. **Sequence of EER Assurance Challenges:** The sequence in which EER assurance challenges are presented warrants further attention, such as bringing materiality further forward.

The TF proposes to give further consideration to the structure and order of the guidance during the drafting of phase 2 materials for presentation at the December 2019 IAASB meeting, which will involve integrating the guidance developed in both phases of the project.

9. **Flow Charts:** A flow chart of a typical EER assurance engagement would enhance the guidance at the start of Chapter 2: Overview of an EER Assurance Engagement. Then throughout the guidance, at the start of each chapter, a flow chart would assist to summarise what is covered in that chapter, with hyperlinks to each subsection from the flow chart for accessibility.

The TF has considered ways in which to make the guidance more user-friendly and easier to navigate, and **the TF proposes** to include a flow diagram at the beginning of each chapter to show the stage of the engagement and the practitioner's considerations at each stage. This would assist in navigating the material, making linkages to the Standard and showing the iterative nature of an assurance engagement.

10. **Hyperlinks:** To try to reduce the amount of repetition of ISAE 3000 (Revised) through a suitable technology solution, maintaining the linkage to ISAE 3000 (Revised) so that the guidance is accessible to all assurance practitioners.

- Several respondents encouraged the use of innovative ways of presenting the guidance, to enhance its navigability and usefulness, including the use of hyperlinks to material in the Standard and of cross-references within the guidance.

Refer TF proposal at para 9. TF has not specifically addressed the area of hyperlinks or a smarter technology solution in their proposals.

11. **IASB Links:** Stronger links to the International Accounting Standards Board (IASB) project to update its IFRS Practice Statement 1 *Management Commentary* to ensure that the EER guidance will be fit for purpose across the broader corporate reporting suite.

- The guidance could address the different implications of the non-prescriptive nature of some EER frameworks, such as the Integrated Reporting Framework, the IASB's Management Commentary Practice Statement and the UK Strategic Report.

The TF proposes developing a number of further examples to illustrate the thought process a practitioner may go through in evaluating the suitability of criteria, the work effort that may be needed pre- and post- acceptance in different engagement circumstances, the need for the practitioner to understand the process the preparer has gone through to identify the intended users and their needs and the importance of monitoring and considering the reasons for changes in criteria from one period to another.

The TF proposes to draw out, through the use of examples in the guidance, the different considerations that may apply when frameworks include criteria that are relatively more or less prescriptive.

12. **Preconditions:** Avoid establishing too high a hurdle e.g. preconditions and the interplay between suitable criteria and internal controls which are iterative in nature, may result in the assurance process becoming a barrier to the development of EER.

The TF proposes to illustrate these considerations through the use of additional examples in Chapter 3; one for a relatively straightforward engagement such as an entity's GHG emissions reporting; the other for a more complex engagement such as a whole EER report where there may be a complex set of criteria.

ATG Overall Views:

The ATG are satisfied that the EER TF has addressed the key issues raised in the AUASB submission except for hyperlinks/technology solution and we acknowledge that they have made significant progress with the Phase 2 guidance. A further detailed review of the combined Phase 1 and Phase 2 guidance will be undertaken prior to finalisation by the TF in December.

Matters for IAASB Consideration

The IAASB is asked:

- Q1. For its views on whether the Task Force proposals respond appropriately to the CP responses
- Q2. Whether there are any other matters identified in the CP responses that the Task Force should consider

Material Presented

Agenda Item 4.7

AUASB Board Meeting Summary Paper

Action Required

No.	Action Item	Responsibility	Due Date
1.	Provide feedback to ATG on key TF proposals, and overall comments on EER Phase 2 guidance.	AUASB	11 Sept 2019

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.8.0**

Meeting Date: 11 September 2019

Subject: IAASB's Strategy for 2020–2023 and Work Plan for 2020–2021

Prepared By: Matthew Zappulla

Date Prepared: 4 September 2019

Action Required

For Information Purposes Only

A. Background

- 1 The IAASB issued a consultation paper (CP) on its Draft Strategy for 2020–2023 and Work Plan for 2020–2021 in February 2019, with a comment period ending in June 2019.
- 2 The AUASB submitted its [response to the IAASB on the CP on 4 June 2019](#).
- 3 The IAASB received 45 responses to the CP. The IAASB Steering Committee (which acts as the Task Force for the development of the IAASB's Strategy and Work Plans) has since focused on enhancing the Strategy and Work Plan based on the feedback received from respondents.
- 4 As a result of the feedback from respondents, and we suspect the influence of the new IAASB Chair, there have been some significant revisions to the Strategy and Work Plan format and areas of focus when compared to the original CP released in February. The major areas of difference are summarised for AUASB members below.
- 5 The original IAASB Work Plan for 2019-20 had the IAASB's Strategy for 2020–2023 and Work Plan for 2020–2021 being approved at its September 2019 meeting. Due to the changes proposed and additional work required to further develop the IAASB's proposed 'Framework for Activities' (which is intended to describe the IAASB's processes, procedures and criteria to assist the IAASB select, prioritize and scope its work by setting out processes, procedures, and criteria for making decisions about how best to deploy its resources), the approval of the Strategy and Work Plan has been deferred until the December 2019 IAASB meeting.

B. Significant proposed changes to the IAASB Strategy and Work Plan

- 6 The previous 5 strategic objectives in the CP have been streamlined into 3:

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- (a) *Develop and Maintain the IAASB's International Standards and Supporting Materials that provide a foundation for high-quality audit, assurance and related services engagements;*
- (b) *Innovate Our Ways of Working to Strengthen and Broaden Our Capabilities and Capacity to Do the Right Work at the Right Time; and*
- (c) *Maintain and Deepen our Relationships with our Stakeholders to Achieve Globally Relevant, Progressive and Operable Standards.*

Where appropriate, some of the themes previously set out in the CP have been combined to form a broader strategic objective. Underneath each of these strategic objectives are a series of strategic actions which are similar to the original Strategy in the CP, they are just described and mapped to the Strategy slightly differently. Refer to page 4 of **Agenda Item 4.8.1** for full details.

- 7 There was somewhat surprisingly a mixed response about the IAASB's continuing efforts regarding audits of less complex entities (LCEs). Member bodies and those supporting small- and medium-practices (SMPs) / small- and medium-sized entities (SMEs) were supportive of this continuing to receive a large focus by the IAASB. But some other respondents, in particular regulators and audit oversight bodies (including members of the Monitoring Group), had the view that the IAASB should focus on public interest entities and therefore that there should be less focus on work in this area. The IAASB have continued to prioritise its work in the LCE area as a key area of focus still in the information-gathering and research phase and will await the feedback on the LCE Discussion paper before proceeding further.
- 8 The proposed 'Framework for Activities' which the AUASB supported has been carved out of the Strategy and Work Plan. Whilst it forms an integral part of how the IAASB undertakes its work it was felt the development of the Framework of Activities should be a focus area for the IAASB with a dedicated workstream (i.e., time and resources planned to properly develop the various components of the Framework), rather than being integrated with the Strategy and Work Plan at this point. Accordingly, this has been reshaped into a strategic objective in the Strategy, and time on the detailed Work Plan has been allocated. An initial draft of the updated Framework based on the various responses to the CP, will be presented for discussion at the December 2019 IAASB meeting.
- 9 The linkages between the environmental drivers and proposed strategic themes and strategic actions have been made clearer, primarily using a new diagram (see Page 5 of **Agenda Item 4.8.1**).
- 10 There were strong messages encouraging more on technology, particularly in relation to its impact for audits. In response the IAASB has requested the Technology working group do more work and this is reflected in the revised IAASB Work Plan for 2020-21. In the last quarter of 2019, IAASB Staff will also be commencing activities to explore digitising the IAASB's Handbook.
- 11 The IAASB Steering Committee has recognised that time and effort will be needed to further enhance collaboration efforts, for example with NSS but also with others where efforts are

needed to encourage others to act. Accordingly, a line item has been added to the IAASB's detailed work plan reflecting these efforts.

- 12 The IAASB 2020-21 Work plan contains a list of possible projects for further IAASB consideration in an Appendix. Some, but not all of the project areas put forward by the AUASB as suggested future IAASB projects are on this list. Refer to Appendix 2 of the IAASB Work Plan in **Agenda Item 4.8.1** for full details.
- 13 The IAASB Steering Committee has clawed back the amount of emphasis it puts on the development of implementation activities in this strategy period. The IAASB intends to focus more on implementation activities in its next strategy period, as it believes further thinking is needed to determine what the IAASB's role is in relation to implementation activities and what the role of others is, particularly considering its limited resources. The AUASB expressed strong support for the IAASB expanding its implementation support activities over the 2020-23 period, so this is a disappointing outcome.
- 14 Most of these changes above are consistent with the points raised in the AUASB submission on the CP. There were also a number of items raised in the AUASB submission which have not been explicitly addressed in the changes made by the IAASB Steering Committee, in particular:
 - Greater focus on thought leadership and the value of audit; and
 - The review and update of IAASB standards governing the conduct of review engagements.

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

- 15 For the AUASB to provide comment on any of the questions below to AUASB Chair in his capacity as an IAASB member, in line with the AUASB international influencing strategy.

Questions

The AUASB is asked for its views on the revised proposed Strategy and Work Plan as presented to the Board in **Agenda Item 4.8.1**, specifically:

1. Whether the Board agrees with the three strategic objectives, including the way they are articulated, and the related strategic actions on page 4 of **Agenda Item 4.8.1**.
2. Whether there are any other matters the Steering Committee should consider as it finalizes the Strategy and Work Plan for approval by the IAASB in December 2019.

Material Presented

Agenda Item 4.8.0	AUASB Board Meeting Summary Paper
Agenda Item 4.8.1	IAASB Draft Strategy and Work Plan for 2020–2023 – Updated for September IAASB meeting

IAASB Draft Strategy for 2020–2023

Our Goal and Stakeholder Value Proposition

Our mandate is straightforward. However, standard-setting itself is not, especially in a global context. The following messages frame the broad lens of our strategic thinking.

Our Goal

- **Sustained trust** in financial and other reporting, enhanced by high-quality audits, assurance and related services engagements, through delivery of **robust global standards** that are in the **public interest** and capable of **consistent and proper implementation**.
-

Our Stakeholder Value Proposition

- **Public Interest Focus:** Focused work plans, processes, and activities that are closely tied to our goal.
 - **Our Standards:** Globally relevant, applicable to entities of all sizes and complexities, forward-looking and operable; developed and implemented through activities that are timely and responsive to the needs of our stakeholders.
 - **Our Engagement with Our Stakeholders:** Timely and meaningful dialogue with a broad range of stakeholders, including with regulatory, user and practitioner communities.
 - **Our Work Plans:** Focused on delivery of our International Standards and other means through timely identification of, and response to, our stakeholder needs and issues with global impact, while carefully balancing speed and quality, capacity utilization, and coordination with others.
 - **Our Methods:** Rigorous and inclusive, including leveraging external resources where feasible. Continuously reviewed and improved to better facilitate delivery of committed work plans.
 - **Our Collaboration Efforts:** Leveraging efforts of, and continuing to strengthen coordination and cooperation with, in particular, the IESBA and National Standard Setters (NSS).
 - **Our Implementation Support on Major New and Revised Standards:** Supporting the development of timely and effective implementation of the IAASB's major new and revised standards.
-

Strategic Drivers

Key to our success is delivering on the strategic actions set forth in this Strategy, which is facilitated:

- Through our commitment to **engage, listen and learn** from our key stakeholders, and to **lead and adapt** in our global standard setting responsibilities.
- By **fostering confidence** in the quality and relevance of our processes and standards, evidenced by the many jurisdictions (currently 130) using or committed to using our standards, including their oversight bodies (regulatory and inspection), and by user and practitioner communities

Continuously understanding our key opportunities and challenges, and balancing the needs of all stakeholders are crucial to the continued use and ongoing adoption of our standards on a global basis. Adapting to the environment, and meeting stakeholder needs, are the most significant drivers that have shaped our Strategy for 2020–2023 (Strategy) and Work Plan for 2020–2021 (Work Plan). Relevant **strategic drivers** include:

<p>Advancement in, and Use of, Technology</p>	<ul style="list-style-type: none"> • Rapidly changing and evolving technologies (e.g., artificial intelligence, robotics, blockchain, cloud computing, social networks and new digital payment platforms). • Developments in the use of advancing technologies, including how automated tools (including automated data analytics) are used to perform work on audit and assurance engagements, and the way that engagement teams are structured and interact.
<p>Environment for Small- and Medium-Sized Entities</p>	<ul style="list-style-type: none"> • Increasing pressure regarding the scalability and proportionality of the standards, in particular the ISAs. • Changing audit thresholds are increasing the demand for other types of assurance or other services by small- and medium-sized entities (SMEs).
<p>Increasing Complexity and Its Implications</p>	<ul style="list-style-type: none"> • The business environment is becoming increasingly complex and as a result, financial reporting standards are responding and becoming more complex. • Accounting practice is evolving—as transactions become more complex and financial reporting changes, more estimates and management judgments are needed. • The pace of change is driving complexity by exacerbating the impact of many of the factors referred to in this section, increasing pressures on responsiveness and relevance.
<p>Changing Reporting Needs of Stakeholders</p>	<ul style="list-style-type: none"> • Corporate reporting is evolving, with many users of corporate reports increasingly focusing on available non-financial information (e.g., sustainability reporting, reports addressing an entity’s governance and internal control and other forms of extended external reporting) and seeking assurance thereon.
<p>Changing Public</p>	<ul style="list-style-type: none"> • Decreasing confidence, and declining trust, in audits arising from continuing high levels of reported poor results of external inspections and recent high-profile corporate failures in some jurisdictions.

**Confidence in
Audits**

- Changing **Stakeholders’ expectations** about what the standards should require the auditor to do (for example, in relation to the detection and reporting of fraud, and the consideration of going concern issues) increases the ‘expectation gap’ between what is expected from an audit and what the current standards require the auditor to do, thereby impacting public confidence in audits.

DRAFT

Our Strategy and Focus

The following three strategic objectives will direct the activities we commit to in pursuit of our goal. The **strategic actions** broadly describe our planned actions for each strategic objective. Our Work Plan sets out the specific actions we will undertake.

Develop and Maintain the IAASB's International Standards and Supporting Materials that provide a foundation for high-quality audit, assurance and related services engagements

Core to our activities is revising and developing International Standards that are relevant, robust and operable. The focus will be on making timely changes to respond to the continuously evolving environment while always remaining mindful of the need to retain the robustness and quality of our standards. During the period of this strategy, we will increase the relative amount of resources to support for implementation, addressing complexity, and emerging issues that respond to challenges identified in the Strategic Driver section. **Strategic Actions** – We will:

- Complete our major audit quality enhancements and other work underway at the start of 2020; supporting and facilitating the effective implementation of new and revised standards.
- Develop ways to address complexity in order to ensure scalability and proportionality within the International Standards.
- Challenge and enhance the fundamentals of our International Standards, including addressing emerging issues efficiently and appropriately to reflect the changing public interest and an evolving environment.

Innovate Our Ways of Working to Strengthen and Broaden Our Capabilities and Capacity to Do the Right Work at the Right Time

Enhancing and strengthening our processes is critical to our success. **Strategic Actions** – We will:

- Innovate how we work through the use of technology and other means to maximize the impact of our activities.
- Develop and implement a Framework for Activities that will include:
 - Undertaking more structured and robust information-gathering and research activities as a foundation for future work streams, while also providing transparency about the decisions made for the work we undertake.
 - Developing mechanisms for addressing issues and challenges on a more timely basis.

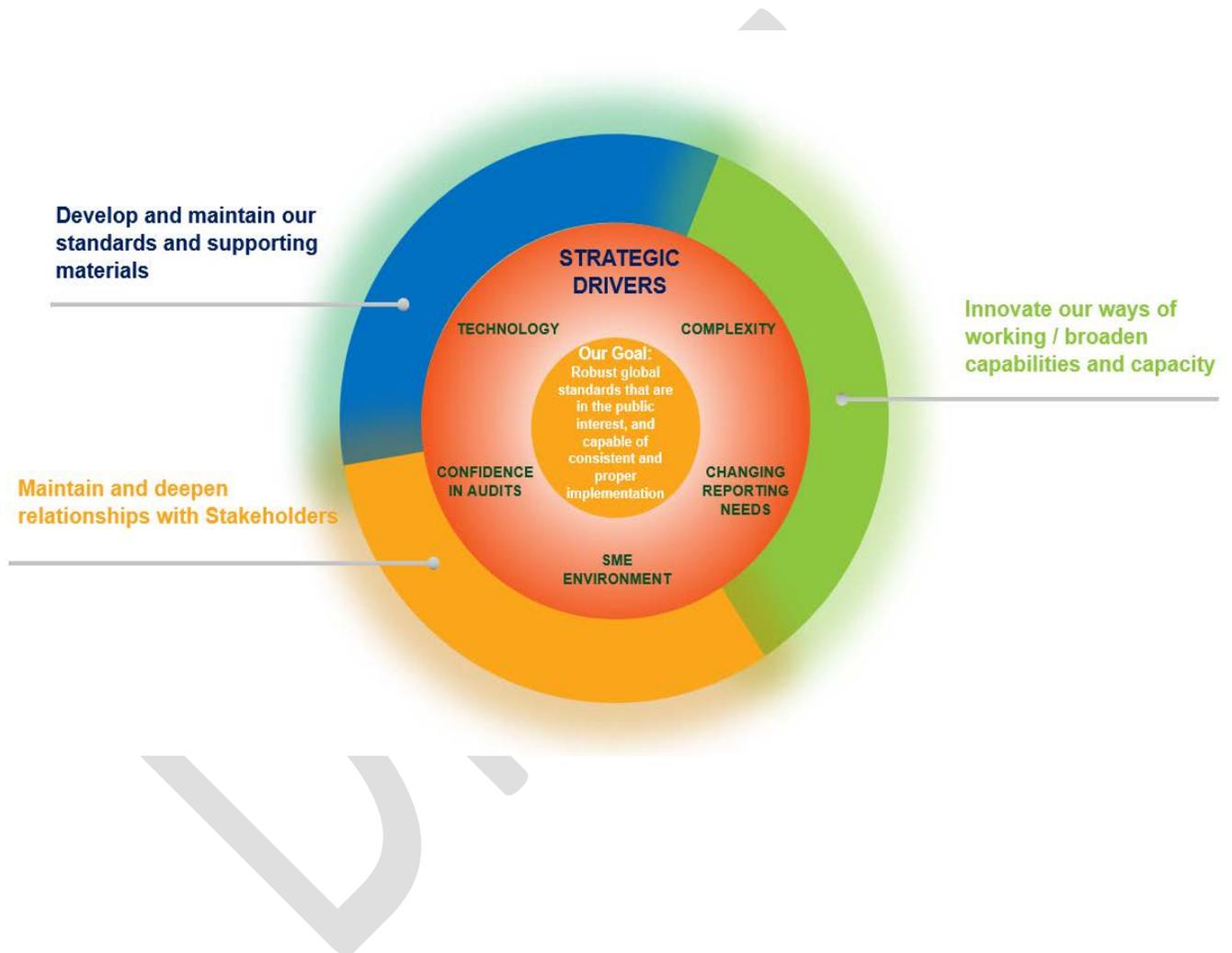
Maintain and Deepen our Relationships with our Stakeholders to Achieve Globally Relevant, Progressive and Operable Standards

Timely and meaningful outreach, and related activities, to appropriately inform our work and to deliver on our mandate. **Strategic Actions** – In addition to maintaining and deepening our relationships with our key stakeholders (see Appendix 1), we will also focus on:

- Promoting adoption and effective implementation of the ISAs and our other standards, in particular for audits of less complex entities, emerging markets and public sector.
- Understanding issues that affect our standards.
- Leveraging external resources and exploring new ways to collaborate with national standard setters, and others, as needed.
- Broadening the level of stakeholder interaction among all interested parties throughout the standard-setting process.

The Relationship Between Our Planned Activities and Our Goal

To achieve our goal, we have developed our strategic objectives to help guide our activities within our Work Plans. The strategic objectives have been developed taking into account the strategic drivers within the environment in which we operate, and the need to maintain the relevance of our standards. Our planned activities in 2020–2023 are representative of those actions we have committed to focus on within each of the three strategic objectives.



The IAASB’s Work Plan and Framework for Activities

Work Plans

Our specific activities are set out in our work plan (for example, the Work Plan for 2020–2021 [link] describes our planned projects and activities in 2020 and 2021, including projected timelines where relevant). The prioritization, timing and expected outcomes in the Work Plans reflects the Board’s present allocation of resources, but is subject to evolve as the Board addresses new topics and responds to a changing environment. Therefore, the IAASB is continually assessing and updating its forward agenda as necessary to reflect changing timelines and circumstances. We expect that the IAASB will devote an increasing amount of resources to implementation, addressing complexity in the standards, and emerging issues.

The IAASB will develop its Work Plan for 2022–2023¹ using the strategic objectives to guide our planned activities.

Framework for Activities

Our “Framework for Activities” (the Framework) [link] describes how we undertake our work (i.e., the processes and procedures) to deliver on our committed actions.² Key components of the Framework include:

- *Information Gathering and Research Activities*—our activities to support future workstreams. Output from this component informs the Board’s decisions about its future work streams. Features of this component include:
 - Fact-finding activities to monitor, understand, research and explore emerging issues and developments that may affect our auditing, assurance and other standards.
 - Post-implementation reviews to understand whether new and revised standards have been implemented as intended, i.e., in terms of the purpose for which they were developed, how they are being understood and applied, identifying any practical challenges and concerns, and to gauge the demand for any change or possible further actions.
 - Targeted information-gathering on specified issues or challenges (including understanding causal factors).
 - The determination of possible projects, or other actions as appropriate, for addressing identified issues, and assessment thereof (using applicable criteria).
 - Scoping future projects or other agreed actions.

The IAASB may carry out these activities or draw upon, or the resources of others (such as national standard setters or the academic community), or in collaboration with others.

¹ The Work Plan for 2022–2023 will be developed during 2021, with consultation on the proposed activities as appropriate.

² The Framework for Activities will be more comprehensively developed as we continuously enhance our processes and procedures to adapt to the Framework during the strategy period (and in accordance with our strategic objectives).

- *Revising and Developing Standards*—following agreed scoping and due process to develop proposals for public consultation, analyzing the feedback, and refining the proposals to issue a final new, or revised, standard.
- *Effectively Implementing New and Revised Standards*—Developing guidance, and other related activities such as webinars, to support the effective implementation of new and revised standards, in a timely manner after a final standard is published; establishing implementation working groups to support and coordinate these activities (as needed), and coordinating with others regarding broader implementation of our standards.
- *Developing Non-Authoritative Guidance*—either where information gathering has indicated that guidance is needed, or the issue relates to a specific industry.
- *Narrow Scope Maintenance of Standards*—including [narrow-scope amendments and interpretations relating to specific questions about an approved standard.] (tbc)

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Managing Delivery of the Strategy and Work Plan

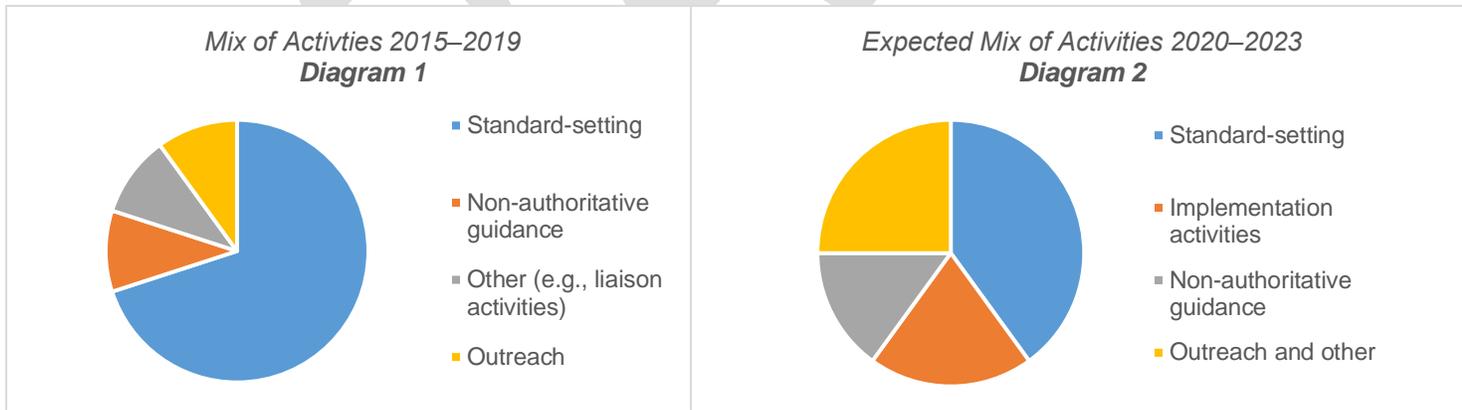
Accountability to our stakeholders about how our Strategy and Work Plans are being progressed is key to building trust and inspiring confidence. Communication and transparency about our actions is therefore an essential part of the IAASB’s activities in the 2020–2023 strategy period.

We manage the delivery of our Strategy and Work Plan under the constant scrutiny by ourselves and our stakeholders in relation to:

- Meeting targeted outcomes set out in our Work Plan.
- Expanding global adoption of our standards, including adoption of new and revised standards by jurisdictions who are already using our standards.
- Facilitating the implementation of new and revised standards.
- Building stronger relationships with key stakeholders.

Managing delivery of our Strategy and Work Plan with limited resources requires careful consideration of the allocation of the available resources to the planned activities in the Work Plan in the most effective way. Our primary resources include a combination of staff and volunteer time from Board members, technical advisors and others, and financial resources in the form of operating budget. The Framework helps guide our decisions regarding the allocations of these resources, for which there are inherent limitations.

Past experience (over the strategy period 2015–2019) has shown that we have allocated our resources to a mix of activities as set out in Diagram 1 below. As we move into our new strategy period with a shift in focus as set out in our strategic objectives and strategic actions, Diagram 2 illustrates the expected shift in how we will allocate our resources to the focus of our activities planned for 2020–2023.



During our strategy period, we will continue to monitor internal and external developments and evaluate how changes may impact our approach to delivery of our Strategy and Work Plan.

Appendix 1

Maintain and Deepen Our Connections with Our Key Stakeholders

We work with many stakeholders, with a variety of expectations and needs that must be balanced and prioritized. Where necessary, we will seek out additional stakeholders in an effort to expand our influence or gain a greater understanding. Most importantly, our strategy must reflect and respond to the needs of all stakeholders in an integrated way. In maintaining and deepening our connections we plan to:

- Continue to **interact with the Consultative Advisory Group (CAG)**. The IAASB's CAG is a fundamental part of the IAASB's engagement with its stakeholders and is a key element of the IAASB's due process. The CAG is comprised of over 30 member organizations representing global regulators, business and international organizations, accountancy regional bodies and users and preparers of financial statements.
- Further enhance our **coordination efforts with the International Ethics Standards Board for Accountants (IESBA)**.
- Explore new ways to expand our **collaboration with national standard setters** to optimize our activities.
- Further enhance working relationships with **regulators and audit inspection bodies, firms and others** (as appropriate) to help understand their concerns, and further explore causal factors.
- Further explore whether the **IAASB can collaborate, as appropriate, with the International Federation of Accountants (IFAC)** and its various committees, in relation to implementation support activities.
- Continue to establish **subject-specific Advisory Panels** as needed to enable Task Forces and Working Groups to receive timely input on developing proposals from a broad range of relevant stakeholders.
- Continue our two-way liaison with the **International Accounting Standards Board (IASB)**, providing input on auditability and verifiability of new and revised International Financial Reporting Standards, thereby contributing to the quality of financial reporting.ⁱ

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ⁱ For more information about the IAASB's liaison with the IASB see the project page: <http://www.iaasb.org/projects/iaasb-iasb-liaison>

IAASB Draft Work Plan 2020–2021

Our Work Plan for 2020–2021

Introduction

This **Work Plan** for the period 2020–2021 sets out our specific projects and activities that we have identified to help us deliver on our strategic objectives (and strategic actions therein) as set out in our **Strategy for 2020–2023**. The Work Plan has been developed in the context of the **Framework for Activities** (the Framework). The Framework helps us select, prioritize and scope our work by setting out processes, procedures, and criteria for making decisions about how best to deploy our resources, which are inherently limited.

Our Work Plan sets out our best view of how we can most efficiently deliver International Standards and other activities to respond to our stakeholder needs and identified issues. Our commitment to projects and activities as set out in the Work Plan accounts for available resources (e.g., people, plenary time and operating budget), and the need for a balanced Work Plan. While recognizing calls from stakeholders for our efforts on a variety of important topics, a consideration in determining and prioritizing planned actions will also be how best to deploy the IAASB's resources.

The Work Plan has also been developed to illustrate the mix of activities that we have committed to in our strategy, and illustrates a shift in focus from our more recent Work Plans.

Our Detailed Work Plan for 2020–2021

Our detailed Work Plan is presented below and is our best estimate, at the time of publication, for how we will progress the various projects and workstreams. This Work Plan may change given the nature of the issues and the complexities of the projects, and the need to be flexible in responding to environmental changes.

Broadly, our time and effort in 2020 to 2021 will focus on:

- Initially, completing projects already underway.
- Activities to support the effective implementation of the recently issued, or completed, new and revised ISAs, and quality management standards.
- Information gathering and research to inform new projects to commence in the period.
- Monitoring the environment and timely analysis of new and evolving issues that may affect our standards, and related activities thereafter as needed.
- Developing our Framework for Activities.
- Outreach.

How We Determine Our New Activities and Priorities

Our *new* projects and activities that will commence in 2020 and 2021, as capacity opens up on completion of previous projects, will:

- ❖ Originate from the activities within the Information Gathering and Research workstream; and

- ❖ Be determined taking into account:
 - The global need for the work, and whether it is in the public interest to undertake the work.
 - Our capacity for new projects in relation to available resources.
 - The nature of the project or activity.
 - The ability of practitioners to be able to adopt the standard in a high-quality manner.

Pool of Possible Topics for Consideration

Information Gathering and Research is one of the components of the Framework for Activities, the outputs of which informs the Board's decisions about its future projects and workstreams. Those decisions determine the nature and scope of a new project(s) or workstream(s) in terms of one or a combination of the other components of the Framework for Activities (i.e., Revising and Developing Standards; Effectively Implementing New and Revised Standards; Developing Non-Authoritative Guidance; or Narrow Scope Maintenance of Standards).

Information Gathering and Research helps inform our future work through:

- **Category A**—Activities related to identifying areas where IAASB action may be needed, which will be informed by monitoring the environment, interacting with stakeholders and ongoing outreach. Once a possible new topic is identified it will move to Category B for more active information gathering and research.
- **Category B**—Exploring new *known* topics to further understand whether there are identifiable issues and challenges, that are globally relevant, and that may warrant further focused information gathering and research (i.e., will move to Category C). Appendix 2 sets out a list of the known topics that would form the basis of the work within Category B.
- **Category C**—Activities focusing on identified topics to determine recommendations for Board action (including the scoping of such activities), which may include new projects or workstreams to address identified issues and challenges.

The outcomes from the various categories as described above will be evaluated against relevant criteria (as set out in the Framework), which then guides our assessment about which projects or activities would provide the greatest public interest benefit to our stakeholders. In reflecting on the public interest benefits, we consider:

- The extent to which the action will further enhance the quality and value of audit, assurance and related services engagements globally:
- The appropriateness of the action to contribute overall to standards that are relevant, robust and operable in accordance with the needs of our stakeholders; and
- The extent to which the action serves to facilitate enhanced public confidence in financial and other external reporting.

DETAILED WORK PLAN Project	2020				2021			
	March	June	Sept	Dec	March	June	Sept	Dec
Develop and Maintain the IAASB's International Standards and Supporting Materials								
Complete Our Major Audit Quality Enhancements and Other Work Underway and Supporting and Facilitating Effective Implementation								
Revising and Developing Standards								
ISQM 1	X	F						
ISQM 2	X	F						
ISA 220 (Revised)	X	F						
ISA 600 (Revised)	E			X	X	X	F	
New Project Placeholder (Note 1)								
Development of Non-Authoritative Guidance and Other Activities Related to Standard-Setting								
Extended External Reporting (non-authoritative guidance)		X	X	F				
Technology (ongoing) (Note 2)		X		X		X		X
Professional skepticism (ongoing) (Note 2)			X		X		X	
Implementation Activities								
ISA 315 (Revised [2019])								
Revised Quality Management Standards (ISQM 1, ISQM 2, ISA 220)								
ISA 600 (Revised)								
Information Gathering and Research								
Auditor Reporting (Note 3)								
Audits of Less Complex Entities (Category C) (Note 4)	X	X						
Audit Evidence (Category C) (Note 4)	X	X						
Information Gathering and Research – Category B Topics			X		X		X	
Information Gathering and Research – Category A				X				X
Innovate Our Ways of Working to Strengthen and Broaden Our Capabilities								
Developing the Framework for Activities								
Strengthening collaboration efforts with NSS/IFAC								
Deepening our Relationships with our Stakeholders								
Outreach program								
Coordination with the IESBA			X				X	
Liaison activities with the IASB		X				X		

Key to Detailed Work Plan:

Appendix 1 sets out a description of each of the projects and workstreams included in the table above, which also categorizes the projects and workstreams by strategic action.

Cells with a(n):

- *Green highlight indicate expected Working Group, Task Force or Staff activity. The darker the shade of color, the more time and activity is needed for that particular workstream.*
- *'X' indicate that IAASB plenary meeting time is scheduled.*
- *'E' indicate the **targeted** publication of an Exposure Draft.*
- *'F' indicate the **targeted** finalization of a project.*

Notes:

1 = New project placeholders do not have time allocated due to the uncertain nature of what future committed work the IAASB will undertake. In addition, the new project may not necessarily be a new standard-setting project in which case this allocation would change to another category, or may be indicative of more than one or more projects or initiatives.

2 = Ongoing initiatives of the IAASB, including dedicated working groups to undertake ongoing information gathering and research activities, as well as working to a plan for the development of guidance and other publications as needed, and inputting to other IAASB projects as relevant.

3 = The findings from the Auditor Reporting Post Implementation Review, which commenced in 2019, may result in further work related to Auditor Reporting in 2020 and 2021.

4 = The outcome of information gathering and research activities may continue into 2020 (in which case there will be more Board discussions in 2020–2021) or may result in standard-setting or other activities. If standard-setting is undertaken, the projection of Board plenary discussions and timing of exposure drafts and finalization will be presented in this Work Plan at the time when the project proposal is approved.

Allocation of Resources

The IAASB Work Plan is still ambitious, and will draw on the full capacity of the IAASB to deliver high-quality standards, and undertake our activities, in a timely manner. The Work Plan as set out above is supported by a direct operating budget of approximately \$[12.5] million over the period (excluding operational support received from the International Federation of Accountants). The work that can be undertaken is also limited to the volunteer hours, consultant hours and staff capacity available to undertake activities that we have committed to. As projects and initiatives are completed, and resources become available, including budget that has not yet been allocated to work committed to, the IAASB will allocate these resources on the basis of information about new initiatives or projects that will need to be started (from the Information Gathering and Research component of the Framework) and past experience of the capacity needed to deliver our projects and initiatives.

Appendix 1

Description of Projects and Initiatives in the Work Plan 2020–2021

More information about our projects can be found on the project page: <https://www.iaasb.org/projects>. A direct link to the project page is included in the project title.

Develop and Maintain the IAASB's International Standards and Supporting Materials		Framework for Activities Component
Complete Our Major Audit Quality Enhancements and Other Work Underway and support and facilitate effective implementation		
Revising and Developing Standards and Non-Authoritative Guidance		
ISQM 1 – Quality Management at Firm Level	The purpose of the revisions to ISQC 1 is to improve firms' management of quality for all engagements performed under the IAASB's International Standards. This will be achieved through the introduction of a risk-based approach to the management of quality and strengthening various aspects of the standard, including governance and leadership, resources, information and communication, monitoring and remediation and networks.	Revising and Developing Standards
ISQM 2 – Engagement Quality Reviews	ISQM 2 aims to strengthen and clarify various aspects of engagement quality reviews, including the engagements to be subject to such reviews, the eligibility criteria for engagement quality reviewers and the performance and documentation of the reviews.	Revising and Developing Standards
ISA 220 – Quality Management at Engagement Level	The purpose of the revisions to ISA 220 is to strengthen aspects of quality management for individual engagements by focusing on the identification, assessment and response to quality risks in a broad range of engagement circumstances.	Revising and Developing Standards
ISA 600 – Group Audits	This project addresses revisions to ISA 600 to strengthen the auditor's approach to a group audit and clarify the role of ISA 600 in relation to other ISAs, such as ISA 220 (Revised), ISA 315 (Revised) and ISA 330.	Revising and Developing Standards
Extended External Reporting	The IAASB will continue to develop non-authoritative guidance in applying ISAE 3000 (Revised) to EER and continue to provide thought leadership on assurance issues in relation to EER. This includes determining the scope of an EER assurance engagement, exercising professional skepticism and professional judgment, obtaining the competence necessary to perform the	Developing Non-Authoritative Guidance

	engagement, and communicating effectively in the assurance report.	
Implementation Activities		
ISA 315 (Revised)	Activities to support awareness, understanding and effective implementation of ISA 315 (Revised) as needed.	Developing Resources for the Effective Implementation of New and Revised Standards
Quality Management Standards	Activities to support awareness, understanding and the effective implementation of the quality management standards as appropriate	Developing Resources for the Effective Implementation of New and Revised Standards
Information Gathering and Research		
Develop Ways to Address Complexity		
Audits of Less Complex Entities	in 2020 and 2021, the IAASB will analyze the responses from the Discussion Paper, <i>Audits of Less Complex Entities</i> , determine a way forward, and commence activities related to the determined actions.	Information Gathering and Research Activities
Challenge and Enhance the Fundamentals of Our International Standards		
Audit Evidence	The initial objective of this workstream is to perform further information-gathering and research activities to identify and prioritize audit-evidence-related issues when applying the ISAs, with the ultimate objective of developing informed recommendations for the Board's consideration of possible further actions to address such issues.	Information Gathering and Research Activities
Auditor Reporting	The monitoring of global developments in auditor reporting, with a focus on identifying practical implementation and other related issues that are causing the revised and new standards to not achieve their intended purpose. In addition, the post-implementation review will explore whether there are ways to improve the quality of the communication of key audit matters and other matters that could improve transparency about the audit that were not included in the new and revised Auditor Reporting Standards.	Information Gathering and Research Activities
Information Gathering and Research	The objective of the IAASB's research activities is to support future workstreams. Output from this stage informs the Board's decisions about its work streams.	Information Gathering and Research Activities
Technology	The objective of this workstream is to identify matters for which there is an opportunity for a more immediate response through developing and issuing guidance to address the effect of technology when applying certain aspects of the ISAs. The Technology Working	Information Gathering and Research Activities and Developing Non-Authoritative Guidance

	Group also work with other Task Forces and Working Groups to input on relevant matters relating to technology on current projects.	
Professional skepticism	The purpose of this workstream is to make recommendations on how to more effectively respond to issues related to professional skepticism. The Professional Skepticism Working Group also work with other Task Forces and Working Groups to input on relevant matters relating to professional skepticism on current projects.	Information Gathering and Research Activities
Innovate Our Ways of Working to Strengthen and Broaden Our Capabilities and Capacity		
Framework for Activities	Develop and implement a Framework for Activities that will include: <ul style="list-style-type: none"> • Undertaking more structured and robust information-gathering and research activities as a foundation for future work streams, while also providing transparency about the decisions made for the work we undertake. • Developing mechanisms for addressing issues and challenges on a more timely basis 	Strengthening and Broadening Capabilities and Capacity
Enhancing collaboration with NSS and IFAC	Explore new ways to expand our collaboration with national auditing standard setters and the International Federation of Accountants to optimize our activities, for example in relation to implementation support activities.	Strengthening and Broadening Capabilities and Capacity
Deepening our Relationships with our Stakeholders¹		
Coordination with the IESBA	Coordination activities with the IESBA involve proactive collaboration and transparent and timely communications between staff and members of the two Boards to determine and address matters of mutual impact.	Outreach
Liaison activities with the IASB	Continue our two-way liaison with the IASB providing input on the audibility and verifiability of new and revised International Financial Reporting Standards, thereby contributing to the quality of financial reporting.	Outreach

¹ Appendix 3 sets out details about the IAASB's outreach program

Possible Projects for Further IAASB Consideration

The IAASB's Information Gathering and Research Component of the Framework for Activities considers identified areas and issues, in particular whether further IAASB action is needed. In order to make these decisions, further information gathering and research will be undertaken to determine whether the following should be included on the IAASB's work agenda (including what the possible action may be), and its priority. The Following sets out those standards that will form the basis of Categories A and B of the Information Gathering component of the Framework for Activities (excluding those standards that are under active review in Category C (e.g., related to the Audit Evidence initiative) or there is a current project underway):

*[Note for IAASB – this list will need to be further developed and allocated to Categories A, B and C as the Framework for Activities is further developed. It is intended, at this stage, to provide an illustration of the types of topics that will be considered, based on suggestions received from respondents to the Strategy and Work Plan consultation and other work efforts of the IAASB (discussed in **Agenda Item 10**)]*

International Standards on Auditing:

- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*
- ISA 320, *Materiality in Planning and Performing an Audit*
- ISA 330, *The Auditor's Responses to Assessed Risks²*
- ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*
- ISA 505, *External Confirmations*
- ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*
- ISA 550, *Related Parties*
- ISA 570 (Revised), *Going Concern*
- ISA 620, *Using the Work of an Auditor's Expert*

Review Standards:

- ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

- ISAE 3400, *The Examination of Prospective Financial Information*

New / Other Topics:

- Guidance for joint audits
- Standards or non-authoritative guidance related to data analytics and new technologies

² A project to revise ISA 330 was strongly encouraged in the responses to ED-315.

- Industry-specific non-authoritative guidance for banks and insurance companies
- Post-implementation review of ISA 540 (Revised)
- Post-implementation review of ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*
- Guidance on internal control.
- Scoping of an audit (e.g., whether a binary audit report remains the right model; should audit report focus more on fraud; whether scope of audit should change, for example issue a report on internal controls).

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Our Outreach Program

Annually, IAASB representatives undertake outreach with the IAASB’s key stakeholders, to maintain the IAASB’s stakeholder relationships, obtain input and monitor developments within the environment. IAASB members and Staff also undertake a considered and active engagement strategy, including personal visits and meetings, participation in conferences, discussion groups and forums, as well as webinars and other methods of communication to inform and engage on technical topics. In 2020 and 2021 we will also be exploring new collaboration tools to reduce barriers to engagement with all our stakeholders.

Summary of Annual Stakeholder Engagement

It is intended that the following minimum stakeholder engagement will be undertaken by IAASB members, technical advisors and staff. In addition to the outreach listed below, the IAASB will focus on enhancing its outreach with certain stakeholder groups, such as investors and those charged with governance, that have had more limited outreach in the past strategy period.

Stakeholder	Description of Interactions
Consultative Advisory Group (CAG)	<ul style="list-style-type: none"> • Bi-annual 2-day meetings with CAG Representatives • Teleconferences with CAG Representatives as necessary
Other International Standard-Setting Boards	<ul style="list-style-type: none"> • Annual joint session with the International Ethics Board for Accountants (IESBA) and other collaboration activities as described in the Strategy and Work Plan • Annual IASB Update from a Representative of the International Accounting Standards Board, and annual meeting with IASB leadership • Regular interactions between chairs of other standard-setting setting boards to discuss areas of joint interest
Meetings with regulators and oversight bodies	<ul style="list-style-type: none"> • Annual or semi-annual meetings with representatives from, or presentations to regular meetings of: <ul style="list-style-type: none"> ○ The International Forum of Independent Audit Regulators, and its Standards Coordination Working Group ○ International Organization of Securities Commissions, and its Committee on Issuer Accounting, Audit and Disclosure ○ International Association of Insurance Supervisors ○ Basel Committee on Banking Supervision’s Audit Subgroup • Meetings with regulators and oversight bodies on “country visits” (see below)
National Standard Setters	<ul style="list-style-type: none"> • Annual two-day annual standard setters meeting with representatives from 18 standard setters globally

Stakeholder	Description of Interactions
	<ul style="list-style-type: none"> Meeting with representatives from standard-setters in “country visits” (see below)
IFAC Member Bodies and Accountancy Organizations	<ul style="list-style-type: none"> Meetings with representatives from member bodies on “country visits” (see below) Presentations about IAASB activities at member body conferences and forums Participation in panels at member body conferences and forums
Accounting firms	<ul style="list-style-type: none"> Presentations at, and participation in, bi-annual meetings of the Forum of Firms (representing the 31 largest networks) Meetings with firm leadership Presentations at global and regional conferences of firms
Public Sector	<ul style="list-style-type: none"> Attendance at annual INTOSAI Financial Audit and Accounting Subcommittee meetings
Academic Community	<ul style="list-style-type: none"> Presentations about IAASB activities at various academic related conferences
Country Visits	<ul style="list-style-type: none"> Meetings with relevant stakeholders including regulators and audit oversight bodies, NSS, member bodies, investor groups and others on a rolling basis globally.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5.1.0**

Meeting Date: 11 September 2019

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

Date Prepared: 4 September 2019

Prepared By: Anne Waters

Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the AUASB to consider the description of the auditor's responsibility in relation to going concern in the review report included in NZAuASB's ED;
2. To provide an initial update to the AUASB on the submissions received regarding ED 01/19 ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ED 01/19); and
3. Discuss the way forward, including the approach with finalising this standard and working with NZAuASB.

Background

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

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

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

6. The AUASB approved ED 01/19 at its meeting on 16 April 2019 and issued [Explanatory Memorandum and ED 01/19](#) on 16 May 2019, seeking feedback from stakeholders on proposed amendments to ASRE 2410.
7. At the time of the AUASB issuing ED 01/19 the NZAuASB were still deliberating on its proposed amendments to NZ SRE 2410 and had not considered the wording the AUASB had included in ED 01/19 on how to describe, in the auditor's review report, the auditor's responsibility relating to going concern. The NZAuASB considered this matter at its 5 June 2019 meeting, then again at a teleconference on 4 July 2019, then released their equivalent Exposure ED NZAuASB 2019-1 on 12 July 2019.
8. The AUASB and the NZAuASB have alternate views on how to describe, in the auditor's review report, the auditor's responsibility relating to going concern. Refer to paragraph 10 and following for analysis of this matter.
9. The AUASB issued an [Addendum to Explanatory Memorandum ED 01/19](#) on 19 July 2019 to:
 - (a) Communicate to Australian stakeholders the different options presented by the AUASB and the NZAuASB on how to describe in the auditor's review report the auditor's responsibility relating to going concern; and
 - (b) Request additional feedback on this issue, in order to inform the AUASB in its deliberations on the proposed amendments to ASRE 2410.

Matters to consider

Description of the auditor's responsibilities in relation to going concern

10. As the AUASB have not considered the final wording in NZAuASB's ED the following provides the background and technical analysis on this issue.
11. At its meeting on 5 December 2018 the AUASB first considered how to describe the auditor's responsibility in relation to going concern in the review report. The [ASRE 2410-Matters for the AUASB Consideration](#) paper included very early draft wording which was based on extant ASRE 2410 and ASA 700² (39) (iv):

Makes enquiries and performs review procedures about the appropriateness of the use of the going concern basis of accounting. If the auditor considers that a material uncertainty exists, the auditor is required to draw attention in the review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the conclusion. Our conclusions are based on the evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

12. At its meeting on 6 March 2019 the AUASB considered the first draft of ED 01/19 which included slightly different wording from above (ie. conclude rather than consider).

The auditor makes enquiries and performs review procedures about the appropriateness of the use of the going concern basis of accounting. If the auditor ~~considers~~ concludes that a material uncertainty exists, the auditor is required to draw attention in the review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify

² ASA 700 *Forming an Opinion and Reporting on a Financial Report*

the conclusion. Our conclusions are based on the evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

13. At this meeting the AUASB:
- (a) discussed that ASA 700 requires the description of the auditor's responsibility in relation to going concern in the annual auditor's report to the auditor's responsibility to conclude on the appropriateness of management's use of the going concern basis of accounting, and the reporting implications if the auditor concludes that a material uncertainty exists;
 - (b) discussed that the original wording in draft ED 01/19 was not appropriate and goes beyond the responsibility under ASRE 2410 for an interim review engagement. Specifically the wording in ASA700 and to "conclude" is consistent with the procedures for obtaining reasonable assurance when applying ASA 570³;
 - (c) agreed that it is in the public interest for users of financial reports to understand the difference between limited assurance versus reasonable assurance, and that the procedural requirement in ASRE 2410 (19) be included in the review report as this more accurately describes the auditor's responsibility in relation to going concern; and
 - (d) it was not necessary to include the impact on the review report if a material uncertainty exists consistent with ASA 700, as this will make the section too long and place too much emphasis on this matter.

The AUASB also discussed that the underlying requirements in ASRE 2410 in relation to going concern have not been updated for some time and did not have as many requirements as those in ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*. However the scope of the update to ASRE 2410 did not include changing underlying requirements, and it is appropriate for ASRE 2400 to include more requirements as the scope is different as it is a stand alone engagement relating to annual reporting period where there is no related audit of the entity. The AUASB agreed it was not appropriate to amend the underlying procedures in ASRE 2410 before this has been considered internationally, and the IAASB amend ISRE 2410.

14. Based on this the AUASB's again considered ED 01/19⁴ at its April 2019 meeting, and approved the following description of the auditor's responsibility in relation to going concern to be included in the auditor's review report, which is a direct reflection and an exact replication of the requirement contained in extant ASRE 2410 paragraph 19:

"We make enquiries about whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When as a result of this enquiry or other review procedures, we become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern:

- (a) *we enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and*
 - (b) *we consider the adequacy of the disclosure about such matters in the financial report."*
15. The NZAuASB considered this wording and concluded that they did not think this was appropriate to include the procedures as this was not adequately describing the auditor's responsibility. The NZAuASB also concluded:

³ ASA 570 *Going Concern*

⁴ ED 01/19 paragraph 37 (d).

- (a) it is appropriate to include the elements required by ISA (NZ) 700 (equivalent to ASA 700), modified for a review engagement, which includes a conclusion, and the reporting implications if there is a material uncertainty related to going concern;
 - (b) whilst NZ SRE 2410 is not explicit that the auditor shall conclude on the appropriateness of going concern basis of accounting, they consider that this is implicit and is consistent with what auditors do;
 - (c) if the report does not explain why the auditor is performing these procedures or what they found it may be unlikely to satisfy investor perceptions around the auditor's responsibilities; and
 - (d) references to other review procedures may increase the risk that the report could be misinterpreted by users.
16. The NZAuASB approved the proposed description of the auditor's responsibilities in relation to going concern included in NZAuASB's ED 2019-1:
- “Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions may cause the entity to cease to continue as a going concern”.*
17. Whilst the AUASB has not considered this specific wording previously as this was finalised after we had issued ED 01/19, the AUASB has previously discussed the principles i.e. the use of word “conclude” and that this was beyond the current requirements in ASRE 2410, as well as including the implications on the review report if a material uncertainty related to going concern is identified.
18. In re-considering the AUASB's conclusion based on the feedback from the NZAuASB's that using the wording of the procedures in ASRE 2410 was not an appropriate way to describe the auditor's responsibilities, the ATG bring to the AUASB's attention that the description of the auditor's responsibility in ASA 700. 39 (b) (iv) is a near repeat of the procedures to conclude in ASA 570.17 and 18. Even though these procedures are related to forming a conclusion, it supports that using procedures is not in appropriate, and further supports that the wording in ASA 700 is based on audit procedures under ASA 570.

Submissions received on ED 01/19

19. The AUASB received submissions from:
- (a) Deloitte
 - (b) CA ANZ
 - (c) KPMG
 - (d) Grant Thornton
 - (e) PwC
 - (f) CPA Australia

- (g) BDO
 - (h) Ernst and Young
20. Refer to the draft 5.1.1 Comments and Disposition on ASRE 2410 ED paper which includes the detailed comments received. Due to the short time frame since the comment period closed the AUASB Technical Group (ATG) have focused on the views of respondents on the description of the auditor's responsibility in relation to going concern and are still considering the other comments received.
21. Key feedback received:
- (a) All respondents indicated that were supportive of the scope of the update to ASRE 2410, including not requiring communication of key audit matters and an other information paragraph.
 - (b) Three respondents commented that the NOCLAR amendments needed to be revisited. This will be considered by the ATG;
 - (c) Mixed feedback on the inclusion of compliance frameworks in ASRE 2410 as this would be used rarely. But on balance the majority support this being included;
 - (d) All respondents agreed with how management's responsibility in relation to going concern have been described; and
 - (e) Some commented that the use of those charged with governance and management are not consistent and needs to be reconsidered. This will be reconsidered by the ATG.
22. In relation to the description of the auditor's responsibility in relation to going concern and the questions asked in the Addendum, all respondents emphasised the importance of the AUASB and the NZAuASB reaching consensus on this matter and issuing standards with the same requirements.
- We received mixed feedback on the wording included in ED 01/19 and NZAuASB's ED as follows:
- (a) Two respondents agreed that ED 01/19 reflects the existing responsibility in ASRE 2410 and did not consider that any changes were required;
 - (b) Three respondents did not agree that including the underlying procedural requirement from ASRE 2410 in the review report, as is done in ED 01/19, adequately described the responsibility. Another respondent indicated listing the procedures wasn't the most effective way of communicating the responsibilities, however was not strongly against this;
 - (c) Four respondents believe that the wording in ED 01/19 needs to be expanded to include the impact on the review report if there is a material uncertainty related to going concern or a modification, as is done in NZAuASB's ED;
 - (d) Seven respondents commented that ASRE 2410 does not require the auditor to "conclude" on the going concern basis of accounting, and they do not agree it is appropriate to include this as an explicit statement in the review report as is done in NZAuASB's ED. Respondents commented that this wording is appropriate for an audit and is not appropriate for a review engagement;
 - (e) Three respondents suggested that "However future events or conditions may cause the entity to cease to continue as a going concern" should be added to ED 01/19. Note this is consistent with ASA 700 and is also included in NZAuASB's ED. However one respondent does not agree with this being included in NZAuASB's ED;

- (f) The wording in ED 01/19 was not appropriate for an initial review engagement (one respondent); and
- (g) One respondent also suggested the AUASB should consider clarifying in the review report:
 - (i) What the auditor does not conclude on ie. Confirming the future viability of the entity;
 - (ii) That going concern remains an assumption by management about the foreseeable future and assurance cannot be placed on future events; and
 - (iii) That the going concern assumption is an area of significant judgement by both management and the auditor.

The ATG have not considered 22 (g) yet but will consider with the NZAuASB.

ATG recommendation and action for the AUASB

The feedback from respondents was mixed and on balance indicates that the description of auditor’s responsibilities in ED 01/19 needs to be revisited with the NZAuASB. Specifically the ATG’s recommendations are that the wording in ED 01/19:

- Be reconsidered including listing the procedures;
- Not include a specific statement that the auditor “concludes” on going concern;
- Be extended to include the impact on the review report if a MURGC; and
- Consider the need for guidance on initial review engagements (if the wording to “changed their assessment” is retained).

Do you agree with the AUASB’s recommendations?

23. Other feedback from respondents relevant to the scope of this project:
- (a) Consider allowing auditors to refer to a description of the relevant auditor’s responsibilities on the AUASB website, consistent with the requirements of ASA 700 (one respondent).
 - (b) The auditor’s responsibilities need to include the other key responsibilities of the auditor in conducting a review engagement, not solely those related to going concern. (one respondent).

Note raised by one (different) respondent. The ATG will consider this feedback and discuss with NZAuASB.

24. Respondents also commented that ED 01/19 should be amended to include more requirements and guidance in relation to going concern (which is not in the original scope of this project) as follows:
- (a) There is not sufficient clarity in ASRE 2410 as to the auditor’s responsibilities in relation to going concern. Given its importance suggest there needs to be a separate section in ASRE 2410 that explicitly addresses the auditor’s responsibility for going concern. Consider adding detail on what would be “adequate disclosure” consistent with ASA 570 paragraph 19 (one respondent)
 - (b) Add specific procedures currently in ASA 570 to be undertaken where there exists a material uncertainty in relation to going concern.

- (c) Existing paragraph 19 be amended to require the auditor to enquire about the basis for TCWG's assessment of the entity's ability to continue as a going concern.
- (d) Reference to ASA 570 as guidance when reviewing management's assessment of the entity's ability to continue as a going concern and determine the adequacy of disclosure.
- (e) Paragraph 23 of ED 01/19 should include requirements for obtaining written representations from management and, where appropriate, from TCWG, regarding their plans for future actions and the feasibility of these plans and appropriately reference to ASA 570.

ATG recommendation and action for the AUASB

Amending ASRE 2410 to provide additional requirements and guidance in relation to going concern is beyond the original scope of this project. The AUASB has previously agreed that it was not appropriate to move ahead of the IAASB on this important matter. However some of these suggestions would not involve extending the auditors responsibility.

The ATG is looking for preliminary views on updating ASRE 2410 for these comments? This will also be discussed with the NZAuASB.

- 25. The AUASB received other feedback which is yet to be considered and analysed by the ATG.

Next steps

- 26. The ATG will continue to work with the NZAuASB in the finalisation ASRE 2410. The NZAuASB comment period closes 14 October 2019 and they will consider at their meeting on 24 October 2019.
- 27. Given the range of different views the ATG recommend that the AUASB and NZAuASB Chair determine a process going forward for both boards to work together to finalise this standard. This may involve a sub-committee involving representation from both boards and staff.
- 28. The ATG are working towards providing a redrafted ASRE 2410 for consideration by the AUASB at its meeting on 3 December 2019.
- 29. The effective date will be reconsidered depending on the expected date of issue.

Question for the AUASB

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

- 30. Material Presented

Agenda Item	5.1.0 AUASB Board Meeting Summary Paper
	5.1.1 Comments and Disposition on ASRE 2410 ED

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AUASB Comments Received and Proposed Disposition Paper

AGENDA ITEM NO. **5.1.1**

Meeting Date: 11 September 2019

Subject: Comments received on Exposure Drafts – ED 01/19 Proposed Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity*

Date Prepared: 30 August 2019

Document Type: Exposure Draft

Proposed Title: ED 01/19 Proposed Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity*

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NOTE THAT THIS IS DRAFT AND NOT ALL COMMENTS HAVE BEEN CONSIDERED YET BY THE AUASB TECHNICAL GROUP AND THE AUASB

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LISTING OF RESPONDENTS

Short Form Name	Name	Date Received
Deloitte	Deloitte Touche Tohmatsu	12 August 2019
CA ANZ	Chartered Accountants Australia and New Zealand	26 August 2019
KPMG	KPMG	28 August 2019
GT	Grant Thornton Australia Limited	28 August 2019
PwC	PricewaterhouseCoopers	30 August 2019
CPA	CPA Australia Ltd	30 August 2019
BDO	BDO Australia Ltd	30 August 2019
EY	Ernst & Young	30 August 2019

Draft

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EXHIBIT 1: Comments received on Exposure Drafts – ED 01/19 Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity

Item No.	Question	Respondent Comment	ATG Commentary	Change to be made to Doc? Y/N
1	Do you agree with the scope and key proposals to incorporate the auditor’s reporting requirements made to the auditor’s report consistently into the auditor’s review report?	<p><u>Deloitte</u></p> <p>We agree with the scope and key proposals included within ED 01/19 as we understand that these proposed updates to ASRE 2410 are not intended to be all-encompassing and are an interim solution to provide consistency and reduce stakeholder confusion, whilst waiting for the IAASB to include ISRE 2410 on their work agenda for reassessment and updating.</p> <p>We acknowledge that the areas of Key Audit Matters and Other Information, and determining their applicability to review engagements, are significant and complex. Thus we agree with the AUASB’s approach of specifically excluding these from ED 01/19 and wait for actions and decisions to be made by the IAASB based on results of their Auditor Reporting post implementation review.</p>	Agree with ED 01/19 and no issues raised	N
		<p><u>CA ANZ</u></p> <p>We agree with the scope and key proposals. Since the auditor’s report was enhanced, there has been divergence in practice in relation to the format and content of interim review reports. While the AUASB’s Bulletin, Auditor review reports – the impact of the new auditor reporting requirements was a good initiative and well received, it does not completely alleviate this divergence. Therefore, we would prefer it to be mandated within a standard as opposed to just optional guidance.</p>	Agree with ED 01/19 and no issues raised	N
		<p><u>KPMG</u></p> <p>We agree with the scope and key proposals to incorporate the relevant auditor’s reporting requirements into the auditor’s review report.</p> <p>However, we wish to raise the following items to the AUASBs attention.</p> <p>Global consistency: We consider global convergence of auditing standards, where possible, to be fundamentally important to achieving audit quality and consistency in</p>	Agree with ED 01/19 and no issues raised	N

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		<p>global practice. We strongly encourage the AUASB to closely monitor updates in the IAASBs work plan, including international updates to the review suite of standards and any changes resulting from the IAASB’s Auditor Reporting post implementation review, with the objective of global convergence/consistency.</p> <p>Other review standards: We believe that the AUASB should consistently incorporate the relevant reporting changes, to the full suite of Australian review standards. We believe consistent application is necessary to avoid differential performance and reporting requirements for practitioners in applying the review standards. To illustrate this point, ASRE 2400.Aus87.1 requires the auditor to add an Emphasis of Matter paragraph to the assurance practitioner’s report (to highlight a material uncertainty relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern) however proposed ASRE 2410 requires a “Material Uncertainty Related to Going Concern”.</p> <p>Application of Key Audit Matters (KAMs) to Review Reports: We agree with the AUASB that it is not an appropriate time to consider including KAMs in auditor’s review reports. Further, the premise of a review engagement is a limited level of assurance and involves limited procedures such as analytical review and enquiry etc. To include “key audit/review matters” in a review report may imply that we had undertaken more test procedures, at a higher level of precision, and provided a greater level of assurance, than limited assurance is designed to give.</p> <p>Other Information reporting requirements: We agree with the AUASB that it is not an appropriate time to consider including Other Information reporting requirements in auditor’s review reports and that any further considerations should be made following the IAASB’s Auditor Reporting post implementation review.</p>	<p>No impact on ED 01/19, to be considered going forward.</p> <p>Agree with ED 01/19 and no issues raised</p> <p>Agree with ED 01/19 and no issues raised</p>	<p>N</p> <p>N</p> <p>N</p>
		<p><u>GT</u></p> <p>We welcome the proposed changes to the scope and key proposals. Since the introduction of the revised ASA 701, there has been confusion in on the format for review opinions. We welcome the amendment to the standard in place of the extant guidance provided by the AUASB which, while well-received, did not create the harmonisation required.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<p><u>PwC</u> Yes.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u> Yes, we are supportive of the scope and key proposals which provide consistency between the interim review report and the annual auditor’s report.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>BDO</u> Yes, on balance, we agree with the scope and key proposals to incorporate the auditor’s reporting requirements made to the auditor’s report. This ensures consistency in reporting and adopts the guidance from the previous AUASB Bulletin.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>EY</u> Overall, we support the proposed amendments outlined in ED 01/19 which aim at enhancing the current ASRE 2410 by aligning the format and content, where applicable to a review engagement, of the auditor’s review report in ASRE 2410 to the auditor’s report requirements in ASA 700 <i>Forming an Opinion and Reporting on the Financial Report</i>, ASA 705 <i>Modifications to the Opinion in the Independent Auditor’s Report</i> and ASA 706 <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report</i> and the conforming amendments, relevant to a review engagement, as a result of recent changes to ASA 250 <i>Considerations of Laws and Regulations in the Audit of a Financial Report</i>.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
<p>2</p>	<p>Do you agree with the proposed amendments to incorporate conforming amendments as a result of</p>	<p><u>Deloitte</u> We agree with the AUASB’s proposed amendments regarding NOCLAR which updates wording to be consistent with ASA 250 and expands the requirements when a matter comes to the auditor’s attention.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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	<p>the IAASB’s project regarding non-compliance with laws and regulation (NOCLAR)?</p>	<p><u>KPMG</u></p> <p>We agree with the proposed amendments to incorporate conforming amendments in the proposed ASRE 2410 as a result of the IAASB’s (and IESBA’s) projects regarding non-compliance with laws and regulations.</p> <p>As discussed at 1) above, we believe the conforming amendments should be consistently applied to the full suite of Australian review standards and the IAASB suite of review standards to achieve consistency in global practice.</p> <p>NOCLAR</p> <p>The NOCLAR related amendments in proposed ASRE 2410 do not appear to cover the extent of the auditors obligations covered in ASA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> and where relevant, APES 110 <i>Code of Ethics for Professional Accountants</i> including:</p> <ul style="list-style-type: none"> • Communication with Respect to Groups (ASA 250.9(b)) • Documentation requirements (ASA 250.9(c) and ASA 250.30) <p>We observe that this could be addressed in a similar way to Proposed ASRE 2410.A36. e.g. Auditors conducting a review engagement under this auditing standard are not required to comply with ASA 250. However, ASA 250 includes guidance which may be useful.</p> <p>Other matters</p> <p>We have included additional observations and considerations for the AUASB in Appendix 3 to this letter.</p>	<p>Agree with ED 01/19 and no issues raised</p> <p>No impact on ED 01/19, to be considered</p> <p>Yet to be considered</p>	<p>N</p>
		<p><u>GT</u></p> <p>The consequential amendments from ASA 250, appear to not address all areas noted in paragraph 23 – 25. We would recommend referring to ASA 250 to highlight the</p>	<p>Yet to be considered.</p>	

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		<p>complexity in assessing this area for discussion and conclusion in relation to the impact on the review.</p>		
		<p><u>PwC</u> Yes, for the purpose of consistency and overall compliance with the ethical standards.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u> Yes, we support amendments to reflect NOCLAR so that practitioners are clear on their responsibilities with respect to following up on instances of or suspected NOCLAR when conducting reviews. However, we consider that the applicable requirements of the APES 110 with respect to NOCLAR need to be more fully addressed in the revised standard. Whilst APES 110 provides two sets of NOCLAR requirements, one for “audits of financial statements” (APES 110 paragraphs 225.12-.38 which are reflected in ASA 250) and another for “professional services other than audits of financial statements” (APES 110 paragraphs 225.39-.56), we consider that the NOCLAR requirements for “audits of financial statements” are appropriate for review engagements conducted by the auditor of the entity. The NOCLAR requirements for “professional services other than audits of financial statements” address communication with the external auditor, which is not applicable to engagements under ASRE 2410. The AUASB seems to have also reached that view as ED 01/19 directs auditors to ASA 220 for guidance. The revised ASRE 2410 should clearly link to these requirements in APES 110 by way of footnote. ASA 220 is also useful in drafting additional requirements. Whilst additional requirements for NOCLAR are included in paragraph 30 of the ED, we consider that the following amendments are also needed:</p> <ul style="list-style-type: none"> a) Inclusion of requirements under the heading “Enquiries, Analytical and Other Review Procedures” for: <ul style="list-style-type: none"> (i) the auditor to enquire about whether the entity is aware of any NOCLAR (See ASA 250 paragraph 15), and (ii) if the auditor becomes aware of an instance or suspects NOCLAR, to obtain an understanding of the nature of the act and the circumstances in which it has 	<p>Yet to be considered</p>	

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		<p>occurred, as well as further information to evaluate the possible effect on the financial report (See ASA 250 paragraph 19).</p> <p>b) Amendment of paragraph 30 to better reflect the communications the auditor would need to undertake under APES 110. In particular, rather than requesting “management’s assessment of the effect on the financial report” (subparagraph 30(b)), we consider there should be a requirement to address the circumstance where management or those charged with governance (TCWG) may be involved in the NOCLAR and consider the need to obtain legal advice. (See ASA 250, paragraphs 25).</p> <p>We support reference to ASA 250 as a source of guidance. However, we consider that this reference would be better placed in paragraph A39, which is directly referenced in paragraph 30 with respect to the NOCLAR requirement. The reference in subparagraph A20(d)(xv) to ASA 250 could also be retained if it was linked to a requirement for enquires regarding NOCLAR as suggested in (a) above.</p>		
		<p><u>BDO</u></p> <p>Yes, we support inclusion of the conforming amendments with respect to NOCLAR.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
<p>3</p>	<p>Do you agree with including reviews of financial reports prepared in accordance with a compliance framework explicitly in the scope of ASRE 2410?</p>	<p><u>Deloitte</u></p> <p>Given that ASRE 2410 is predominantly used for listed entity half-year financial report review engagements and other types of financial report review engagements prepared in accordance with a fair presentation framework, we don’t believe there are many practical instances where a financial report prepared in accordance with a compliance framework would be reviewed by the auditor (as these types of engagements would commonly fall under the realm of ASRE 2405 instead).</p> <p>We don’t disagree with the AUASB’s proposed amendments to include reviews of financial reports prepared in accordance with a compliance framework implicitly within ASRE 2410 for completeness purposes, however we do not think it is critical as it is not the key focus area or use of the standard.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<p><u>CA ANZ</u></p> <p>While we acknowledge reviews of interim financial reports prepared in accordance with compliance frameworks are not inconceivable, we expect them to be rare. If ASRE 2410 is to also include reference to compliance frameworks, we have the following observations:</p> <ul style="list-style-type: none"> • Appendix 2, detailed procedure 9 (page 45 of the ED) uses the term “fairly presented.” • Paragraph A2 appears to only address fair presentation frameworks. • The fifth bullet on page 32 of the ED appears to be inconsistent with the amendments to paragraph 11(a). • Paragraph 35(a) appears to be inconsistent with the amendments to paragraph 11(a). 	<p>Agree with ED 01/19 and no issues raised</p> <p>Yet to be considered.</p>	<p>N</p>
		<p><u>KPMG</u></p> <p>In our experience, whilst rare, it is possible for financial reports to be prepared in accordance with a compliance framework and be subject to a review that meets the scope of ASRE 2410. Including for example,</p> <ul style="list-style-type: none"> • Interim Financial Reports prepared by a component of a Group for Group consolidation purposes; • Completion Financial Reports prepared in accordance with a purchase/sale agreement between a buyer and seller; • Financial Reports prepared in connection with a transaction, such as an Initial Public Offering; • Other Financial Reports or complete sets of financial statements prepared in connection with other contracts, agreements or regulations. 	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<p>In the absence of existing guidance, practitioners may have reverted to the requirements and guidance in other auditing standards, such as ASRE 2405 <i>Review of Historical Financial Information Other than a Financial Report</i>, to appropriately deal with the form and content of the auditor’s review report and conduct of the review.</p> <p>To create consistency in practice and greater clarity for auditors, we therefore agree with including reviews of financial reports prepared in accordance with a compliance framework explicitly within the scope of proposed ASRE 2410.</p> <p>We are also aware of other jurisdictions that include compliance frameworks within the scope of their equivalent standards, including the New Zealand’s NZ SRE 2410 <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i> and ISA 2410 <i>Review of Interim Financial Information performed by the Independent Auditor of the Entity</i>.</p>		
		<p><u>GT</u></p> <p>The proposed amendments to ASRE 2410 are similar to the amendments to ASRE 2400 <i>Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity</i>. If the proposed amendments to ASRE 2410 are to bring in the compliance framework, there are current drafting issues around consistency, specifically paragraph 33(e) and paragraph 36 that would need to be considered.</p>	Yet to be considered	
		<p><u>PwC</u></p> <p>Yes, as the financial reports subject to review by the auditor of an entity are at times prepared in accordance with a compliance framework. It is therefore beneficial to explicitly include them within the scope of the standard.</p>	Agree with ED 01/19 and no issues raised	N
		<p><u>CPA</u></p> <p>Whilst we agree that theoretically reviews by the auditor of the entity under a compliance framework may occur, in addition to reviews under a fair presentation framework, we believe in practice this scenario would very rarely arise as the standard is applicable</p>	Yet to be considered	

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		<p>primarily to interim reviews required under the Corporations Act. Therefore, we suggest that minimum attention be given to compliance frameworks.</p> <p>We recommend that the definition in paragraph 5 of financial reporting framework could be revised to reference compliance frameworks, but then include the statement along the lines that “this standard does not address the circumstance where a review is conducted by the auditor of the entity on a financial report prepared under a compliance framework as it is expected to rarely occur. However, the requirements can be adapted for that purpose.”</p> <p>Furthermore, we suggest deletion of the example report: Example F - Unmodified Auditor’s Review Report on a Financial Report Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Compliance as we believe it will only serve to cause confusion regarding the appropriate auditor’s review report to use. Likewise, the following paragraphs and footnote could be deleted or amended: 33(e)(iii), A41 and footnote 20 on page 38.</p> <p>We also recommend reinstating the references to fair presentation frameworks in paragraphs 11(a) and 35(a), and the retention of a reference to fair presentation framework in paragraph A2, the conformity statement, and Appendix 2 illustrative procedures.</p>		
		<p><u>BDO</u></p> <p>Yes, we agree with broadening the scope of ASRE 2410 to include reviews of financial reports prepared in accordance with a compliance framework. This ensures consistency with ISRE 2410 and is consistent with ASRE 2405, which already considers compliance frameworks.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
<p>4</p>	<p>Do you agree with how the responsibilities of management for the financial report, and the auditor’s responsibilities for the review of the</p>	<p><u>Deloitte</u></p> <p>We agree with how the responsibilities of management for the financial report and the auditor’s responsibilities for the review of the financial report are described in the auditor’s review report, which include enhanced disclosures about the responsibilities of both parties relating to going concern, except for the following points with respect to the auditor’s responsibilities section:</p>	<p>Refer to BMSP</p>	<p>N</p>

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	<p>financial report, are described in the auditor’s review report? Refer to paragraph 18 and 19 for detail on the AUASB’s deliberations.</p>	<ul style="list-style-type: none"> • The opening sentence reads as follows: <i>“We make enquiries about whether those charged with governance have changed their assessment of the entity’s ability to continue as a going concern.”</i> <p>The above wording seems to be appropriate for a recurring review engagement (which would be predominantly applicable to a listed entity), but this may not be the case for an initial review engagement or a review engagement other than for a listed entity, as it relies on and builds on previous knowledge and information.</p> <p>We recommend that the AUASB reassesses the proposed wording to reconsider whether it is applicable in all situations and if not, determine whether changes are required to the wording or further guidance should be provided.</p> <ul style="list-style-type: none"> • The second part of the section reads as follows: <i>“When as a result of this enquiry or other review procedures, we become aware of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern:</i> <p><i>(a) we enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and</i></p> <p><i>(b) we consider the adequacy of the disclosure about such matters in the financial report.”</i></p> <p>Unlike the auditor’s responsibilities section of the auditor’s report under ASA 700, the proposed wording doesn’t extend to include reference to the situation whereby the outcome of parts (a) and (b) as per above are insufficient or inadequate, and the auditor would modify their conclusion.</p> <p>We recommend that the AUASB reassesses the proposed wording to reconsider whether it is applicable to extend the wording to refer to the situation when a modified conclusion would apply, which aligns conceptually with the equivalent paragraph in the ASA 700 auditor’s report.</p>		

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		<p>We also specifically highlight that it is appropriate for management’s responsibilities for going concern to be consistent with that included in ASA 700 relating to audits of financial reports, whereas the auditor’s responsibilities for the review of a financial report are less onerous than for an audit and thus the wording in the auditor’s review report is different to that included in the auditor’s report as per ASA 700.</p> <p><u>CA ANZ</u></p> <p><u>Responsibilities of management for the financial report</u></p> <p>The terms “management” and “those charged with governance” appear to be used interchangeably and inconsistently at times throughout the ED. While it reflects that the roles are not always distinct, it may be confusing, so we recommend the board analyses the usage of these terms. In addition, other terms may be used, therefore the statement in paragraph 35, “The report shall use the term that is appropriate ... and need not refer specifically to “management”,” is key and may be highlighted in all relevant places (especially in the illustrative reports, by way of a footnote or otherwise) to the effect of “or other term that is appropriate.”</p> <p><u>Auditor’s responsibility for the review of the financial report</u></p> <p>See our responses below to the Addendum questions for our views on how the auditor’s responsibilities in relation to going concern are described.</p> <p><u>KPMG</u></p> <p>We agree with how the responsibilities of auditors and management are described in the auditor’s review report, including those relating to going concern.</p> <p>We ask the AUASB to consider allowing auditors to refer to a description of the relevant auditors responsibilities on a website of an appropriate authority, such as the AUASB website, consistent with the requirements of ASA 700.</p> <p>Refer to related comments on the specific questions raised in the Addendum to Explanatory Memorandum for ED 01/19 in Appendix 2 to this letter.</p>	<p>Yet to be considered</p> <p>Agree with ED 01/19 and no issues raised</p> <p>Refer to BMSP</p>	<p></p> <p>N</p>

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		<p><u>GT</u></p> <p>The responsibilities of management for the financial report are highlighted throughout the standard. We would request, however, that the AUASB reviews the usage of "Management" and "Those Charged With Governance" throughout the ED. Currently, these terms are interchanged throughout the standard. Please refer to our responses to the addendum question on the auditor’s responsibilities for the review of financial report.</p>	<p>Yet to be considered</p>	
		<p><u>PwC</u></p> <p>Yes, as this provides an additional level of consistency with the form of the audit report, whilst appropriately reflecting the requirements of ASRE 2410. Refer to question 12 & 13 for additional detail.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u></p> <p>Whilst the responsibilities of the auditor and management required to be included in the review report have been expanded relative to the extant standard in paragraph 37(d) and in the illustrative reports, we note that those responsibilities do not encompass all of the key matters for which the auditor is responsible. The additional responsibilities included in the proposed review report only incorporate the procedures the auditor is required to conduct in relation to going concern, as detailed in paragraph 19. By ignoring other key procedures, this creates an imbalance in the matters reported, potentially over-emphasising the procedures conducted in relation to going concern.</p> <p>We consider that the auditor’s responsibilities described in the review report could be more closely aligned with those detailed in the auditor’s report under ASA 700. For example, in addition to “making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures” (which addresses the procedures in para. 16), other key procedures in ASRE 2410 that should be described in the review report include:</p> <ul style="list-style-type: none"> • Understanding of the entity and its environment, including its internal control, sufficient to plan and conduct the engagement so as to be able to identify the types of potential material misstatements and consider the likelihood of their 	<p>Yet to be considered</p>	

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		<p>occurrence, and select the enquiries, analytical and other review procedures that will provide the auditor with a basis for their review conclusion (para. 13)</p> <ul style="list-style-type: none"> • Consideration of materiality, using professional judgement, when determining the nature, timing and extent of review procedures, and evaluating the effect of misstatements (para. 15) • Obtaining evidence that the financial report agrees or reconciles with the underlying accounting records. (para. 17) • When a matter comes to the auditor’s attention that leads the auditor to question whether a material adjustment should be made for the financial report to be prepared, in all material respects, in accordance with the applicable financial reporting framework, making additional enquiries or perform other procedures to enable the auditor to express a conclusion in the auditor’s review report. (para. 20) <p>This list may not be complete and would need further consideration in order to appropriately summarise the responsibilities reflected in ASRE 2410. By including all of the auditor’s key responsibilities in conducting a review in the review report, it puts the going concern procedures into context.</p> <p>In addition, we do not consider that procedures required on going concern are adequately reflected in the review report wording, as the report only reflects the procedures in paragraph 19, but fails to encapsulate the response to the outcome of those procedures in paragraphs 50-52. We consider that the wording used by the NZAuASB in its ED on NZ SRE 2410 explains what is done more clearly and clarifies the period considered and the risk that conditions may change, as well as aligning closely to ASA/NZ ISA 700 report wording. The words in ED NZ SRE 2410 are:</p> <p>“Based on the review procedures performed, we conclude whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by [those charged with governance] is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the [period] financial statements</p>		

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		<p>or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the procedures performed up to the date of the review report. However, future events or conditions may cause the entity to cease to continue as a going concern.”</p> <p>In addition, we consider that paragraph 19, which requires the auditor to “enquire whether those charged with governance have changed their assessment of the entity’s ability to continue as a going concern”, could be more clearly expressed. Even though it remains unchanged from the extant standard, we suggest the procedures could instead require the auditor to enquire about the basis for TCWG’s assessment of the entity’s ability to continue as a going concern.</p> <p>Finally, we question why “Those Charged with Governance” are not referred to in the review report examples. We suggest that Those Charged with Governance are added to title “the responsibilities of Management for the Financial Report” and the wording from example reports in ASA 700 be included: “Those charged with governance are responsible for overseeing the Entity’s financial reporting process.” Overall, we recommend consideration of whether the terms “those charged with governance” and “management” have been consistently applied throughout the standard.</p>		
		<p><u>BDO</u></p> <p>Please refer to the ‘Addendum questions’.</p>	Noted	N
		<p><u>EY</u></p> <p>We agree with the description of the responsibilities of management for the financial report, as described in the auditor’s review report.</p> <p>We believe the description of the auditor’s responsibilities, particularly in relation to going concern, as drafted in ED 01/19 reflects the requirement of paragraph 19 of the ED 01/19 but, it does not include the reporting responsibilities included within paragraph 50-52 of ED 01/19, which align to the auditor’s responsibilities on reporting under ASA 700.</p> <p>In specific consideration of the NZAuASB suggested wording of the description of the responsibility in respect of going concern, we believe:</p>	Noted on the suggested wordings	Y/N

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		<ul style="list-style-type: none"> • Considering the scope of proposed amendments of AuASB’s ED 01/19 and the equivalent NZAuASB ED are mainly to the reporting requirements and do not substantially change the work performed by auditors when performing review of a financial report, the auditor’s review report to, explicitly, state a responsibility to conclude on going concern basis inquiries, may be onerous on the practitioner. • The description in the NZAuASB draft: <i>“Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate”</i> may seem to indicate a requirement to express a conclusion on the going concern basis of accounting in addition to the conclusion on the financial report in its entirety under ASRE 2410. <p>It could be argued that the current wording in AuASB’s ED 01/19 appears to place undue emphasis on the auditor’s responsibility to inquire of those charged with governance and lesser emphasis on the consideration of evidence gathered from other review procedures to become aware of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.</p> <p>We suggest the following changes to the description of the auditor’s responsibilities relating to going concern to reflect the considerations discussed above:</p> <p><i>“We make enquiries about whether those charged with governance have changed their assessment of the entity’s ability to continue as a going concern. When as a result of this enquiry or other Based on the review procedures performed, including enquiries of those charged with governance, if we become aware of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, we further enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the</i></p>		

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		<p><i>related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusion is based on the procedures performed up to the date of the review report, however future events or conditions may cause the entity to cease to continue as a going concern. we consider the adequacy of the disclosure about such matters in the financial report.</i></p>		
5	Do you consider that there are any further amendments required to be made to ASRE 2410?	<p><u>Deloitte</u></p> <p>Refer to Appendices 2 & 3 for our specific comments and recommendations.</p>	For Appendix 2, refer to “Comments received on Addendum to Explanatory Memorandum ED 01/19 below”, for Appendix 3, refer to “Other comments yet to be addressed” below.	N
		<p><u>CA ANZ</u></p> <p>It is not clear what “adequate disclosure” would be in an interim financial report when there is a material uncertainty relating to an event or condition that casts significant doubt on the entity’s ability to continue as a going concern. In contrast, paragraph 19 of ASA 570 prescribes four specific disclosure requirements for annual financial statements that are subject to audit:</p> <ul style="list-style-type: none"> • The principal events or conditions that may cast doubt on the entity’s ability to continue as a going concern; • Management’s plans for dealing with these events or conditions; 	Not in scope of this project.	

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		<ul style="list-style-type: none"> • That there is a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern; and • That, therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. 		
		<p><u>GT</u></p> <p>ASA 570 currently provides specific procedures in relation to suggested audit procedures to be undertaken where there exists a material uncertainty related to going concern. These audit procedures would be beneficial to also add to ASRE 2410. The procedures we would welcome being brought into the standards include:</p> <ul style="list-style-type: none"> - an update on management’s assessment of going concern from the year end audit; - evaluation of management’s plans for future actions; - analysis of the cash flow forecast; - consideration of additional information that has come to light during the course of the review; and - management representations where appropriate. 	<p>Outside scope of this project.</p>	
		<p><u>PwC</u></p> <p>None noted.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u></p> <p>We recommend that:</p> <ul style="list-style-type: none"> • “auditor of the entity” is defined to clarify that it means the auditor of the entity’s annual financial report, 	<p>Out of scope</p>	

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		<ul style="list-style-type: none"> the titles of the illustrative review reports in Appendix 4 are simplified to be consistent with ASA 700. For example: “Unmodified Auditor’s Review Report on a Financial Report, Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation” could be simplified to “Example Review Report, Unmodified, Single Entity, (Fair Presentation Framework)”. Consideration could also be given to mirroring the examples provided in ASA 700 and ASA 705, so it is clear which is the equivalent review report, and reference is made to ASA 570 as guidance when reviewing management’s assessment of the entity’s ability to continue as a going concern and determining the adequacy of disclosure of a material uncertainty in relation to going concern. 		
		<p><u>BDO</u></p> <p>No, not currently. Consideration has been given to ‘Other Information’ in a review context, but we agree that it is not appropriate to include a section on Other Information in a review report. Similarly, we support the exclusion of Key Audit (Review) Matters for review engagements.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>EY</u></p> <p>We believe , paragraph 23 of ED 01/19 should include requirements for obtaining written representations from management and, where appropriate, from those charged with governance, regarding their plans for future actions and the feasibility of these plans and appropriately reference the requirements to paragraph 16(e) of ASA 570 on <i>Going Concern</i>.</p>	<p>Yet to be considered</p>	
<p>6</p>	<p>Do you agree with the proposed effective date? If not, please explain why not.</p>	<p><u>Deloitte</u></p> <p>We believe that there would be a sufficient timeframe for stakeholders to implement changes relating to ED 01/19 if the updated ASRE 2410 standard is released by the end of this calendar year.</p>	<p>Illustrative reports and engagement letters not mandatory.</p>	

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		<p>We note that illustrative auditor’s review reports are included as appendices to engagement letters, and for financial periods commencing 1 January 2020, these would typically be issued to clients in the first half of 2020. If the updated ASRE 2410 standard is not issued by the AUASB until 2020, then it may not allow sufficient time for firms to adapt processes and templates and issue appropriate internal communications and guidance to allow for the inclusion of illustrative review reports in accordance with the updated ASRE 2410 to be included as part of the engagement letters.</p>	<p>Effective date to be considered.</p>	
		<p><u>KPMG</u></p> <p>We support the proposed effective date of financial reporting periods commencing on or after 1 January 2020.</p> <p>We observe however that the majority of reviews of half-year financial reports prepared in accordance with Division 2, Part 2M.3 of the Corporations Act 2001 exhibit 31 December half-year period ends. Therefore, the proposed standard will not achieve its full impact in the Australian market until 31 December 2020. We ask the AUASB to consider whether a proposed effective date of financial reporting periods ending on or after 31 December 2019 is more suitable to meet its objectives in amending the standard.</p>	<p>Effective date to be considered.</p>	
		<p><u>GT</u></p> <p>We agree with the proposed effective date insofar as it brings into effect consistent presentation of auditor reports.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>PwC</u></p> <p>We agree with the proposed effective date of financial periods commencing on or after 1 January 2020, as the amendments are restricted mainly to the form of the review report and should not result in significant additional work effort.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u></p> <p>Whilst an effective date of periods commencing on or after 1 January 2020 provides a very short implementation period, we consider that the amendments do not change the fundamental work effort which currently should be undertaken. It largely impacts the</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<p>report format and content which should not present much difficulty to implement. The revisions also reflect other existing requirements such as those in relation to NOCLAR, which need to be brought to the reviewer’s attention. Consequently, unless there is a significant delay in publishing the final standard, we agree with the effective date as drafted.</p>		
		<p><u>BDO</u> Yes, we agree with the proposed effective date.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>EY</u> We support the proposed effective date allowing an option for early adoption. In our view, considering the key amendments primarily intend on alignment of auditor’s review report in ED01/19 to the auditor’s report requirements in ASA 700, the key stakeholders including practitioners will benefit from early adoption of the amendments, for auditor’s review reports for the half year ending 31 December 2020, which would allow demonstrating consistency, to the extent relevant for a review engagement, to the most recently issued auditor’s report under ASA 700.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
<p>7</p>	<p>Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?</p>	<p><u>Deloitte</u> Nothing further to note.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>KPMG</u> Other than the matters covered at 5) above, we believe applicable laws and regulations have been appropriately addressed in the proposed standard and that no references to relevant laws or regulations have been omitted.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>GT</u> We are not aware of any laws or regulations that have not been included or addressed in the proposed ED.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<p><u>PwC</u> None noted.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u> Yes, we consider that laws and regulations been appropriately addressed. We have not identified any omissions.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>BDO</u> We are not aware of any applicable laws and regulations that have been omitted from the proposed standard. We do not have any further specific comments at this point in time.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
<p>8</p>	<p>Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?</p>	<p><u>Deloitte</u> None noted.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>KPMG</u> We do not believe any applicable laws or regulations prevent, impede or conflict with the proposed standard.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>GT</u> We are not aware of any laws or regulations that would prevent or impede the application of the proposed ED.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>PwC</u> None noted.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u> We have not identified any such laws or regulations.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<p><u>BDO</u></p> <p>We are not aware of any laws or regulations that may prevent or impede the application of ASRE 2410 or conflict with the proposed standard.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
<p>9</p>	<p>Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?</p>	<p><u>Deloitte</u></p> <p>None noted.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>KPMG</u></p> <p>Other than the matters covered at 1) above, we are not aware of any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may impact the application of, or conflict with, the proposed standard.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>GT</u></p> <p>We are not aware of any principles or practices that would prevent or impede the application of the proposed ED.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>PwC</u></p> <p>None noted.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u></p> <p>We have not identified any such principles and practices.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>BDO</u></p> <p>In our view, there are no evident principles or practices that prevent, or impede, the application of the proposed standard, nor do we see any conflicts in that regard.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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10	<p>What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:</p> <p>a. Where these costs are likely to occur;</p> <p>b. The estimate extent of costs, in percentage terms (relative to audit fees); and</p> <p>c. Whether expected costs outweigh the benefits to the users of audit services?</p>	<p><u>Deloitte</u></p> <p>None noted.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>KPMG</u></p> <p>We do not expect significant incremental costs to the business community arising from changes to the proposed standard.</p> <p>We would like to highlight the following additional costs we expect auditors to incur from compliance with the main changes to the requirements of this proposed standard.</p> <p>These costs, whilst not significant, are a result of deviating from our global audit methodology and associated guidance and include: localisation of our audit platform for review engagements in accordance with proposed ASRE 2410, local methodology and guidance customisation, and updates to management representation letter templates and review report templates. These deviations may cause confusion for auditors when working as component engagement teams on global Group audits and will require customised local learning for our auditors. We do not expect these anticipated costs to outweigh the benefits to the users of audit services.</p>	<p>Noted.</p>	<p>N</p>
		<p><u>GT</u></p> <p>We do not envisage any significant additional costs arising from the application of the proposed ED.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>PwC</u></p> <p>No significant additional costs expected as a result of the proposed amendments. There is significant benefit to be gained from consistency in the form of audit and review opinions.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u></p> <p>We do not consider that the revised standard will have any significant cost implications.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<p><u>BDO</u></p> <p>Overall, we do not expect the costs to be significant as this is an enhancement rather than a significant change. Areas where firms will incur time include the updating of template suites, education of engagement teams and communications with clients on the key changes.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
11	<p>Are there any other significant public interest matters that stakeholders wish to raise?</p>	<p><u>Deloitte</u></p> <p>Nothing further to note.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CA ANZ</u></p> <p>We consider it in the public interest that the AUASB and NZAuASB reach agreement on the wording of the auditor’s responsibilities in relation to going concern in the interim review report.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>KPMG</u></p> <p>There are no other significant public interest matters that we wish to raise.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>GT</u></p> <p>Harmonisation between the IAASB standards and their equivalents ensures greater transparency and comparability for shareholders.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>PwC</u></p> <p>No additional matters to raise.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u></p> <p>We suggest that it is in the public interest for the AUASB and NZAuASB to issue ASRE 2410 and NZ SRE 2410, respectively, with consistent wording, including that of the review report, except where legislation specific to the jurisdiction is referenced.</p>	<p>Noted</p>	<p>N</p>

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		Editorial comment: The contents page(s) should include the titles of the appendices.		
		<u>BDO</u> None noted.	Agree with ED 01/19 and no issues raised	N
		<u>EY</u> We believe that all applicable laws and regulations have been appropriately addressed in the proposed ED 01/19. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard. In our view, there are no additional significant costs to/ benefits arising from compliance with the main changes to the requirements of the proposed standard and there are no other significant public interest matters to raise.	Agree with ED 01/19 and no issues raised	N
Comments received on Addendum to Explanatory Memorandum ED 01/19				
1	Do you agree that the review report should include a description of the responsibility for the auditor in respect of going concern?	<u>Deloitte</u> As a follow on to our response to question 4 above, we agree with the inclusion in the review report of a description of the responsibility of the auditor specifically referring to going concern. We believe that the enhanced disclosures about the responsibilities of the auditor relating to going concern more directly highlight these responsibilities and are consistent with the approach adopted for auditor’s reports as per ASA 570 and ASA 700.	Agree with ED 01/19 and no issues raised	N
		<u>CA ANZ</u> Yes, provided the AUASB and NZAuASB reach consensus on such a description and provided it accurately describes the auditor’s responsibilities in respect of going concern.	Agree with ED 01/19 and no issues raised	N
		<u>KPMG</u>	Agree with ED 01/19 and no issues raised	N

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		<p>We agree that the auditor’s review report should include a description of the responsibility for the auditor in respect of going concern on the basis of:</p> <ul style="list-style-type: none"> • achieving greater “communicative value” for users via format and content alignment of the auditor’s review report to the auditor’s report; • closing any perceived expectation gap for users related to the auditors responsibilities in respect of going concern between audit and review engagements; and • corresponding with the responsibilities of management included in the auditor’s review report as included in Proposed ASRE 2410.35(b). 		
		<p><u>GT</u></p> <p>We would agree that a specific comment in relation to the auditor’s responsibilities would be beneficial to the users of the review report. We would also recommend that the AUASB and NZAuASB reach a consensus in relation to the two proposed paragraphs.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>PwC</u></p> <p>Yes, as this will not only improve the consistency with the format of the audit report, but also clarify for users of the report what the auditor’s responsibilities are in respect of going concern in a limited assurance engagement.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>CPA</u></p> <p>Yes, a description of that responsibility is appropriate if the other key responsibilities of the auditor in conducting a review of an interim financial report are also reflected. The statement describing the auditor’s responsibilities needs to be appropriately balanced so that no single responsibility is overemphasised.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>BDO</u></p> <p>Yes, we agree that the review report should include a description of the auditor in respect of going concern. This is consistent with the enhanced disclosure updates made to ASA</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		700 thus achieving further transparency and preventing any misunderstanding from users of financial reports.		
2	Do you agree with how the auditor’s responsibility has been described in ED 01/19? If so, why. If not, why not, with, if appropriate, specific reference to the NZAuASB suggested wording.	<p><u>Deloitte</u></p> <p>As per our response to question 4 above, we holistically agree with how the auditor’s responsibility has been described in ED 01/19 (both within the standard as well as the illustrative review report), however we do recommend that the AUASB reconsider two specific elements, being the expectation of a recurring engagement (and is this relevant for initial review engagements and/or non-listed entities) and reference to when a modified conclusion would be relevant.</p> <p>We believe that the suggested wording by the NZAuASB does not constitute a direct alternative to the wording proposed in ED 01/19, as the NZAuASB wording seems to closely align with that included in the auditor’s report under ASA 700, which does not automatically translate over to a review engagement that is less in scope than an audit. For example, the NZAuASB suggested wording provides a direct conclusion on the use of the going concern basis, however it doesn’t make reference to the specific (limited) procedures performed.</p> <p>In addition, the NZAuASB suggested wording ends with “However, future events or conditions may cause the entity to cease to continue as a going concern.” We don’t believe this is appropriate as it is extraneous for the circumstances of a review engagement, and it is out of context as there is no linkage to the date of the auditor’s review report (which is how it is structured in the auditor’s report under ASA 700).</p> <p>We acknowledge that the NZAuASB suggested wording does make reference to the situation where a modified conclusion may occur – this could be leveraged by the AUASB when considering our response to question 4 above.</p>	Refer to BMSP	N
		<p><u>CA ANZ</u></p> <p>We do not agree with how the auditor’s responsibility in relation to going concern has been described in the ED. Our reasons for this are as follows:</p>	To be considered with AUASB.	Y/N

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		<ul style="list-style-type: none"> • We question if procedures are analogous to responsibilities. We believe responsibilities are at a higher level and broader than procedures. • If taking a ‘procedural requirement’ approach, in our view just replicating paragraph 19 does not provide a complete list of requirements in relation to going concern. • Listing specific procedures may be inferred as long-form reporting which may cause confusion. • The absence of what the auditor is required to do if the outcome of said procedures indicates going concern issues leaves users to draw their own conclusions. <p>Given the importance of the underlying going concern assumption, we would expect there to be a separate section in the body of the standard that explicitly addresses the auditor’s responsibility in relation to going concern. In contrast there is a separate section for the “Auditor’s Responsibility for Other Information” (paragraphs 25-26), but the review report is silent about this. In our view it is this gap in ASRE 2410 that has resulted in the two boards arriving at different interpretations, and ideally this gap should be addressed in the first instance. The lack of clarity in this regard may pose a risk in terms of legal implications.</p> <p>Paragraph 16 of the ED requires the auditor to conduct various procedures “to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor’s attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework”. Most entities undergoing an interim review would have the going concern assumption as an integral part of their accounting framework (eg paragraph 25, AASB 101).</p> <p>We agree that an explicit conclusion on the appropriateness of the use of the going concern basis of accounting is not required in the review report itself. However, the appropriateness of the use of the going concern basis of accounting, the existence of a material uncertainty and whether or not this is adequately disclosed in the financial report, impacts on the type of conclusion the auditor expresses (paragraphs 50-52 of the ED).</p>		

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		<p>This therefore implies the auditor must be required to evaluate these aspects and form a view in order to issue the review report.</p> <p>In a review engagement by an assurance practitioner who is not the auditor of the entity, when the assurance practitioner becomes aware of events or conditions that may cast significant doubt about the entity’s ability to continue as a going concern, the assurance practitioner is required to “conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity’s ability to continue as a going concern” (paragraph 54, ASRE 2400). We believe it would be reasonable for users to expect the same work effort around going concern for an interim review conducted by the auditor</p> <p>We encourage the board to consider if there is value in clarifying in the review report:</p> <ul style="list-style-type: none"> • What the auditor does not conclude on regarding going concern (eg confirming the future viability of the entity); • That going concern remains an assumption by management about the foreseeable future and that assurance cannot be placed on future events; and • That the going concern assumption is an area of significant judgement by both management and auditor. <p>On this basis we believe the NZAuASB’s proposed option for the description more closely reflects the auditor’s responsibility in relation to going concern.</p>	<p>ASRE 2400 is different as the assurance practitioner has not completed a recent audit.</p>	<p>N</p>
		<p><u>KPMG</u></p> <p>We agree with how the auditor’s responsibility has been described in ED 01/19, which aligns to the relevant requirements of the auditor with respect to going concern under the proposed ASRE 2410 standard.</p> <p>In contrast, the auditor’s responsibility described in the NZAuASB suggested wording expands the auditor’s obligations with respect to going concern for review engagements.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<p>Specifically, concluding on the appropriateness of management’s use of the going concern basis of accounting, is greater than the requirement in Proposed ASRE 2410.19.</p> <p>We consider it important for the AUASB to work with the NZAuASB to achieve convergence between Proposed ASRE 2410 and NZ SRE 2410.</p> <p>We would like to highlight the undue prominence to the auditor’s responsibilities with respect to going concern under Proposed ASRE 2410 review report in comparison to the overall length of the report. As outlined in section 4 above, we suggest the AuASB consider allowing auditors to refer to a description of the relevant auditors responsibilities on a website of an appropriate authority, such as the AUASB website, consistent with the requirements of ASA 700.</p>		
		<p><u>GT</u></p> <p>We acknowledge that there is currently an expectation gap in relation to the auditor’s responsibilities in relation to going concern.</p> <p>On review of both the AUASB and NZAuASB auditors’ responsibility paragraphs, we note there is a difference in inference – the procedures explicit in the NZAuASB auditor’s responsibility paragraph address these further than the proposed AUASB paragraphs.</p> <p>In addition an explicit statement referring to Management and Those Charged with Governance’s Conclusion assessment of going concern would also benefit the reader, however this would fall under an amendment to AASB 101, which is outside the scope of this ED.</p> <p>We agree that an explicit statement concluding on the appropriateness of the going concern basis of accounting within the review report is not required, as this is an implicit understanding of the framework.</p>	<p>Agree with ED 01/19, no conclusion but further detail on implications on review report of a Material Uncertainty Relating to Going Concern.</p>	<p>N</p>
		<p><u>PwC</u></p> <p>We agree with the way the auditor’s responsibility in relation to going concern has been described in ED 01/19 for the following reasons:</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<p>i. It is important to differentiate between the requirements of a limited assurance engagement versus that of a reasonable assurance engagement;</p> <p>ii. We do not believe there is a compelling reason to revise the current requirement included in ASRE 2410 in relation to the auditor’s responsibilities in respect of going concern, which is consistent with ISRE 2410, or to amend the specific review procedures required to expand the requirements beyond what is required by the International standard.</p> <p>iii. The wording in the review report needs to be consistent with the requirement in the standard.</p> <p>However, it would not be desirable for the Australian standard to be inconsistent with the New Zealand standard in this instance and we would encourage the AUASB and NZAuASB to work towards resolving the difference. For the above mentioned reasons, our strong preference is to remain consistent with the requirements of ISRE 2410.</p>		
		<p><u>CPA</u></p> <p>We consider that the auditor’s responsibilities need to include the other key responsibilities of the auditor in conducting a review engagement, not solely those relating to going concern, as explained in answer to question 4 above. In addition, we consider that the NZAuAB’s suggested wording in ED NZ SRE 2410 on the responsibilities in relation to the going concern stands alone better than that in ED 01/19, as it does not include the detailed procedures conducted but is more complete in explaining the outcome of the procedures and relevant limitations.</p>	<p>To be considered with AUASB.</p>	
		<p><u>BDO</u></p> <p>Yes, on balance, we agree with the wording in ED 01/19 but consider the last sentence of NZAuASB suggested wording as also appropriate to consider for inclusion.</p> <p>The suggested wording put forward by the AUASB taken directly from paragraph 19 of extant ASRE 2410 achieves consistency with the requirements of ASRE 2410 and we support the AUASBs desire not to move ahead of the IAASB on this matter. We do see some limitations of this wording, however. Simply listing the procedures may not be the</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<p>most effective way of communicating the auditor’s responsibility for going concern. In addition, this list of procedures may be considered incomplete.</p> <p>The alternative wording suggested by NZAuASB seems to go further to include elements of ISA (NZ) 700 and explains why the auditor is undertaking these procedures in order to meet investor expectations of the auditor’s responsibilities. Whilst we recognise the objective of what is trying to be achieved, we do not think this suggested wording is appropriate for a review report and may actually cloud users’ expectations as to what auditors are required to do for a review engagement as opposed to an audit.</p> <p>As noted above, however, we agree with the final sentence of the suggested wording, which reemphasises the fact that, outside of auditor’s responsibilities, future events or conditions, may still cause the entity to cease to continue as a going concern.</p> <p>For the purposes of this ED, we agree with the wording suggested by AUASB and inclusion of the final sentence suggested by NZAuASB being ‘<i>However, future events or conditions may cause the entity to cease to continue as a going concern.</i>’ We also support any future projects to revisit the wording of the underlying procedures and responsibilities with respect to going concern in a review engagement.</p>		
		<p>Please refer to Question 4 for responses from EY.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

* * *

EXHIBIT 2: Other comments yet to be addressed

The comments received in the appendices of the submissions to AUASB are tabled below. These comments are not related to any questions raised in ED 01/19.

Deloitte Touche Tohmatsu

ED 01/19 Paragraph	Comment
Points noted with respect to inconsistencies:	
11(a) and A8(c)(i) Reference to presentation or fair presentation	Paragraph 11(a) refers to “...for the preparation and presentation of the financial report” whereas the supporting guidance paragraph A8 (c)(i) refers to the term “...where relevant their fair presentation”.
19, 19(a), 37(d) and 37(d)(i) Responsibilities for going concern	Paragraphs 19 and 19(a) refer to “those charged with governance” when making enquiries, however paragraphs 37(d) and 37(d)(i) refer to “management” when referring to the enquiries within the Auditor’s Responsibilities section of the auditor’s review report.
30(c), 33 and A53 Conformity with International Standards on Review Engagements – Paragraph 1 (last bullet point) Reference to “auditor’s review report”	To be consistent with updates to the rest of the standard: <ul style="list-style-type: none"> • within paragraph 33 the words “auditor’s review” should be included before “report”; and • For the other paragraphs the word “auditor’s” should be included before “review report”.
33(e)(i) Reference to “half-year financial report”	The word “half-year” should be included before “financial report” within the middle of this sub paragraph (as it is referring to a financial report prepared in accordance with the <i>Corporations Act 2001</i>).
41 Reference to “a basis for modification paragraph”	Reference to “a basis for modification paragraph” has been updated in the second sentence to refer to “in the Basis for Qualified Conclusion or Basis for Adverse Conclusion section of the report.” We recommend that this change is also carried through into the last sentence which still currently refers to “basis for the modification paragraph.”
53 and 55 Emphasis of matter and other matter paragraphs	Within paragraph 53, we recommend that the wording of “The auditor shall consider adding an Emphasis of Matter paragraph...” be replaced with “The auditor shall consider including an Emphasis of Matter paragraph in the auditor’s review report...” Within paragraph 55, we recommend that the wording of “The auditor shall consider adding an Other Matter paragraph...” be replaced with “The auditor shall consider including an Other Matter paragraph...”.
A48	This paragraph currently references to the “Basis for Qualified Conclusion paragraph to the auditor’s review report” and we suggest that “paragraph to” be replaced with it “section of”.
Grammatical points noted:	
30	Based on the proposed changes to this paragraph, it currently reads as follows: “When, as a result of performing the review of a financial report, a matter comes to the auditor’s attention that indicates the existence of

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	<p><i>fraud or non-compliance with laws and regulations or suspected fraud or non-compliance with laws and regulations, has occurred at the entity, the auditor shall:</i>"</p> <p>We recommend that a comma is placed after the first reference to "laws and regulations" and that the reference to "has occurred at the entity" is removed, thus it would read as follows: <i>"...the existence of fraud or non-compliance with laws and regulations, or suspected fraud or non-compliance with laws and regulations, the auditor shall:"</i>.</p>
30(a)	We suggest that the word "shall" is extraneous in this context as the lead in sentence ends with the word "shall" and propose that it be removed, so that it reads: <i>"...and consider the implications..."</i> .
33(e)(i), 33(e)(ii) and 33(e)(iii)	Given that the lead in sentence in paragraph 33 refers to: <i>"The Conclusion section of the report shall:"</i> and the lead in sentence in paragraph 33(e) refers to: <i>"Include a conclusion:"</i> , then we recommend removing the phrase <i>"the auditor's review report shall include a conclusion"</i> for each of these sub-paragraphs.
33(e)(i)	The word "has" needs to be included prior to <i>"...become aware of any matter..."</i> , so that it reads: <i>"...whether the auditor has become aware of any matter..."</i> .
35	The sentence in this paragraph currently reads as follows: <i>"In some jurisdictions, and the appropriate reference may be to those charged with governance."</i> The comma and the word "and" should be removed so it reads: <i>"In some jurisdictions the appropriate reference..."</i> .
39(c)	Reference to ASA 705 should not be a separate bullet point, as this would then be read as a follow on from the lead in sentence. We suggest that this sub paragraph come directly under paragraph (b) with no separate bullet point and thus "(c)" should be removed.
41	Reference to "states" in the second sentence, should be changed to "state".
50	We suggest the sub-heading be reworded to be as follows: <i>"Material Uncertainty Exists Related to Going Concern"</i> .
54(b)	The last sentence currently refers to <i>"disclosed on the financial report"</i> . We believe that "on" should be replaced with "in".
Other points noted:	
29(c)	We note that due to the removal of the reference to paragraph Aus A36.1 from the extant ASRE 2410, the remaining reference is only to paragraph A57 which provides guidance specifically for public sector auditors.
32(a)	We suggest that there is duplication of reference to the "auditor" in the requirement to have <i>"An appropriate title clearly identifying it as an auditor's review report of the independent auditor of the entity"</i> . We note that the title used in the illustrative reports in Appendix 3 is <i>"Independent Auditor's Review Report"</i> .
37(d)	This should refer to <i>"enquiry and other review procedures"</i> , instead of <i>"enquiry or other review procedures"</i> , in order to use the correct wording and to align with the wording used in the illustrative reports in Appendix 3.
38(c) - footnote	Reference to "auditors" within footnote 5 should be replaced with "auditor's".

39(c)	We suggest that the wording be updated to include “guidance as to appropriate”, so it would then read as follows: “Refer to ASA 705...for guidance as to appropriate wording to use...”.
40(b)	We suggest a change from “matter” to “matter(s)”.
47	This paragraph states: “When the auditor disclaims a conclusion on the financial report, the auditor shall not include the elements required by paragraph 34(b)”. Paragraph 34 (b) states: [The report shall include a section directly following the Conclusion section, with the heading “Basis for Conclusion”, that:] “Refers to the section of the auditor’s review report that describes the auditor’s responsibilities; and”. Is the reference to paragraph 34(b) correct? Should this instead refer to paragraph 34(a) where it refers to the statement that a review was conducted?
48	The “s” on the word “descriptions” should be removed so that it reads: “description of the auditor’s responsibilities”.
48(a) and A48	Based on the current wording within these paragraphs, in circumstances when the report will be modified, reference is to be made that the review was conducted “in accordance with this Auditing Standard”. We read this as meaning that this exact wording would be stated in the review report. We recommend that reference to “this Auditing Standard” be replaced with the name of the standard, and thus refer to “ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity” explicitly.
50 and A41A	We recommend that the order of sections within the review report be stipulated so this is clear and is applied consistently (and is also consistent with ASA 700). This is particularly relevant for situations where a material uncertainty exists related to going concern and an additional paragraph will be included within the auditor’s review report. This could be achieved by either adding specific wording into this paragraph, or by expanding one of the illustrative reports in Appendix 3 to include the material uncertainty related to going concern paragraph.
A12	We highlight that the reference to “financial report components” is unclear and could be misconstrued, and we also note that this wording is not used in ASA 600. We recommend that this wording be updated to “financial information of the component” and then reference to “reports” later in the sentence be updated to “financial information”.
A36	We suggest the following changes (in bold) to this paragraph as follows: - First sentence: “ An auditor conducting a review engagement under this auditing standard is not required to... ”. - Second sentence: “ASA 720 requires the auditor to read...”. - Fifth sentence: “If an amendment to...and describe the material misstatement.”
A38	We believe that the reference to “under paragraph 44” should be paragraph 56 instead. In addition, we suggest that the linking reference at the end “(Ref: Para. 28)” should also refer to paragraph 30.
A41A	We suggest that the linking reference in the sub-title “(Ref: Para. 32)” should also refer to paragraph 33.

<p>Appendix 2 Illustrative Detailed Procedures</p>	<p>We note that conforming amendments relating to NOCLAR were incorporated into paragraph 30 of ED 01/19, however there are no proposed changes to Appendix 2. We note that the only reference relating to NOCLAR in Appendix 2 is paragraph 6(h) which states “[Enquire of persons responsible for financial reporting about the following:] Knowledge of any actual or possible significant non-compliance with laws and regulations.”</p> <p>We recommend that the AUASB reconsiders whether the detailed procedures relating to NOCLAR within Appendix 2 should be updated and/or expanded to align with the proposed amendments to the standard.</p>
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Draft

KPMG

Reference	Observation	Comments
General observation - Proposed ASRE 2410	Removal of “Independent” from the title of proposed ASRE 2410 and at various places throughout the proposed standard.	<ul style="list-style-type: none"> An auditor is required to be independent and therefore there is no perceived additional value from removing the word “Independent” from the proposed standard. The change is inconsistent with ISRE 2410 and naming of other Australian Auditing Standards e.g. ASA 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i>.
ASRE 2400, including ASRE 2400.88	Requirements/guidance for auditors on special purpose frameworks and use of the special purpose EOM paragraph.	<ul style="list-style-type: none"> There is an opportunity to create clarity for auditors in ASRE 2410 related to review engagements on financial reports prepared in accordance with special purpose frameworks in particular with compliance frameworks now being considered within the scope of the standard.
Proposed ASRE 2410.23(f)	Uses inconsistent language with related ASA 250.17.	<ul style="list-style-type: none"> “identified” (ASRE 2410) vs. “known” (ASA 250).
Proposed ASRE 2410.33(d)	Inconsistent with related paragraph in ASA 700.24(d).	<ul style="list-style-type: none"> Inclusion of “and other explanatory information” in ASRE 2410.33(d) is inconsistent with ASA 700.24(d). We note, however, this is consistent with the definition of AASB 101.10(e).
Proposed ASRE 2410.33(e)(i)	Grammatical error	<ul style="list-style-type: none"> “become” should say “became”
Proposed ASRE 2410.A50	Reference to EOM paragraph in proposed ASRE 2410.A50 however could reasonably be an EOM or MURGC.	<ul style="list-style-type: none"> We consider the required edits as follows, <i>The auditor may have alerted users to the to the existence of a material uncertainty relating to an event or condition that casts significant doubt on the entity’s ability to continue as a going concern by adding an emphasis of matter paragraph or [Material Uncertainty Related to Going Concern] to a prior audit or auditor’s review report”</i>
Proposed ASRE Example reports, “Report on the Financial Report” heading.	Missing footnote for “Report on the Financial Report”.	<ul style="list-style-type: none"> Other auditing standards include a footnote for the appropriate use of this heading e.g. <i>The sub-title Report on the [Half-Year] Financial Report is unnecessary in circumstances when the second sub-title —Report</i>

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		<i>on Other Legal and Regulatory Requirements is not applicable.</i>
Proposed ASRE Example reports, under “Conclusion” heading.	Inconsistencies with ASA 700 and the requirements of Proposed ASRE 2410.	<p><u><i>Inconsistencies with ASA 700:</i></u></p> <ul style="list-style-type: none"> • <i>Reference to the “Accompanying Financial Report” in ASA 700 is in the opinion rather than in the introductory sentence “We have audited the financial report. Proposed ASRE 2410 still references “We have reviewed the “accompanying” financial report.</i> <p><u><i>Inconsistencies with proposed ASRE 2410</i></u></p> <ul style="list-style-type: none"> • <i>“Based on our review, which is not an audit” appears in the example reports but not included in the required elements of the auditor’s review report.</i>
Proposed ASRE Example reports, under “Basis for conclusion” heading.	Inconsistencies with ASA 700 and the requirements of Proposed ASRE 2410.	<p><u><i>Inconsistencies with ASA 700:</i></u></p> <ul style="list-style-type: none"> • <i>Proposed ASRE 2410 refers to “the [auditor independence] requirements of the Accounting Professional and Ethical Standards Board’s APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in Australia” whereas ASA 700 refers to “the [ethical] requirements”.</i> • <i>No equivalent reference to “We believe that the [audit] evidence we have obtained is sufficient and appropriate to provide a basis for our opinion/[conclusion].</i> <p><u><i>Inconsistencies with proposed ASRE 2410</i></u></p> <p><i>Example reports B and E in Proposed ASRE 2410 incorrectly refer to “the auditor independence requirements of the Accounting Professional and Ethical Standards Board’s APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our review of the financial report in Australia.”</i></p> <p><i>Proposed ASRE 2410.34(c) requires reference to “the relevant ethical</i></p>
	Reference to the Accounting Professional and Ethical Standards Board’s “APES 110 Code of Ethics for	

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	<i>Professional Accountants (the Code).</i>	<i>requirements relating to the <u>audit</u> of the annual financial report”.</i> Title of “the Code” will change effective 1 January 2020 to “APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> supersedes the Code effective 1 January 2020”. This should be reflected in the Example reports.
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EXHIBIT 3: Other comments raised in the cover letters

Respondent Comment	ATG Commentary
<p>CPA Australia</p> <p>CPA Australia supports the revision of ASRE 2410 in the absence of any project at the International Auditing and Assurance Standards Board to revise ISRS 2410. In particular, we support the scope of the revisions to reflect the current auditor’s report format and content, and the outcomes of the IAASB’s project regarding non-compliance with laws and regulation (NOCLAR). We consider that it will be helpful to both auditors and users of financial reports for the language, scope and format of the interim review report prepared by the auditor of the entity to be consistent with the auditor’s report issued at year end.</p> <p>However, to this end, we suggest that the alignment of the review report wording in revised ASRE 2410 could be much closer to the audit report wording in ASA 700, particularly with respect to the nature and breadth of the procedures covered in the auditor’s responsibilities. The responsibilities, included in the auditor’s report in revised ASRE 2410, focus on procedures related to going concern but omit references to other core procedures. Consequently, the report is arguably unbalanced in reflecting the key responsibilities of the auditor when conducting a review engagement. In addition, we consider that the applicable requirements in APES 110 Code of Ethics for Professional Accountants with respect to NOCLAR, for reviews conducted by the auditor, need to be identified and better reflected in ASRE 2410.</p>	<p>Noted.</p>

Draft

* * *



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5.2.0**

Meeting Date: 11 September 2019

Subject: Assurance Framework Publications Plan

Prepared By: Tim Austin

Date Prepared: 6 August 2019

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objectives of this agenda item are for the AUASB to:
 - (a) Review and provide feedback on the project plan (Agenda Item 5.2.1); and
 - (b) To approve the project plan, subject to any amendments requested by the AUASB.

Background

1. At the September 2018 AUASB meeting, the AUASB Technical Group (ATG) presented a paper responding to a request from an AUASB member to explore possible assurance implications of the recently effective 'safe harbour' legislation in the *Corporations Act 2001*.
2. The view of the ATG, based on the research undertaken, was that although there may be some potential assurance implications in relation to the new 'safe harbour' provision, the legislation had been drafted with a focus on restructuring and turnaround experts, rather than assurance providers. The ATG proposed, that in response to this issue rather than just focusing on the 'safe harbour' provisions, a principles-based publication based on a range of possible engagements that can be performed under the AUASB Assurance Framework be developed.
3. The AUASB agreed that a principles-based publication, in the form of a bulletin, could assist practitioners with navigating through the appropriate other assurance or related services standard for a range of subject-matter other than historical-financial information. The AUASB requested a draft bulletin to be brought to the AUASB for further consideration.
4. At the December 2018 AUASB Meeting, the ATG brought to the AUASB a paper outlining the scope, structure and timing for the preparation of the Assurance Framework Bulletin. AUASB Members provided feedback on the scope and structure, including the examples to be included in the publication to assist practitioners with navigating to the appropriate other assurance or related service standard for a range of subject matters.

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5. As AUASB time was focussed on IAASB priorities for the first part of 2019, the development of the publication was deferred. In July 2019, the ATG re-commenced work on the proposed Bulletin.
6. The ATG considered that as the underlying objective of the assurance framework bulletin is to promote the value of assurance, the bulletin could be expanded to address other areas which arose as part of the AUASB discussion with the FRC Chair at the June 2019 AUASB Meeting. The ATG discussed with the AUASB Chair whether the bulletin should be expanded to address other overlapping areas such as:
 - (a) Financial Reporting Framework Project – Communication of what is available under the AUASB’s Assurance Framework to assist regulators in understanding and aligning reporting with appropriate assurance;
 - (b) Prescribed reports – Legislators prescribing assurance which is unclear or not able to be assured;
 - (c) Communicating the value of audit and addressing some of the simpler issues with the auditor expectation gap (e.g. Auditor’s responsibility for going-concern and fraud).
7. The AUASB Chair agreed with the proposed strategy of addressing the overlapping areas as part of this project. A single publication was initially considered, however would become too big. Separate publications with clear audiences and objectives would be the best way to achieve the goals of the project to promote the value of the assurance.
8. The AUASB chair raised that this series of publications was being considered by the AUASB at the ASIC Accounting and Auditing Standing Committee and received positive feedback and support from that group.

Matters to Consider

9. The ATG has prepared a project plan (Agenda Item 5.2.1) outlining the three proposed publications, the objectives of each publication, the targeted audience and timeline for completion.
10. AUASB Members are asked to provide responses to the Questions below.

Questions

1. Do AUASB Members agree with the overall objective of the project and the objectives of the three proposed publications?
2. Is the scope of each of the proposed publication appropriate? I.e. have the appropriate areas of focus and targeted stakeholders been identified?
3. Do AUASB Members have any other comments on the proposed project plan

AUASB Technical Group Recommendations

11. Approval of revised project plan by the AUASB.

Material Presented

Agenda Item 5.2.0	AUASB BMSP Assurance Framework
Agenda Item 5.2.1	Proposed Project Plan Assurance Framework

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Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.			AUASB	11 September 2019	

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Project Plan

Project Title:	AUASB Assurance Framework Publications
Project Objective(s):	Develop a series of AUASB publications which provide an overview of credibility enhancing techniques available under the assurance framework
Priority:	Medium
Issue/Reason:	Communication of the value of assurance
Date Prepared:	25 July 2019
Date To Be Approved:	11 September 2019
Date Updated: (if applicable)	N/A

Project Objectives

The overall objective of the project is to develop a series of publications aimed at promoting the value of assurance and more broadly addressing specific areas identified by the AUASB where we can assist stakeholders.

The AUASB Technical Group (ATG) is proposing three publications targeted at different stakeholder groups. The objectives of each of the publications are:

- Publication 1 – Provide a simple and accessible overview of the assurance framework, explaining things like the different levels of assurance, the assurance products available and the auditor’s responsibility for going-concern and fraud. (Target audience – non-practitioner stakeholders who do not have an in-depth understanding of the assurance framework.)
- Publication 2 – Prepare a guide for assurance ‘prescribers’ to assist with drafting effective assurance requirements in legislation/regulation including acquittal arrangements to assist with reducing instances of engagements which are unclear, not able to be assured or difficult to assure. (Target audience – legislators/regulators in Australia.)
- Publication 3 – Improve understanding of the other credibility enhancing engagements that can be undertaken under the suite of AUASB standards using real-life examples including, cyber security assurance, engagements over culture, modern-slavery statements and climate change. (Target audience – Preparers who are unaware of the assurance products available and would like to understand how assurance can be provided over range of subject matters to provide to their users.)

Background

BACKGROUND TO BE COPIED FROM BMSP

Scope – Publication 1

Overall

Simple publication designed for non-practitioners. This publication is also aimed to support the AASB framework project where a simple explanation of the assurance framework can be provided to relevant legislators.

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Targeted Stakeholders

This publication is aimed at non-practitioner stakeholders who do not have an in-depth understanding of the assurance framework.

Areas of focus:

- What is an assurance engagement.
- What is the different between limited and reasonable assurance.
- What is an audit/review/other assurance/ related service engagement.
- What is in and out of the scope of an audit including the auditor's responsibility for:
 - Fraud; and
 - Going-concern.
- Differences between compliance, fair presentation, true and fair.

Scope – Publication 2

Overall

Overall focus on helping regulators draft effective assurance requirements including grant acquittals. This includes aligning with existing publications including RMG 210 *Clarification of the terms 'Audit' and 'Assurance'* issued by the Department of Finance. The need for this publication is being driven by:

- Technical queries from legislators who have received feedback from auditors that acquittal requirements are inconsistent with AUASB standards
- Insights from the AUASB's NFP assurance project; and
- University of Adelaide Project looking at all the different ways assurance is referred to in legislation.

Targeted Stakeholders

Targeted at legislators/regulators in Australia.

Areas of focus:

- The use of correct terminology, emphasising the problems that arise from using incorrect terminology.
- Specifying levels of confidence (limited vs reasonable).
- The different types of engagement available.
- Grant acquittals – What the auditor can and can't do in the context of an acquittal engagement. Linking in clearly with GS 022 *Multi-Scope Engagements*.
- Overall practical considerations. Balancing the cost of assurance with the benefits.

Scope – Publication 3

Overall

Overall focus on explaining the other credibility enhancing pronouncements available under the AUASB suite of standards. Will focus on topical areas such as climate change, culture audits, modern slavery. Will be updated on an ongoing basis to reflect topical areas. Discussion point for assurance practitioners to discuss with Those Charged with Governance (TCWG) and preparers. The publication will be updated on an ongoing basis as new topics arise.

Targeted Stakeholders

Preparers who are unaware of the assurance products available and would like to understand how assurance can be provided over range of subject matters to provide to their users.

Areas of focus:

- Focus on how you can enhance credibility with different engagements.
- Specific subject-area that is of current interest including:
 - Audits of Culture;
 - Potential assurance offerings arising from compliance requirements as a result of the banking royal commission;
 - Modern slavery reporting; and
 - Sustainability reporting.
- Explanation of how assurance could be provided.
- Will not go into how the auditor does the engagement.

Risks/Issues

- Cross over with other publications. – Research being done to ensure we don't cross over too much.
- Publications are not viewed and lost amongst other things. – Communications plan to outline they are available, website redevelopment, make sure links to guides appear on the front page.
- Publications take too long to produce and momentum is lost – Publications 1 and 2 can be developed quickly and leverage off resources produced by other NSS and professional bodies globally. Publication 3 may take longer, tight timeline to be developed. This project is considered as an important piece of thought leadership.

Action Plan

Short-term (next 3-months)

Publications 1 and 2 can be drafted relatively quickly. They will leverage off the AUASB framework and similar publications that other National Standard-Setters and Professional Bodies have released.

Draft publications can be brought to the AUASB for approval at the December 2019 AUASB meeting. A communication plan will be brought to the December AUASB meeting for discussion with the AUASB.

Publication 3 will not be able to leverage off as many existing materials as publications 1 & 2 so will require more time to prepare. One example can be brought to the December 2019 AUASB meeting to approve the structure and style of the publication before

Medium-term (3-months+)

Publication 3 drafted and brought to the AUASB March 2020 meeting for approval.

Research/Resources

The publications will draw on existing materials such as:

- Assurance text books.
- Introduction to assurance from IAASB/CAANZ Handbook.
- RMG 210 *Clarification of the terms 'Audit' and 'Assurance'*.
- NZAuASB Guidance for Assurance Prescribers.

The ATG will also review available publications and research focused on the audit expectation gap.

Outreach

Each publication has a specific targeted stakeholder so detailed outreach plans will be developed for each publication. Broadly this project will require engagement with assurance practitioners and the professional bodies.

Timetable

Date	Description
11 September 2019	Approval of project plan by AUASB
3-4 December 2019	Publications 1 & 2 to be presented to the AUASB for consideration. Along with a single example for publication 3.
December 2019	Publications 1 & 2 finalised based on AUASB feedback.
January – March 2020	Drafting of publication 3.
3 March 2020	Approval of Publication 3.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5.3.1**

Meeting Date: 11 September 2019

Subject: Less Complex Entities

Prepared By: Tim Austin

Date Prepared: 3 September 2019

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The Less Complex Entities Agenda Item has been broken down into two distinct parts each with their own objective.
 - (a) Part A – Focuses on the AUASB Submission to the IAASB Discussion Paper. The overall objective of this part is to obtain on the AUASB’s submission; and
 - (b) Part B – Focuses on activities that the AUASB could undertake to support auditors of *Less Complex Entities*. The overall objective of this part is to facilitate a discussion amongst AUASB Members and begin to develop a way forward leading to a formal AUASB LCE Action Plan.

Background

1. In April 2019, the IAASB released for public comment a Discussion Paper on audits of less complex entities, *Exploring Possible Options to Address the Challenges in Applying the ISAs*. The Discussion Paper asks for responses to five question and aims to further understand the challenges of using ISAs in audits of Less Complex Entities – and views about possible actions to address these challenges.
2. To gather Australian stakeholder feedback to prepare the AUASB’s response to the IAASB Discussion Paper, the AUASB Technical Group released a survey and conducted a number of activities to promote the survey and the importance of driving the discussion at the IAASB level.
3. The main activities to promote the survey and encourage submissions to the AUASB were:
 - (a) Promotion of the Discussion Paper and AUASB Survey at the CA ANZ Conferences;
 - (b) Articles prepared for CA Perspective and CPA InPractice;
 - (c) LinkedIn and Twitter;

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- (d) CPA, CA ANZ, ACNC and CaseWare Newsletters.
- (e) Direct emails to Emerging Issues Group (EIG), Large National Networks (LNN) Group and AFAANZ Auditing and Assurance Special Interest Group (AASIG).
- (f) Presentations to relevant groups (e.g. CA ANZ Trans-Tasman Audit Advisory Committee, CA ANZ Audit Conference).
- (g) Direct email sent to all ASX auditors and auditors of large charities.

Matters to Consider

Part A – AUASB Submission on IAASB Discussion Paper

4. The AUASB is presented with the Draft AUASB Submission to the IAASB on the LCE Discussion Paper (**Agenda Item 5.3.2**). The submission has been prepared combining ATG views discussed with the AUASB LCE Subject Matter Experts, responses to the AUASB’s LCE survey and comment letters submitted directly to the AUASB.
5. An overview of the feedback received has been included as **Agenda Item 5.3.3**. At a high level, the feedback the AUASB received is composed of:
 - (a) 145 responses to the AUASB LCE Survey;
 - (i) 77% auditors; and
 - (ii) 23% other stakeholders (those charged with governance, academics, regulators, financial statement users).
 - (b) 4 comment letters received/other formal communication:
 - (i) KPMG Australia (**Agenda Item 5.3.4**);
 - (ii) Pitcher Partners (**Agenda Item 5.3.5**);
 - (iii) The University of Adelaide (**Agenda Item 5.3.6**); and
 - (iv) The Australian Charities and Not-for-Profits Commission.
6. The AUASB is asked to provide feedback on the following matters for comment in relation to **Part A** of this Agenda Item:

Questions

1. Does the AUASB agree with the presentation of the AUASB’s submission. I.e. combination of feedback from stakeholders and AUASB views with survey results shown separately?
2. Do AUASB Members agree with the responses to the IAASB’s questions in the AUASB’s submission?
3. Are there any other matters that AUASB Members would like included as part of the AUASB’s submission?

Part B – Supporting Australian Auditors of LCEs

7. Whilst the submission to the Discussion Paper is an important step in the LCE project, it is only one part. The volume of feedback expected to be received and the different directions that stakeholders across the globe will want based on their interests and needs will likely result in a long-tailed project for the IAASB.
8. A global response is the preferred option, and the AUASB and ATG will continue to support the development of global solutions to this issue. However, in consultation with the AUASB Chair, the ATG consider that an Australian approach to supporting auditors of LCEs needs to be formulated to fill the gap between now and when a global solution is determined and implemented.
9. By developing an Australian specific survey, the AUASB has been able to importantly gather feedback to develop the AUASB's LCE submission but also develop an initial list of challenges that Australian LCE auditors are experiencing.
10. The ATG has outlined a number of these challenges and presented initial thoughts on how these challenges could be responded to in Australia for discussion the AUASB. An overview of the initial thinking is presented as **Agenda Item 5.3.7**. This paper has been prepared in consultation with the assistance of the AUASB Subject Matter Expert.
11. The AUASB is asked to provide feedback to the questions in **Agenda Item 5.3.7**.

Material Presented

Agenda Item 5.3.1	AUASB BMSP Less Complex Entities
Agenda Item 5.3.2	Draft AUASB Submission on LCE Discussion Paper
Agenda Item 5.3.3	Summary of LCE Feedback
Agenda Item 5.3.4	Submission – KPMG Australia
Agenda Item 5.3.5	Submission – Pitcher Partners
Agenda Item 5.3.6	Submission – The University of Adelaide
Agenda Item 5.3.7	Less Complex Entities – Taking the Project Forward in Australia



Australian Government
Auditing and Assurance Standards Board

Podium Level 14, 530 Collins Street
Melbourne VIC 3000 Australia
PO Box 204, Collins Street West
Melbourne VIC 8007

11 September 2019

Mr Tom Seidenstein
Chair
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, New York 10017 USA

Dear Tom,

AUASB Submission on The IAASB's Discussion Paper Audits of Less Complex Entities: Exploring the Possible Options to Address the Challenges in Applying the ISAs

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's Discussion Paper on Audits of Less Complex Entities. The AUASB strongly supports the IAASB's initiative to explore possible options to address challenges in applying the auditing standards on audits of Less Complex Entities.

The AUASB is a non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards in Australia. The AUASB's role and mandate extends to liaison with other standards setters and participation in global standard-setting initiatives.

In formulating our response, the AUASB has considered feedback gathered from its stakeholders in two principal ways:

1. An Australian specific survey of auditors of Less Complex Entities; and
2. Comments provided directly to the AUASB on the questions in the IAASB's Discussion Paper.

The Australian survey received 145 responses, with 77% of those responses from auditors and 23% from other stakeholders including financial statement users, regulators and academics.

Detailed responses to the questions in the Discussion Paper are attached as Appendix 1.

Overall, the AUASB is very supportive of the IAASB's initiative and encourages them to explore each possible option outlined in Section III of the Discussion Paper. It is important that at this early stage the IAASB avoids landing on a single solution until all options are fully explored.

And whilst the AUASB encourages the IAASB to continue to explore all options in the Discussion Paper, at this early stage the AUASB's preference is a revision of the ISAs. This option addresses the growing complexity of recently updated standards, as highlighted in our submissions on recent IAASB Exposure Drafts and would benefit all auditors (not just those who audit LCE's).

Finally, the AUASB considers it important that the IAASB not focus too much attention on the definition of an LCE at this information gathering and research stage of the project. There is likely to be varied feedback across jurisdictions and even within jurisdictions from different stakeholder groups on what is an appropriate definition of an LCE. For the purposes of exploring the challenges and possible responses, the current definition is sufficient.

Should you have any queries regarding this submission, please do not hesitate to contact myself or Matthew Zappulla at mzappulla@auasb.gov.au.

Yours sincerely,

Ms Robin Low
Deputy Chair

Telephone: + 61 3 8080 7400 Email: enquiries@auasb.gov.au Web: www.auasb.gov.au
332/469 ABN 80 959 780 601

IAASB Question 1 – We are looking for views about how LCEs could be described (see page 4). In your view, is the description appropriate for the types of entities that would be the focus of our work in relation to audits of LCEs, and are there any other characteristics that should be included?

Overall, the feedback received from AUASB stakeholders is that a principles-based definition is an appropriate way to describe an LCE. In the Australian survey 52% of respondents preferred a principles-based approach compared to size-related thresholds (15%) and splitting entities between public interest and non-public interest (33%).

Whilst Australian stakeholders raised concerns over several of the specific characteristics of an LCE outlined in the Discussion Paper, the AUASB considers that the current definition is sufficient for the scoping of the project. There is likely to be varied feedback across jurisdictions and even within jurisdictions from different stakeholder groups on what is an appropriate definition. The AUASB considers it important that as this project is still in its information gathering and research phase, the IAASB not spend significant amounts of time and effort debating the appropriate definition of an LCE.

IAASB Question 2 – Section II describes challenges related to audits of LCEs, including those challenges that are within the scope of our work in relation to audits of LCEs. In relation to the challenges that we are looking to address:

- a) **What are the particular aspects of the ISAs that are difficult to apply? It would be most helpful if your answer includes references to the specific ISAs and the particular requirements in these ISAs that are most problematic in an audit of an LCE.**
- b) **In relation to 2a above, what, in your view, is the underlying cause(s) of these challenges and how have you managed or addressed these challenges? Are there any other broad challenges that have not been identified that should be considered as we progress our work on audits of LCEs?**

As part of its [AUASB's International Strategy](#), the AUASB reviews and discusses IAASB standards over the course of their development and provides feedback to the IAASB through feedback to IAASB members, IAASB Task Forces and formal submissions. Drawing on the most recent submissions the AUASB has provided to the IAASB, the key recurring themes have been:

- Increasing complexity of the standards, leading to diminished understandability (ISA 315, ISQM 1);
- Growing length of the standards (ISA 315, ISA 540, ISQM 1)
- Impact on scalability (ISA 315, ISA 540)
- Moving away from being principles based and increased prescriptiveness (ISA 315 and ISA 540).

In Australia 35% of survey respondents viewed ISA 315 as the standard which was the most difficult to apply, followed by the ISAs in the 500 series (25%), in particular ISA 540. The standards and aspects of the standards that Australian stakeholders raised as most challenging when auditing an LCE included:

- ISA 240 – Journal entry testing and the presumption of a significant revenue risk due to fraud.
- ISA 315 – Understanding and documenting control activities relevant to the audit, especially obtaining audit evidence of the control environment as smaller entities often do not formally document controls.
- ISA 330 – Testing a material balance even if there is no risk of material misstatement.
- ISA 500 – Information produced by a management's expert.
- ISA 520 – Determining the acceptable difference from expected values which does not require further investigation.
- ISA 540 – Extent of work for more routine estimates which are not a significant risk.
- ISA 620 – Criteria for reliance on a specialist.

Some respondents to the Australian survey (15%) also raised that challenges were largely being driven by increasing complexity in the accounting standards and auditors finding it difficult to appropriately satisfy the auditing standards requirements in conjunction with them.

Overall, over 60% of respondents to the Australian survey considered that all the possible underlying causes listed in Section II of the Discussion Paper were significant contributors to the challenges with the auditing standards. Specifically, Australian stakeholders viewed that the most significant contributors were:

- Requirements which result in procedures being performed solely to comply with auditing standard requirements with no additional assurance or measurable increase in audit quality (90% of respondents);
- There is a lack of clarity and different interpretations as to what, and how, certain matters are documented (84% of respondents);
- There is insufficient application or inadequate application material in the auditing standards addressing scalability and proportionality considerations (84% of respondents);
- Documentation requirements are extensive and onerous (83% of respondents);
- The auditing standards are long and voluminous (81% of respondents); and
- There is a lack of separate implementation support/ guidance in respect of the application of the auditing to the audit of LCEs (83% of respondents).

IAASB Question 3 – With regard to the factors driving challenges that are not within our control, or have been scoped out of our exploratory information gathering activities (as set out in Section II), if the IAASB were to focus on encouraging others to act, where should this focus be, and why?

Commercial considerations relating to an audit

The global pressure on the level of audit quality and the related commercial considerations such as pressure on audit fees impacts on how the ISAs are viewed by the market but more importantly impact on audit quality. We encourage the IAASB to undertake activities to enhance the perceived value of their product - the ISAs.

Technology/methodology

Technology is viewed in the Australian market as a major barrier to improving audit efficiency and effectiveness with the standards being perceived as the major blockage to its use particularly by small and medium practitioners. We would encourage the IAASB to consider how they could revise the ISAs to consider technology and address the perceived barriers.

Education and people

Whilst education and people are out of scope, the IAASB is encouraged to consider the environment that auditors of LCEs operate in when determining the most appropriate solution. The IAASB needs to consider the wide spectrum of practitioners who audit LCEs and the varying levels of experience, capability and knowledge. Whilst not definitive, research suggest that smaller auditors do not have the same experience, ability, knowledge or motivation as larger practitioners (particularly resources to provide training).

Enhanced accessibility of the ISAs

This should be pursued as a priority by the IAASB. Enhancing the accessibility of the ISAs particularly through the use of technology may be a short-term solution to address some of the challenges related to the size and complexity of the standards.

Value of an audit and public expectations

Globally there are issues with the audit expectation gap. Audits, particularly in the LCE market are in some cases considered purely as a compliance exercise with no value added. Whilst individual jurisdictions can work on addressing the gap, the IAASB should have an opinion and should identify actions to improve understanding of the audit process and the auditor's role.

IAASB Question 4 – To be able to develop an appropriate way forward, it is important that we understand our stakeholders’ views about each of the possible actions. In relation to the potential possible actions that may be undertaken as set out in Section III:

- a) **For each of the possible actions (either individually or in combination):**
 - a. **Would the possible action appropriately address the challenges that have been identified?**
 - b. **What could the implications or consequences be if the possible action(s) is undertaken? This may include if, in your view, it would not be appropriate to pursue a particular possible action, and why.**
- b) **Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?**
- c) **In your view, what possible actions should be pursued by us as a priority, and why?**

This may include one or more of the possible actions, or aspects of those actions, set out in Section III, or noted in response to 4b above.

The AUASB encourages the IAASB to explore all possible options outlined in section III of the Discussion Paper. It is important that at this early stage the IAASB avoids landing on a single solution until all options are fully explored.

Overwhelmingly, 97% of respondents to the Australian survey considered that guidance needs to be developed for auditors of LCEs. Respondents to the AUASB survey were split on whether revising the standards or developing a separate standard should be explored, although respondents rated both options as highly important to pursue (greater than 75%).

Whilst the options are not mutually exclusive respondents considered the type of LCE guidance developed should be:

- An enhanced comprehensive guide on applying auditing standards for audits of less complex entities (45%);
- Focused “implementation packs” for new and revised auditing standards specifically for audits of LCEs (26%); or
- Guidance for the application of specific areas within the auditing standards or a specific auditing standard (19%).

Australian stakeholders considered that if the standards were to be revised, that a ‘building-block’ approach should be pursued (41%). This was supported by comments that a ‘building-block’ approach which starts out with the base requirements and builds in complexity for more complex audits may result in greater compliance with the standards throughout all audits. These stakeholders viewed that developing a separate framework would be counterproductive as it increases complexity through creating different frameworks for different entities.

48% of Australian stakeholders considered that if separate LCE standards were developed it should be based on the existing risk-based framework, whilst 42% considered it should be based on a different framework.

Overall, the AUASB considers that guidance should be pursued as a priority in the short-term. Guidance is not mutually exclusive to the other options and should be completed as an interim solution whilst the project is further developed.

Whilst the AUASB encourages the IAASB to explore all possible options, at this early stage the AUASB’s preference is a revision of the ISAs. The AUASB has raised in submissions on recent IAASB Exposure Drafts that the growing complexity of the standards is becoming problematic and may be leading to issues with confidence in the standards by the assurance profession. In particular, the AUASB raised in the ISA 315 submission that a different approach to the development of new and revised auditing standards should be considered by the IAASB to address the impact that the growing complexity has on small and medium assurance practitioners. A revision of the standards may have benefit for all users of IAASB standards, not just auditors of LCEs.

Whilst a separate standard may be appealing for some jurisdictions as it allows the current ISAs to retain their complexity, there will likely be more complex implementation issues in Australia as a result of auditing standards having force-of-law. A separate framework comes with a number of possible challenges such as negative impact on the audit expectation gap and the difficult in maintaining two frameworks. We have seen the International Accounting Standards Board (IASB) struggle to maintain both IFRS and IFRS for SMEs. In particular, IFRS for SMEs has not been updated since 2015 even though a number of fundamental changes have occurred in IFRS. The challenge of balancing multiple frameworks is also relevant to National Standard-Setters who will be required to implement and maintain the separate standards.

IAASB Question 5 – Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audits of LCEs?

No further matters to raise.

Draft



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.3.3
Meeting Date:	10-11 September 2019
Subject:	Summary of Less Complex Entities Discussion Paper Feedback
Prepared By:	Tim Austin
Date Prepared:	4 September 2019

Overview

1. As outlined in the **Agenda Item 5.3.1**, the purpose of this paper is to provide a high level summary of feedback gathered by the AUASB through the Australian LCE Survey and submissions/other comments received to assist the AUASB in developing the submission to the IAASB Discussion Paper.
2. The feedback has been separated between survey results and formal comments received. A more detailed analysis of the AUASB survey will be completed shortly and published on the AUASB's website. This analysis will also be used to support the outcomes determined in **Agenda Item 5.3.7**.
3. At a high level, the feedback the AUASB received is composed of:
 - (a) 145 responses to the AUASB LCE Survey (77% auditors); and
 - (b) 4 comment letters received/other formal communication
 - (i) KPMG Australia (**Agenda Item 5.3.4**);
 - (ii) Pitcher Partners (**Agenda Item 5.3.5**);
 - (iii) The University of Adelaide (**Agenda Item 5.3.6**); and
 - (iv) The Australian Charities and Not-for-Profits Commission.

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Question 1 – We are looking for views about how LCEs could be described (see page 4). In your view, is the description appropriate for the types of entities that would be the focus of our work in relation to audits of LCEs, and are there any other characteristics that should be included?

How should an LCE be defined?	All respondents	Auditors
A risk approach, where an LCE is defined using a range of factors such as controls and simple record-keeping	52%	50%
Entities which do not meet the current definition of a Public Interest Entity in the APESB Code	15%	17%
Size related thresholds (for example, revenue, assets, employee numbers)	33%	32%

Formal Comments	Key Themes from Feedback
KPMG Australia (KPMG)	Definition is appropriate.
Pitcher Partners (PP)	Overall, focussing on the definition is not an effective use of IAASB time. Without clarity on what the consequences of being an LCE are, it is difficult to consider what the appropriate definition should be as each jurisdiction will need to determine what is appropriate for them.
University of Adelaide (UoA)	View that the focus of the project should be shifted from the nature of the entity to the nature of the operations requiring an audit.
Australian Charities and Not-for-profits Commission (ACNC)	Whilst a number of the factors are fitting for a charity it may be difficult to clearly define/describe a LCE in the charity space due to the wide variety of charitable purposes and circumstances.

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Question 2 – Section II describes challenges related to audits of LCEs, including those challenges that are within the scope of our work in relation to audits of LCEs. In relation to the challenges that we are looking to address:

a) What are the particular aspects of the ISAs that are difficult to apply? It would be most helpful if your answer includes references to the specific ISAs and the particular requirements in these ISAs that are most problematic in an audit of an LCE.

b) In relation to 2a above, what, in your view, is the underlying cause(s) of these challenges and how have you managed or addressed these challenges? Are there any other broad challenges that have not been identified that should be considered as we progress our work on audits of LCEs?

	Total respondents		Auditors	
	Rated significant (5-7)	Rated not significant (1-3)	Rated significant (5-7)	Rated not significant (1-3)
Requirements result in certain procedures being performed solely to comply with auditing standard requirements with no additional assurance or measurable increase in audit quality	90%	8%	92%	7%
There is a lack of separate implementation support/ guidance in respect of the application of the auditing to the audit of LCEs	74%	12%	86%	7%
The auditing standards are long and voluminous	81%	11%	77%	14%
Documentation requirements are extensive and onerous	83%	9%	84%	9%
There is insufficient application or inadequate application material in the auditing standards addressing scalability and proportionality considerations	84%	19%	68%	9%
It is difficult to identify the relevant requirements for an LCE audit	71%	13%	68%	15%
There is a lack of clarity and different interpretations as to what, and how, certain matters are documented	84%	6%	71%	5%
The auditing standards are not clear about the nature and extent of work required	65%	16%	63%	17%
The language is complex and difficult to understand	61%	19%	55%	23%

Formal Comments From	Key Themes from Feedback
KPMG Australia (KPMG)	Underlying causes of the challenges are the language of the standards and lack of understanding of what is practically required for compliance and the extent of audit documentation. Heavily reliant on internally developed materials to fill this gap.

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Formal Comments From	Key Themes from Feedback
	Particular standards and aspects of the standards which are challenging for auditors of LCEs: <ul style="list-style-type: none"> - ASA 240 – journal entry testing; - ASA 315 – Understanding the entity, including internal controls and the IT environment; - ASA 500 – Information produced by a management’s expert. - ASA 540 – Extent of work for more routine estimates which are not a significant risk. - ASA 620 – Criteria for reliance on a specialist.
Pitcher Partners (PP)	Particular standards and aspects of the standards which are challenging for auditors of LCEs: <ul style="list-style-type: none"> - ASA 240 – Identification and assessment of the risks of material misstatement due to fraud. LCEs frequently have few or no RMM due to revenue recognition. (para 27) - ASA 315 – Control activities relevant to the audit. Level of documentation expected for an LCE is higher than what is appropriate. (para 21 and A107-A109). ASA 315 – Measurement and review of the entity’s financial performance. Statement in application material that there may be increased risks for smaller entities creates more work for auditors of LCEs. (para A49). ASA 315 – Audit evidence for elements of the control environment. In a smaller entity often controls are not formally documented. Difficult to meet as inquiry alone is insufficient. - ASA 330 – Substantive procedures. Testing a material balance even if there is no risk of material misstatement. (para 18) - ASA 500 – Sufficient appropriate audit evidence. Barriers to the use of technology are a significant barrier to efficient and effective LCE audits. - ASA 520 – Substantive analytical procedures. Size of the threshold is a significant factor in whether sub AR can be used for an LCE audit. (para 5(d)).

Standards	Auditor’s responses
ISA 200s	11%
ISA 315	43%
300 series of standards (excluding ISA 315)	9%
ISA 400s	4%
ISA 540	14%

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Standards	Auditor's responses
500 series of standards (excluding ISA 540)	17%
ISA 600s	1%
700 series of standards	1%
800 series of standards	3%
ISREs	1%

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Question 3 – With regard to the factors driving challenges that are not within our control, or have been scoped out of our exploratory information gathering activities (as set out in Section II), if the IAASB were to focus on encouraging others to act, where should this focus be, and why?

Formal Comments From	Key Themes from Feedback
KPMG Australia (KPMG)	IAASB should focus on: <ul style="list-style-type: none"> - Regulatory and commercial – Audit fee pressure ultimately impacts on audit quality. - Value of audit – Audits, in particular those of LCEs, are considered as a regulatory service that provides no value. - Public expectations – improving understanding of the audit process and auditor’s role.
Pitcher Partners (PP)	IAASB should focus on: <ul style="list-style-type: none"> - Tools and technology would greatly enhance audit quality and efficiency. IAASB should be amending or changing standards to allow this. - Regulatory – Regulator approach to compliance is checklist based and view guidance as mandatory. IAASB should be ensuring standards are being used appropriately by all stakeholders. - Public expectations – improving understanding of the audit process and auditor’s role, reducing the audit expectation gap.

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Question 4 – To be able to develop an appropriate way forward, it is important that we understand our stakeholders’ views about each of the possible actions. In relation to the potential possible actions that may be undertaken as set out in Section III:

- a) **For each of the possible actions (either individually or in combination):**
 - a. **Would the possible action appropriately address the challenges that have been identified?**
 - b. **What could the implications or consequences be if the possible action(s) is undertaken? This may include if, in your view, it would not be appropriate to pursue a particular possible action, and why.**
- b) **Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?**
- c) **In your view, what possible actions should be pursued by us as a priority, and why? This may include one or more of the possible actions, or aspects of those actions, set out in Section III, or noted in response to 4b above.**

How important do you think it is to pursue each action?	Total respondents		Auditors	
	Rated significant (5-7)	Rated not significant (1-3)	Rated significant (5-7)	Rated not significant (1-3)
Revising the auditing standards to make the auditor’s work effort clearer	75%	10%	79%	11%
Developing a separate auditing standard for audits of less complex entities	76%	17%	75%	18%
Developing guidance for auditors of less complex entities or other related actions	97%	5%	94%	4%

Basis for revising the ISAs	All respondents	Auditors
Setting out the basic requirements for all audits then expanding as needed to address more complex circumstances (building-blocks approach)	41%	42%
Including considerations specific to audits of less complex entities in a separate section within each auditing standard	30%	31%
Greater focus on more clearly setting out what the auditor needs to do	14%	14%
Featuring more scalability and proportionality considerations in the application material	12%	12%
Other (please specify)	2%	2%

Basis for developing new ISAs	All respondents	Auditors
Developing a separate auditing standard based on the existing risk-based framework	48%	45%
Developing a separate auditing standard based on a different framework (e.g. substantive testing based)	42%	46%
Other (please specify)	10%	9%

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Basis for guidance (All respondents)	All respondents	Auditors
An International Auditing Practice Note (IAPN) for Audits of Less Complex Entities	5%	5%
An enhanced comprehensive guide on applying auditing standards for audits of less complex entities	45%	46%
Focused “implementation packs” for new and revised auditing standards specifically for audits of LCEs	26%	26%
Guidance for the application of specific areas within the auditing standards or a specific auditing standard	19%	17%
Other (please specify)	4%	5%

Formal Comments From	Key Themes from Feedback
KPMG Australia (KPMG)	Revising the ISAs “building-block” approach and developing guidance. Consider that developing a separate standard would be counterproductive, increasing complexity by creating different compliance frameworks for different entities. Strongly support the adoption of a format which prescribes the minimum requirements for all types of entities and includes additional requirements for more complex entities.
Pitcher Partners (PP)	Revising the ISAs using a “building block” approach. Approach would address the issues of scalability in the audit. Setting the “minimum” requirements for an audit and developing additional guidance for more complex audits (e.g. listed entities) is within the IAASB’s powers and would likely result in compliance with ISAs through all sizes of audits. A comprehensive re-write of the standards from the ground up to address the changing auditing landscape is needed to address a number of issues such as technology, listed/non listed environment and audit expectation gap.

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Question 5 – Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audits of LCEs?

Formal Comments From	Key Themes from Feedback
KPMG Australia (KPMG)	None noted.
Pitcher Partners (PP)	A building blocks approach may be more palatable than the current suggestion that “LCE” do less to obtain reasonable assurance, set the minimum requirements as the based and listed and other “special” types of entity do more with specific guidance for those types of entities to provide reasonable assurance aligning more coherently with expectations of the audit.
University of Adelaide (UoA)	View that the focus of the project should be shifted from the nature of the entity to the nature of the operations requiring an audit.
Australian Charities and Not-for-profits Commission (ACNC)	<p>Some challenges faced by the charity sector are:</p> <ul style="list-style-type: none"> - The current legislative framework sets a minimum threshold of \$1M in revenue for a mandatory audit. There is a single approach to application of standards unless a separate auditing standard for LCEs is developed whereby eligible charities could meet alternative standards (still in accordance with the Australian Auditing Standards). Should any LCE approach be formalised in Australia, the nature of such material needs to be authoritative to meet the ACNC regulatory framework. - Additional auditing requirements relating to fundraising at a state and territory level require specific audits on fundraising income and expenses. The ACNC is committed to drive and advocate for a harmonised national reporting framework for fundraising. - Impact/service performance reporting is another area that the sector appears to have particular interest in developing which may or may not require corresponding assurance. - Lack of ongoing technical resources (volunteer-based entities) or limited access to audit professionals in some remote areas. <p>We note some challenges do not fall within the remit as a standard setter and it is never an easy task to engage stakeholders to work collaboratively. Given the potential relevance and applicability to the charity sector, we see value in the LCE project progressing.</p>

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The Chair
Auditing and Assurance Standards Board
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Email: enquiries@auasb.gov.au

Our ref Comment submission on IAASB
 Discussion Paper
Contact Tony Batsakis
 (+61 3 9288 6032)

19 August 2019

Dear Sir

Comment submission on IAASB Discussion Paper, ‘Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs’

We are pleased to have the opportunity to respond to the International Auditing and Assurance Standards Board (IAASB) Discussion Paper regarding the audits of less complex entities. The letter represents the views of KPMG Australia.

Our responses to the specific questions posed by the IAASB in the Discussion Paper are set out in Appendix 1 below.

Should you wish to clarify any aspect of KPMG Australia’s submission, I would be pleased to discuss. My contact details are tbatsakis@kpmg.com.au or +61 3 9288 6032.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'T. Batsakis', written in a cursive style.

Tony Batsakis
Partner

Appendix 1 – KPMG Australia’s responses to the specific questions posed to respondents in the IAASB Discussion Paper ‘Audits of Less Complex Entities (LCEs): Exploring Possible Options to Address the Challenges in Applying the ISAs’.

Questions for Respondents

- 1. We are looking for views about how LCEs could be described (see page 4). In your view, is the description appropriate for the types of entities that would be the focus of our work in relation to audits of LCEs, and are there any other characteristics that should be included?**

Yes, the definition is appropriate. No other characteristics noted.

- 2. Section II describes challenges related to audits of LCEs, including those challenges that are within the scope of our work in relation to audits of LCEs. In relation to the challenges that we are looking to address:**

- a. What are the particular aspects of the ISAs that are difficult to apply? It would be most helpful if your answer includes references to the specific ISAs and the particular requirements in these ISAs that are most problematic in an audit of an LCE.**

Particular aspects of the ISAs that in our view are difficult to apply include:

- *ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, specifically in relation to journal entries testing.
- *ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, specifically in relation to the required understanding of the entity and its environment, including internal control and the IT environment.
- *ASA 500 Audit Evidence*, specifically guidance in relation to information used as evidence regarding information produced by the entity and information produced by a management’s expert.
- *ASA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. Auditing estimates in general and the extent of audit work required over more routine estimates that do not give rise to significant risk.
- *ASA 620 Using the Work of an Auditor's Expert*, specifically the criteria for reliance on a specialist.

- b. In relation to 2a above, what, in your view, is the underlying cause(s) of these challenges and how have you managed or addressed these challenges? Are there any other broad challenges that have not been**

identified that should be considered as we progress out work on audits of LCEs?

The underlying causes of these challenges are the language of the current standards and understanding practically what is required for compliance, as well as extent of audit documentation. There is also a lack of guidance and examples that are relevant to LCEs. Within KPMG Australia these challenges have been addressed via our internally developed interpretation of the auditing standards, which includes additional guidance and examples to aid with compliance.

In our view there are no other broad challenges that have not been identified.

3. With regard to the factors driving challenges that are not within our control, or have been scoped out of our exploratory information gathering activities (as set out in Section II), if the IAASB were to focus on encouraging others to act, where should this focus be, and why?

In our view this focus should be on:

- i. Regulatory and commercial considerations regarding the determination of audit fees, as audit fee pressures ultimately have an impact on audit quality;
- ii. Value of an audit. In particular for LCEs, an audit is viewed as a regulatory requirement rather than a service that provides value to the entity and those charged with governance; and
- iii. Public expectations, including a better understanding of the audit process and the auditor's role.

4. To be able to develop an appropriate way forward, it is important that we understand our stakeholders' views about each of the possible actions. In relation to the potential possible actions that may be undertaken as set out in Section III:

a. For each of the possible actions (either individually or in combination):

i. Would the possible action appropriately address the challenges that have been identified?

Refer to ii. below.

ii. What could the implications or consequences be if the possible action(s) is undertaken? This may include if, in your view, it would not be appropriate to pursue a particular possible action, and why.

In our view, actions A Revising the ISAs and C Developing Guidance for Auditors of LCEs or Other Related Actions would appropriately address the challenges outlined above.

With respect of B Developing a Separate Auditing Standard for Audits of LCEs, in our view this would only work to further increase the complexity, as it creates a different compliance framework for different entities.

b. Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?

None noted.

c. In your view, what possible actions should be pursued by us as a priority, and why? This may include one or more of the possible actions, or aspects of those actions, set out in Section III, or noted in response to 4b above.

In our view, action A Revising the ISAs should be pursued as a priority. This could include signposting the requirements that are applicable and specific to LCEs within the ISAs.

In particular, in respect of action A Revising the ISAs, we strongly support the adoption of a format that prescribes the minimum compliance requirements for all types of entities, along with the inclusion of additional requirements for more complex entity audits, enabling the ISAs to be more scalable and clearer for LCE audits than the current version of these standards. By way of example, in testing an IT general controls environment for an LCE, where an LCE is largely reliant on off the shelf IT software packages, requirements may be limited to review of the design and implementation of IT controls.

5. Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audits of LCEs?

None noted.



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Ref: KLB/TN

22 August 2019

The Chairman
Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne Victoria 8007

Dear Chairman,

SUBMISSION – AUDIT OF LESS COMPLEX ENTITIES

We appreciate the opportunity to provide comment to the International Auditing and Assurance Standards Board on *Discussion Paper: Audit of Less Complex Entities*.

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full service firms and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, and small to medium sized enterprises.

We support the International Auditing and Assurance Standards Board's efforts to facilitate greater consultation in the standard setting process. In its current form the consultation paper is focused on areas which by the Board's own estimation it has no control over such as the definition of LCE, consequently the Board would be better focused on re-writing the auditing standards to focus on the "minimum" requirements for an audit, i.e. one suitable for LCE, with additional guidance for entities requiring additional work such as listed or public interest entities. The determination of what entities can apply this "minimum" approach can then be determined by the various jurisdictions, with local additional requirements as necessary which would also support the IAASB drive for compliance with the ISA's as all audits would comply with a "minimum" approach. Identification of what is required for a "minimum" approach is within the power of the Board to determine and consequently, would be a more effective use of the Board's time. Further understanding the requirements of a "minimum" approach would facilitate jurisdictions to determine where it would be applicable to use such an approach and where additional work is required to provide the appropriate audit quality and assurance.

Adelaide Brisbane Melbourne Newcastle Perth Sydney

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Our detailed responses to the questions contained in *Discussion paper: Audits of Less Complex Entities* are attached to this letter and we would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

Please contact either myself or Tim Nesbitt, Director - Audit & Accounting Technical (03 8612 9596 or tim.nesbitt@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely,



K L Byrne
Partner



T Nesbitt
Director, Audit & Accounting Technical

Consultation Paper: *Audit of Less Complex Entities*

Overall Question

- 1) We are looking for views about how LCEs could be described (see page 4). In your view, is the description appropriate for the types of entities that would be the focus of our work in relation to LCEs, and are there any other characteristics that should be included?**

The current definition of a smaller entity which the IAASB suggests may share many characteristics of a Less Complex Entity “LCE” is:

“An entity which typically possesses qualitative characteristics such as:

- a) Concentration of ownerships and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and,*
- b) One or more of the following:*
 - a. Straight forward or uncomplicated transactions;*
 - b. Simple record keeping;*
 - c. Few lines of business and few products within business lines;*
 - d. Few internal controls; few levels of management with responsibility for a broad range of controls; or*
 - e. Few personnel, many having a wide range of duties*

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.”

The above definition of an LCE is challenging in a number of ways, while allowing that the IAASB is not responsible for defining for each jurisdiction what entities may apply any developed LCE approach / guidance or standards (herein referred to as the “minimum” approach). A definition which allows some, all, or even presumably none of these factors to be present but others to be present resulting in an entity being considered LCE renders any definition redundant as it is not a definition but a number of suggestive factors. Therefore, what is the purpose to “defining” an LCE if the IAASB cannot mandate the acceptance of said definition or is it simply a question of acknowledging that the concept exists that there is a minimum audit for LCE and there are higher expectations and requirements for other types of entities. Ultimately local jurisdictions will determine the applicability of the “minimum” approach and what entities require further procedures.

The comments on the definition of LCE does not remove the need for the standards to be revised to address what the minimum requirements of an audit are i.e. to facilitate LCE audit.

That said analysis of each of the characteristics if the IAASB is to continue with trying to define LCE also presents challenges:

Concentration of ownership – the extant definition appears to preclude a larger number of individuals from having ownership, but there are many entities which require audit in our

jurisdiction which may have quite sizeable numbers of “owners” such as companies limited by guarantee but which otherwise are often LCE in substance, therefore adoption of a limited ownership limitation may preclude entities from being included in the use of LCE. An example might be a company limited by guarantee running a golf club, simple business, comparatively small, but potentially with 500 or 1000 “owners” as members. Further the number of owners does not as a default position make any indication that the business itself is complex although it is a reasonable indicator that it may be less complex it should not preclude wider ownership businesses from being considered non-complex.

Straight forward or uncomplicated transactions – At a principles-based level this is likely a core element of the definition, however, in of itself it has no definition i.e. what is straight forward or uncomplicated. A basic cash transaction for a good is likely to be commonly considered to be both straight forward and uncomplicated, but if a service is involved while it can be simple the amendments to the Accounting Standards on revenue recognition potentially mean that any transaction with a service period component would be considered complex, or a split settlement such as for construction contracts, however, for these businesses they are business as usual and would not be considered anything other than straight forward and uncomplicated. A definition using words without clear or defined meaning is likely to lead to dispute on whether the LCE approach is acceptable and therefore potential misapplication.

Simple record keeping – Similar to straight forward transactions, the word simple is an undefined term, or to reverse the question what is complex record keeping? This would be a good conceptual starting point but without explanation, example and definition is difficult to consistently determine and execute on.

Few lines of business and few products – While the number of business lines may indicate greater complexity what a business line is would enhance any definition if this is to be used as a term, e.g. is this something with different accounting treatment, different nature of product different product? Is selling trucks a different line to selling cars? The lack of clarity in the definition of these terms means that a “definition or description” of LCEs may in substance create as many questions as it solves.

Few internal controls; few levels of management – While fewer controls may be an indicator of a smaller and/ or less complex entity, a business could operate in a simple manner but still have a number of controls. Also, the concept of a few is wide ranging is this a few in total? A few in each cycle? Are these documented controls which are documented, designed and operating effectively or are these controls largely manual in nature without necessarily full documentation or absolute operating effectiveness?

Few personnel – similar to the number of internal controls, limited numbers of people may be indicative but not definitive as to whether the business is complex. The nature of the transactions is more likely to define the complexity of the entity. This is something which seems inherently tied to size rather than complexity.

Also, without clarity on the consequences of being an LCE it is difficult to fully consider what the definition of an LCE should be. Particularly given that being or not being an LCE is seen as a binary outcome with binary consequences, when in practice there may be many areas of a file where a minimum approach is appropriate to obtain evidence and others where it is not.

Without understanding the impact of determining an entity as LCE it is difficult to determine the appropriate definition.

Lastly definitions or examples currently included in the auditing standards are typically interpreted by regulators as the minimum requirements, and therefore essentially render that example or definition a compliance or usage definition. An example of this approach is the rebuttal of the presumption that there are risks of fraud in revenue recognition refer *ISA 240 para A30*

“the presumption that there are risks of fraud in revenue recognition may be rebutted. For example, the auditor may conclude that there is no risk of material misstatement due to fraud relation to revenue recognition in the case where there is a single type of simple revenue transaction, for example, leasehold revenue from a single unit rental property.”

This has been interpreted by our regulator as being the definition of rebuttal and anything other than this is considered not to be appropriate to rebut the risk of material misstatement due to fraud in revenue recognition.

Therefore, the idea that there is an LCE approach as a concept is crucial to respond to the substantive realities of auditing in a public or listed environment as opposed to a private environment, but the use and acceptance of this should likely be left to the various jurisdictions to determine where and when it is appropriate.

Perhaps it would be substantially easier to define what characteristics absolutely prevent an entity from using only the minimum approach e.g. Listed / Public entities, rather than describing the LCE with a definition which suggests a range of items without clarity on the quantum, or number of those which must be present to determine that the entity is an LCE, and consequently the additional work required for entities which are “not” LCE. This is especially relevant in the current litigious environment where if an LCE approach is a path to less documentation/evidence/work then any debate over the definition of LCE, and therefore whether it is appropriate to use it, is a litigation issue waiting to occur. This would likely leave adoption and acceptance of the LCE approach with the jurisdictions, and better reflect the fact that the largest element of the expectation gap is the listed/public sector where there should be no scaling back of requirements except where they are not applicable to an entity.

In short defining what an LCE is does not appear to be an efficient or effective use of time as the applicability of any such approach will be determined in each jurisdiction, and it is only of practical relevance if the evidence gathering requirements of such an approach requires less audit evidence / effort than complying with the “full” audit standards.

- 2) Section II described challenges related to audits of LCEs, including those challenges that are within the scope of our work in relation to audits of LCEs. In relation to the challenges that we are looking to address:**
 - a. What are the particular aspects of the ISAs that are difficult to apply? It would be most helpful if your answer includes references to the specific ISAs**

and the particular requirements in these ISAs that are most problematic in an audit of an LCE.

- b. In relation to 2a above, what, in your view, is the underlying cause(s) of these challenges and how have you managed or addressed these challenges? Are there any other broad challenges that have to been identified that should be considered as we progress our work on audits of LCEs?

ISA Reference	Cause of difficulty
ISA 240 para 27 and A30	<ul style="list-style-type: none"> Regulatory attitudes to examples in guidance being treated as rules LCEs would frequently have few or no risks of material misstatement due to revenue recognition
ISA 300 par 21 and A107-109	<ul style="list-style-type: none"> The level of documentation actually expected and required for the audit of an LCE. Regulatory expectations appear to be considerably higher than audit professionals would consider appropriate in some cases and the extant standard does not provide sufficient examples or guidance as to what is considered acceptable, primarily due to the lack of clarity of what is the minimum requirements.
ISA 315 para A49	<ul style="list-style-type: none"> The statement that there may be increased risks in smaller entities, while true is not guidance which assists the auditor perform a more efficient audit. In fact, the “guidance” creates work for audits which are already under the greatest of fee pressure. This consideration does not assist the auditor of an LCE, nor does it help address this other than to say there are more risks, which logically means there is more work to do. This risk assessment issue outlines clearly that the current guidance is not assisting in the audit of LCE, and further indicates the need for the standards to build from the minimum requirements rather than the top or a middle ground position.
ISA 315 para A79 and A85-87	<ul style="list-style-type: none"> The requirement that audit evidence is obtained from a combination of enquiries and other procedures such as observation, with the acknowledgement that smaller entities or LCE may have no written code, how should this be documented and how much evidence can an auditor take from this particularly as inquiry alone is insufficient.
ISA 330 para 18	<ul style="list-style-type: none"> Obligation to test a material balance even if there are considered to be no risks of material misstatement in the judgement of the auditor
ISA 500 para 6 and A10	<ul style="list-style-type: none"> Inability to use advanced data analytics tools as audit evidence as they do not meet the definition of audit evidence under ISA 500. This is a significant barrier to efficient and effective audit of all entities but in particular LCEs.
ISA 520 para 5(d) and A16	<ul style="list-style-type: none"> While A16 relates the amount of difference from the expectation that can be accepted without further investigation to materiality. It is unclear whether the threshold is limited to materiality. The size of the threshold is a significant factor in whether Substantive Analytical Procedures can be used to provide sufficient appropriate audit evidence in compliance with ISA 520.

There is one area which does not get direct attention from the auditing standards and that is information prepared or amended by the client, i.e. there is an expectation of work being performed on the General Information Technology Controls "GITC", but that report is then handled by the client in many instances prior to being presented to the auditor. What extent of work is expected to address this risk? Further associated with this is the use of client portals to obtain information in advance which means that some of the traditional checks such as observing the report being run are no longer practical as the client will run and lodge the report in the portal without any auditor observation.

3) With regard to the factors driving challenges that are not within our controls, or have been scoped out of our exploratory information gathering activities (as set out in Section III), if the IAASB were to focus on encouraging others to act, where should this focus be, and why?

Where to focus	Why
IAASB	<p>The statement "Access to technology tools/methodologies that may help with the application of the ISAs in an audit of an LCE may be limited." This is categorically inaccurate. There are numerous tools that could enhance the execution of all audits and particularly audits in the LCE space were the audit standards revised appropriately. In particular the definition of evidence in ISA 500, and or a revision to ISA 520 such that a data analytic test is considered a substantive analytical procedure and therefore is a form of substantive evidence which would greatly enhance audit quality and efficiency.</p> <p>The ability to amend or change these standards is directly within the capability of the IAASB and would potentially have the greatest impact on audit.</p> <p>Adoption of a building block approach to standards from the ground up, i.e. the minimum requirements to perform an audit with guidance where additional work may be required is inherently more consistent with the idea that there is a minimum level of work to support a reasonable opinion.</p>
Regulators	<p>Regulators are taking a compliance and checklist mentality to audits which is adversely affecting the auditor's ability to focus on the areas of audit risk. Therefore, the IAASB should be cognizant of their role in explaining that guidance is guidance, not a mandate, and assist in limiting the checklist approach to standard setting and consequently regulatory review.</p> <p>A building blocks minimum audit requirements approach would also be consistent with this approach.</p>
Public expectations/	<p>Focusing on clarifying the public expectation and capabilities of the audit. In particular, in the light of findings from the UK and other territories would help reduce the expectation gap. This, in conjunction with actively</p>

Commercial considerations	working to make clear that quality and compliance can only improve where there is a suitable fee to perform such work.
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- 4) To be able to develop an appropriate way forward, it is important that we understand our stakeholders’s views about each of the possible actions. In relation to the potential possible actions that may be undertaken as set out in Section III:**
- a. For each of the possible actions (either individually or in combination):**
 - i. Would the possible action appropriately address the challenges that have been identified?**
 - ii. What could the implications or consequences be if the possible action(s) is undertaken? This may include if, in your view, it would be appropriate to pursue a particular possible action, and why.**
 - b. Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?**
 - c. In your view, what possible actions should be pursued by as a priority, and why? This may include one or more of the possible actions, or aspects of those actions, set out in Section III, or noted in response to 4b above.**

Revising the ISAs

Revising the ISAs, the idea of a “building blocks” approach would seem to address the issues of scalability if the intent is that an audit always provides reasonable assurance then there logically is a minimum, level of procedures to generate evidence to support that outcome. Additional evidence would be required where certain criteria or circumstance exist, which would allow reasonable assurance to still be provided. Hence the suggestion in 1 that the Board focus on defining when additional procedures are required for example for listed entities rather than seeking to define what LCE is.

How this could be achieved? There are a number of individually identifiable standards which urgently need revision such as ISA 500, However, the interconnectivity of the standards and the evidence of the initial exposure draft of ED540. ED 540 contained proposals which would have had substantial issues with alignment to other standards. This is an example that if a truly impactful and substantive revision is proposed it needs to be as part of a comprehensive re-write from the ground up to reflect changed auditing landscape, addressing in its thinking the changing technology environment, litigation environment, auditing in a public/listed environment as opposed to a private/non-public environment and expectation gap.

- 5) Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audits of LCEs?**

Given the underlying statement from the *Chairman’s foreword* that “*Smaller entities make a critical contribution to the economy, and quantitatively the majority of audits globally are audits of smaller entities*” building the standards to address smaller or LCE entities and having addendums for public or more complex entities would appear to be a more sustainable method of creating standards. Further those auditing public or more complex entities have more time and resources to meet the enhanced requirements rather than the LCE auditor attempting to scale or interpret the standards for the LCE space. Building from the ground up

would also be potentially beneficial in explaining how reasonable assurance is always achieved from compliance with the auditing standards.

This may prove more palatable than the current suggestion that “LCE” do less to obtain reasonable assurance, set the minimum requirements as the base and listed or other “special” types of entity do more with specific guidance for those types of entities to provide reasonable assurance aligning more coherently with expectations of the audit.



ADELAIDE BUSINESS SCHOOL

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29th August 2019

The Chair
Professor Roger Simnett
Australian Auditing and Assurance Standards Board
MELBOURNE VIC 3000

Submission to Future Options for Auditing Standards Applicable to Audits of Less complex Entities (LCEs)

I refer to information available on the AUASB seeking submissions in relation to the above topic. Please find attached a submission from a project team (details in the Submission) from the University of Adelaide which we hope provides a useful perspective. While our submission is brief we believe that it provides the basis of a discussion. If you require any further detail or if any of us can be of assistance then please advise us and we are more than happy to oblige.

Yours sincerely



Dr Max Bessell

**SUBMISSION TO
FUTURE OPTIONS FOR AUDITING STANDARDS APPLICABLE TO
AUDITS OF LESS COMPLEX ENTITIES (LCEs)**

**DR MAX BESSELL
DR LISA POWELL
PROFESSOR PAUL CORAM
PROFESSOR CHRISTOPHER SYMES**

ADELAIDE BUSINESS SCHOOL

AUGUST 2019

BACKGROUND

We refer to the request for submissions into the Discussion Paper titled “Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs” developed by the International Auditing and Assurance Standards Board (IAASB).

The Project Team (members above), from the Adelaide Business School, have been researching the demands on the services of Registered Company Auditors (RCA)’s by non-Corporations Act legislation for a number of years. This research has been supported by the Financial Reporting Council (FRC), the Auditing and Assurance Standards Board (AUASB), the Australian Investments and Securities Commission (ASIC), Chartered Accountants Australian and New Zealand (CA ANZ), CPA Australia (CPA) and the Institute of Public Accountants (IPA). See Appendix 1 for more details of the research process and findings.

The findings to date have revealed numerous variations in Australian legislation requiring audit and assurance and the potential overuse of the requirements for RCA’s. These findings are serious as there is a diminishing number of RCAs but increasing demands by the Corporations Act and other non-Corporations Act legislation for their services.

The issues raised in the IAASB Discussion Paper (DP) are not inconsistent with the concerns we are exploring in our research, namely that the current system of audit categories, named auditors and auditing standards are in need of review. This submission aims to provide important input into this timely debate.

SUBMISSION

Our recommendation is that the focus of an audit be shifted from the nature of the entity to the nature of the operations requiring an audit. It seems that the current standards adequately address complex audits such as those required by the Corporations Act. There is a need, however, to investigate the sufficiency of standards for less complex audits and the legislation or authority initiating them.

The auditing of trust accounts provides an excellent example of how a less complex audit may be considered. A focus on trust account sits well with the IAASB theme because they are often not complex (ie they involve the collection and disbursement of money as per instructions) and do not involve the preparation of financial reports. The audit of a trust account primarily requires the auditor to report on the probity of transactions and the year end balances to bank account/s. The number of trustees in the Australian jurisdictions are many and the number of beneficiaries are greater. The operation of a trust account, though, is not the function of the complexity of the entity.

Using trust accounts as an example we have come to the belief that IAASB's focus on LCEs may be inappropriate. It is our view that the current discussion should be about the nature of the operations being audited and the legislation or authority which demands an audit be conducted. The development of auditing standards should, therefore, be consistent with this approach rather than focusing on the complexity of the entity.

Appendix 1 : Summary of research

The project began by identifying and understanding what those demands are across all Australian jurisdictions. The central themes of the issues discovered are:

- Who the auditor is and the description of that person;
- What the auditor is to do; and
- What is to be audited.

To address these concerns the following stakeholders provided a Letter of Support in the research:

- Financial Reporting Council's (FRC)
- Australian Auditing and Assurance Standards Board (AUASB)
- Australian Investments and Securities Commission (ASIC)
- Chartered Accountants Australian and New Zealand (CA ANZ)
- CPA Australia (CPA)
- Institute of Public Accountants (IPA).

The project then moved to first concentrate on legislation in South Australia. A re-examination of legislation was conducted with the view of providing recommendations on amendments which would reduce RCA demands and also address other areas related to audit that were unclear, ambiguous or deficient. This process also raised further issues including:

- What are the qualifications and experience of a non-RCA auditor?
- Should the eligibility of an auditor be defined in the statute or the regulations?
- Should any qualifications and experience required of a non-RCA auditor be specified in the statute or regulations (or assumed as result of membership of a professional accounting body)?
- If accounting bodies are to be referred to (in statute or regulations), should they be specifically named (ie CA ANZ, CPA Australia and IPA) or is it sufficient to refer to them in more generic terms (ie professional accounting body registered in Australia)? Several statutes currently have old nomenclature (ICAA, ASCPA, NIA).
- Is there a need to consider overseas professional accounting qualifications?
- Powers of auditors to access financial records?
- Auditor independence issues?
- Auditor indemnification?

The number and complexity of issues necessarily meant that we needed to take a strategic approach rather than attempt to manage all aspects at once. Consequently we decided to concentrate on legislation which gives rise to trust accounts. In attempting to draft standard legislation which dealt with the auditor and audit of trust accounts it became apparent that Australian auditing standards seemed deficient in respect of them. We believe that this experience provides a useful background in this submission.

Numbers of RCAs and some entities under the *Corporations Act*.

	RCAs		Registered Companies (a)		Public Companies	Listed Companies	
	Number	% change	Number	% change		Number	% change
2004/05	6,163	NA	1.43m	NA	*	*	NA
2005/06	5,848	-5.1	1,48m	3.7	*	1,930	NA
2006/07	5,658	-3.2	1,57m	6.2	*	2,090	8.3
2007/08	5,495	-2.9	1,65m	4.7	*	2,226	6.5
2008/09	5,345	-2.7	1,70m	3.3	*	2,198	-1.3
2009/10	5,270	-1.4	1,77m	4.0	*	2,192	-0.3
2010/11	5,120	-2.8	1,90m	7.1	*	2,247	2.5
2011/12	4,985	-4.4	1,92m	1.5	21,000	2,211	-1.6
2012/13	4,852	-2.7	2,01m	4.7	21,690	2,185	-1.2
2013/14	4,792	-1.2	2,12m	5.3	21,767	2,192	0.3
2014/15	4,596	-4.1	2.25m	6.2	23,792	2,025	9.3
2015/16	4,483	-2.5	2.37m	5.3	23,047	2,076	8.7
2016/17	4,364	-2.7	2.50m	5.5	23,908	2,200	9.6
2017/18	4,226	-3.2	2.60m	4.0	23,872	2,285	3.9

* information not readily available

(a) It is noted that not all companies are audited.

Information sourced from ASIC Annual Reports



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.3.7
Meeting Date:	10-11 September
Subject:	Less Complex Entities – Taking the Project Forward in Australia
Prepared By:	Tim Austin
Date Prepared:	3 September 2019

Overview

1. The AUASB Technical Group (ATG) in consultation with the AUASB LCE Subject Matter Expert has developed this paper. The overall objective is to facilitate a discussion amongst the AUASB Members on how to support Australian auditors of less complex entities. AUASB Members are asked to respond to Questions 1-4 below.
2. As outlined in Part B of **Agenda Item 5.3.1**, whilst the submission to the IAASB discussion paper is an important step in moving the LCE project forward, the volume of feedback and the variation in responses received globally by the IAASB will likely result in solutions from the IAASB not being produced in the short-medium term.
3. The AUASB, through the AUASB LCE survey and comment letters, has collected a list of the key challenges that LCE auditors in Australia face. The challenges can split broadly into the following categories:
 - (a) Not specifically auditing standards focussed (for example audit fee pressure, legislation requiring audits, staffing); but include the following matters that the AUASB can contribute assistance towards:
 - (i) Expectation gap between auditors and users;
 - (ii) Value of the audit; and
 - (iii) Complexity of the accounting standards.
 - (b) Audit standards focussed:
 - (i) Overall scalability of the standards;
 - (ii) Onerous documentation requirements;
 - (iii) Lack of implementation guidance and support;
 - (iv) Not enough material in the standards which is specific to auditing LCEs; and
 - (v) Overall size of the standards leading to checklist approach.

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

Considerations for the AUASB

4. The ATG is seeking initial feedback from the AUASB on how to respond to each of these broad challenges. Considerations for the AUASB include:
 - (a) What can the AUASB do domestically in the interim to support Australian stakeholders?
 - (b) Are there other groups who the ATG should work with?
 - (c) Initial AUASB considerations if an IAASB solution is not forthcoming within the next few years?
 - (d) The AUASB is requested to provide commentary into Questions 1-4 below, to enable the ATG to consider a project proposal to assist practitioners domestically.

What can the AUASB do domestically?

5. Considerations for the AUASB to address challenges that are not specifically audit standards focussed (linked to paragraph 3(a)):
 - (a) AUASB publications aimed at addressing the audit expectation gap and value of the audit (links with Assurance Framework **Agenda Item 5.2**).
 - (b) Education sessions through webinars and workshops.

Question 1: AUASB views on considerations of paragraph 5 above.

6. Considerations for the AUASB to address challenges that are audit standards focussed :
 - (a) Guides for specific standards for auditors of LCEs, topics could include risk assessment, auditing accounting estimates.
 - (b) Preparing LCE implementation packs for all future standards as and when they are approved.
 - (c) Addressing navigational challenges through:
 - (i) Progressing work around presentation of the standards on the AUASB's website (technology solution).
 - (ii) Consideration of splitting application material from the requirements (non-technology solution).

Question 2: AUASB views on considerations of paragraph 6 above.

Other groups that the ATG should work with?

7. The ATG considers that the professional bodies and the NZAuASB are the key stakeholder to work with in this area. Whilst other groups can provide important input into any of the proposed solutions there needs to be a balance between obtaining feedback from a wide range of groups and how quickly any solution is developed and issued. Other groups the ATG has considered include:
 - (a) Regulators (ASIC and ACNC);
 - (b) Other NSS (excluding NZAuASB);
 - (c) Firms;

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- (d) Investor groups;
- (e) Any other bodies?

Question 3: AUASB views on considerations of paragraph 7 above.

IAASB solution is not forthcoming?

8. Whilst it is unlikely that an IAASB solution will not be forthcoming based on the strong global push for a solution to be developed, the ATG considers it important for the AUASB to raise some initial thoughts about what a domestic approach could look like. Some initial thoughts include considering:
- (a) Separate micro-audit standards – either for specific standards or full suite;
 - (b) Sector specific standards;
 - (c) Other assurance options for LCEs (limited assurance).

Question 4: Initial AUASB views on the matters outlined in paragraph 8 above.

The Way Forward

9. As outlined in **Agenda Item 5.3.1**, the overall objective of this paper is to facilitate a discussion amongst AUASB Members and begin to develop a formal action plan. Based on the feedback received from AUASB Members, the ATG plans to prepare a formal project plan for AUASB approval at the December 2019 AUASB Meeting.

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5.4.0**

Meeting Date: 11 September 2019

Subject: Guidance Statement Revision Plan

Date Prepared: 22 August 2019

Prepared By: See Wen Ewe

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is for the AUASB to review and provide feedback on the attached Guidance Statements Revision Discussion Paper.

Background

1. At the June 2019 AUASB Meeting, the Board determined that additional feedback from stakeholders is required to determine the urgency and priority associated with updates to the AUASB Guidance Statements (GS).
2. AUASB Technical Group (ATG) has prepared a Guidance Statements Revision Discussion Paper outlining the initial review undertaken by ATG and with the aim of obtaining detailed responses from stakeholders regarding which GS's need to be prioritised by the AUASB.
3. The ATG will conduct Outreach in October 2019 to support the release of the Guidance Statements Revision Discussion Paper. The targeted stakeholders are auditors and assurance professionals as well as the regulators who determine the legislative or regulatory requirements which determine the scope and content of certain GS's (e.g. APRA, ATO, ASIC). This Outreach will be conducted by emailing the discussion paper to targeted stakeholders directly and follow up communications to obtain responses from each.

Matters to Consider

1. Please review and provide feedback on the attached the Guidance Statements Discussion Paper in **Agenda Item 5.4.1**.
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This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Material Presented

Agenda Item 5.4.0 AUASB BMSP Guidance Statement Revision Plan
Agenda Item 5.4.1 AUASB Discussion Paper: Guidance Statements Revision

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider and provide feedback.	Approval	AUASB	11 September 2019	Pending

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AUASB Discussion Paper: Revision of AUASB Guidance Statements

August 2019

Introduction

According to the *Foreword to AUASB Pronouncements*, Guidance Statements (GSs) provide guidance to assist auditors and assurance professionals to fulfil the objectives of an audit or assurance engagement. Accordingly, GSs refer to, and are written in the context of:

- (a) specified AUASB Standards; and
- (b) where relevant, legislation, regulation or other authoritative publication.

As part of its regular standard setting activities, the AUASB develops, updates and maintains GSs:

- 1) For topics not specifically addressed by International Auditing and Assurance Board (IAASB) Standards but are within the scope of AUASB standards e.g. GS 005 *Using the Work of a Management's Expert*; and
- 2) To provide specific guidance for specialist audit and assurance engagements in specific industries e.g. GS 009 *Auditing Self-Managed Superannuation Funds*.

GSs do not create new or extend existing requirements in the Standards. However, GSs can be targeted to a specific situation to assist auditors and assurance professionals in their understanding and application of the standards. It is crucial to keep GSs up-to-date in response to changes in the legislation and regulations to ensure that the GSs remain useful and relevant to auditors and assurance professionals.

Background

For the April 2019 AUASB Meeting, the AUASB Technical Group (ATG) undertook an initial review of all AUASB GSs issued prior to 2015. The ATG's assessment did not include GS 005 *Using the Work of a Management's Expert*, GS 009 *Auditing Self-Managed Superannuation Funds* and GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions*, as separate projects to revise these guidance statements have already been initiated. In addition, the ATG has since commenced updating GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* to align the guidance statement with changes to the relevant legislation and AASB standards.

At the June 2019 AUASB Meeting, the ATG provided the AUASB with an analysis of the suite of current AUASB GSs, identifying whether relevant legislation / regulation or relevant standards had changed and therefore which GSs required to be updated or withdrawn. The AUASB determined that additional feedback from stakeholders was required in order to determine the relevance and priority associated with the update of each GS. This AUASB Discussion Paper has been prepared in order to obtain feedback from stakeholders – primarily auditors and assurance professionals who use the GS and the regulators who determine the auditing and assurance requirements on the information subject to audit or review.

Objective

The objective of this discussion paper is to provide feedback to the AUASB on whether:

- (a) any GSs should be withdrawn where no longer applicable;
- (b) any GSs should be revised, including identifying guidance to be revised as a matter of priority;
- (c) any GSs should be merged into one GS; and
- (d) there are any circumstances requiring the development of a new guidance statement.

Initial review

As mentioned above, the ATG undertook an initial review of all AUASB GSs issued prior to 2015. The initial review was based on the following criteria:

- (a) Have there been changes in relevant legislation/regulation. If so, were the changes administrative only or did it substantially change the content of the legislation requirements?
- (b) Have there been changes in relevant auditing standards or reporting standards? If so, were the changes substantial or administrative only?
- (c) Have there been changes in practice which require a Guidance Statement to be updated or no longer relevant?

The ATG has summarised the findings in the table¹ below. Please refer to **Appendix 1** for detailed comments from the AUASB.

During this initial review, the AUASB noted that some of the GSs were no longer in use and/or no longer applicable to the current audit environment. Ideally, GSs that are no longer in use should be withdrawn and GSs that relate to the same topic should be combined. The AUASB would like to draw users' attention to these GSs and seek feedback on whether they should be withdrawn or combined with other GSs.

¹ Explanation of table headings:

Legislation change refers to changes in Corporations Act, ACNC Act, Regulatory Guide, ASIC Act, SIS Act etc.

Standard change refers to changes in reporting or auditing standards, ie. AASB, ASA, ASAE etc. Note that not all standards have a legal mandate.

Action refers to proposed actions by the ATG whether to withdraw, update or status quo.

No.	Title	Issue Date	ATG Initial Assessment			Comments
			Legislation Change?	Standard Change?	Action	
GS 001	<i>Concise Financial Reports Under the Corporations Act 2001</i>	May 2017	x	x	No Action	GS recently reissued and relevant legislation and standards have not changed.
GS 002	<i>Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities</i>	Jan 2014	✓	✓	Update	Relevant legislation and standards have changed. To date, stakeholders have not requested updating.
GS 003	<i>Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001</i>	Sep 2015	x	x	Update	Relevant legislation and standards have not changed. However, there is content relating to the “Reporting Entity” concept which will need to be amended based on the AASB ED 297 ² .
GS 004	<i>Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups</i>	May 2013	✓	✓	Update	Relevant legislation and standards have changed. To date, stakeholders have not requested updating.
GS 005	<i>Using the Work of a Management's Expert</i>	Mar 2015	✓	✓	Update	AUASB is currently updating this GS.
GS 006	<i>Electronic Publication of the Auditor's Report</i>	Mar 2010	x	✓	Withdraw	The GS is no longer relevant.
GS 007	<i>Audit Implications of the Use of Service Organisations for Investment Management Services</i>	Oct 2011	✓	✓	Update	Relevant legislation and standards have changed.
GS 008	<i>The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001</i>	Mar 2010	✓	✓	Update	AUASB is currently updating this GS.
GS 009	<i>Auditing Self-Managed Superannuation Funds</i>	Sep 2015	✓	✓	Update	AUASB is currently updating this GS.
GS 010	<i>Responding to Questions at an Annual General Meeting</i>	Mar 2009	x	✓	Update	Suite of auditor reporting standards have changed.
GS 011	<i>Third Party Access to Audit Working Papers</i>	Apr 2009	x	✓	Update	Changes appear to be administrative only.
GS 012	<i>Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions</i>	Jun 2009	✓	✓	Update	AUASB is currently updating this GS.

² ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*

No.	Title	Issue Date	ATG Initial Assessment			Comments
			Legislation Change?	Standard Change?	Action	
GS 013	<i>Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes</i>	Aug 2009	✓	✓	Update	Relevant legislation and standards have changed.
GS 014	<i>Auditing Mortgage Schemes</i>	Aug 2009	✓	✓	Withdraw	ATG view that GS should be withdrawn and content merged with GS 013.
GS 015	<i>Audit Implications of Accounting for Investments in Associates</i>	Nov 2009	×	✓	Update	ATG view that this GS requires administrative changes only. Accounting has not changed.
GS 016	<i>Bank Confirmation Requests</i>	Jun 2010	×	×	Update	Relevant practice has changed. Stakeholders have requested this GS to be updated.
GS 017	<i>Audit Implications for Prudential Reporting Requirements of a Life Company</i>	Dec 2014	×	✓	Update	Relevant legislation has not changed. To date, stakeholders have not requested updating.
GS 018	<i>Franchising Code of Conduct – Auditor's Reports</i>	Jun 2015	Upcoming update ³			Update will be required in future to take into account changes to relevant legislation based on the 'Fairness in Franchising' review. Deferred until legislation amendments.
GS 019	<i>Auditing Fundraising Revenue of Not-for-Profit Entities</i>	Apr 2011	✓	✓	Update	Relevant legislation and standards have changed. Stakeholders have requested this GS to be updated.
GS 020	<i>Special Considerations in Auditing Financial Instruments</i>	Mar 2012	×	✓	Update	Relevant accounting and auditing standards have changed. IAASB will update IAPN 1000 <i>Special Considerations in Auditing Financial Instruments</i> to reflect the revised ASA 540. NB: Update be deferred until IAASB work completed.
GS 021	<i>Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes</i>	Nov 2012	✓	✓	Withdraw	Relevant legislation and standards have changed. The Clean Energy Regulator issues its own guidance which references relevant AUASB Standards.
GS 022	<i>Grant Acquittals and Multi-Scope Engagements</i>	Jun 2015	×	×	Update	Relevant legislation and standards have not changed. Stakeholders have requested this to be updated. ATG view that the grant acquittals content should be incorporated as a separate GS.

³ The Parliamentary Joint Committee on Corporations and Financial Services released the report into Fairness in Franchising in March 2019. In this report, it is recommended that the AUASB issue audit guidance for auditors to prepare audit reports in particular to marketing or cooperative funds. GS 018 *Franchising Code of Conduct – Auditor's Reports* may require revision in response to prospective amendments to the Franchising Code of Conduct.

Next steps

The AUASB encourages all stakeholders to actively comment on this discussion paper to ensure that the GSs remain useful to auditors and assurance professionals. Please consider the following questions when providing comments to AUASB.

Questions for respondents

Your feedback will be helpful to us in determining an appropriate way forward in relation to the AUASB's Guidance Statements Revision Project. It is requested that you provide sufficient detail and reasons to your answers to assist us in understanding the views of our stakeholders.

Stakeholders may choose to answer all, or only some, of the questions below – all input is helpful to our future considerations.

1. Do you agree with the AUASB's comments on GSs to be withdrawn? If not, please let us know your view.
2. Do you agree with the AUASB's comments on GSs to be revised? If not, please let us know your view.
3. We are seeking feedback on how some of the GSs can be merged into one GS. In your view, are there any GSs that relate to similar topics that can be combined to reduce repetition?
4. Which GSs revisions should be undertaken as a priority, and why?
5. Are there any circumstances which require a new GS to be developed?
6. Are there any other matters that should be considered by the AUASB as it deliberate on the way forward in relation to the revision of the Guidance Statements?

Appendix 1

GS No.	Title	Operative Year	Relevant legislation		Relevant standards		ATG Comments based on legislation	
			Legislation	Change? ⁴	Reporting/ Auditing	Change? ⁴	Any other factors that drive need to amend	Comments
ASIC Related Subject Matter								
GS 008	<i>The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001</i>	2010	Corps Act. s300A s308 (3C)	✓ ✓	AUASB ASA 700 ASA 705 AASB AASB 124	✓ ✓ ✓	None identified by ATG.	<p><i>Legislative Change</i> There have been changes to relevant paragraphs of the <i>Corporations Act 2001</i>, including a definitional change which limits s300A to listed-disclosing entities. The work required by the auditor has not changed and the material to be prepared by the entity has not changed. The changes in the GS for legislative reasons will be administrative only.</p> <p><i>Standards change</i> The changes to the auditor reporting standards will require all illustrative example auditor's reports in the GS to be updated.</p>
GS 013	<i>Special Considerations in the Audit of Compliance Plans of Managed</i>	2009	Reg Guide RG 132 Corps Act. s601FC s601HG	✓ x x	AUASB ASAE 3100	✓	None identified by ATG.	<p><i>Legislative Change</i> GS 013 was written for RG 132 <i>Managed investments: Compliance plans (2007)</i> which has been superseded by RG 132 <i>Fund management: Compliance and oversight</i> in July 2018. The scope of RG 132 has been expanded to include broad guidance for</p>

⁴ Note: ✓ represents there are change(s) in the relevant legislation or standards which may impact on the guidance statement.
x represents there is no change in the relevant legislation or standards, or there is a change but it does not impact on the guidance statement.

GS No.	Title	Operative Year	Relevant legislation		Relevant standards		ATG Comments based on legislation	
			Legislation	Change? ⁴	Reporting/ Auditing	Change? ⁴	Any other factors that drive need to amend	Comments
	<i>Investment Schemes</i>							<p>various types of funds to meet their compliance obligations.</p> <p>The requirement to prepare and have audited a compliance plan has been expanded to Australian Passport Funds in addition to registered schemes. The content of a compliance plan under s601HA has not changed, however the RG clarifies what is meant by ‘adequate measures’ and lists ASIC areas of focus. The assurance requirements have also not changed, however the RG outlines the expected level of detail in the auditor’s opinion where a modification occurs.</p> <p>The RG has a new section which covers Australian Passport Funds rules. Under the rules an <i>implementation review</i> must be conducted by an RCA under ASAE 3100, in addition to a compliance plan audit. This expands what is required by a preparer as well as an auditor. Substantive change to GS if Passport Fund included in scope.</p> <p><i>Standards change</i></p> <p>The changes to the ASAE 3100 reporting format will require all illustrative example auditor’s reports in the GS to be updated.</p>
GS 014	<i>Auditing Mortgage Schemes</i>	2009	Reg Guide RG 132 RG 45 RG 144 Corps Act. s601ED s601HG s285	 ✓ ✓ x x x x	AUASB ASAE 3100	 ✓	None identified by ATG.	<p><i>Legislative Change</i></p> <p>GS was written to provide guidance to auditors on additional considerations which may be taken into account when auditing the financial report and the compliance plan of a mortgage scheme. Relies on GS 013 to provide a majority of the content. RG 45 <i>Mortgage schemes: Improving disclosure for retail investors</i> has been re-issued since the</p>

GS No.	Title	Operative Year	Relevant legislation		Relevant standards		ATG Comments based on legislation	
			Legislation	Change? ⁴	Reporting/ Auditing	Change? ⁴	Any other factors that drive need to amend	Comments
								<p>GS was written and has been updated to include changes such as clearer and simpler benchmarks, additional guidance on disclosures including disclosure principles for each benchmark.</p> <p>The references to RG 45 will require updating as well as consideration of the impact of changes in RG 132.</p> <p><i>Standards change</i></p> <p>Whilst ASAE 3100 has been updated, this GS does not contain any report templates so will not require any changes.</p>
All Other Guidance Statements								
GS 016	<i>Bank Confirmation Requests</i>	2010	N/A	N/A	N/A	N/A	Change in practice to electronic format.	<p><i>Legislative Change</i></p> <p>N/A</p> <p><i>Standards change</i></p> <p>There are references throughout the GS to paragraphs of ASA 200, ASA 300, ASA 315, ASA 330, ASA 500, ASA 505 and ASA 705 which will require updating to reflect amendments since issuance. For example, the GS reference to ASA 500 paragraph A31 about reliability of evidence is now A35 as a result of ASA 540 (2018) consequential amendments. The changes in the GS for standards are expected to be administrative only.</p> <p><i>Other Factors</i></p> <p>The guidance statement was written for paper based bank confirmation and includes examples and templates for a paper-based environment. The decisions around whether to obtain a bank confirmation and the nature of evidence obtained from a bank confirmation</p>

GS No.	Title	Operative Year	Relevant legislation		Relevant standards		ATG Comments based on legislation	
			Legislation	Change? ⁴	Reporting/Auditing	Change? ⁴	Any other factors that drive need to amend	Comments
								remain the same regardless of paper or electronic. The current GS already includes a section on <i>Electronic Bank Confirmation Processes</i> which outlines that additional risks when using an electronic process. The AUASB will need to consider whether the paper based sections of the GS are still required.
GS 019	<i>Auditing Fundraising Revenue of Not-for-Profit Entities</i>	2011	ACNC Act s60-35	✓	AUASB ASRE 2415 ASA 700 ASA 705 AASB AASB 1058 AASB 1031 [superseded]	✓ ✓ ✓ ✓ ✓	None identified by ATG.	<i>Legislative Change</i> Legislative references throughout the document are considerably out of date. <i>Australian Charities and Not-for-profits Commission Act 2012</i> has been introduced since the GS was drafted requiring the regulatory framework section of the GS to be updated. Legislative changes are administrative only. <i>Standards change</i> References to accounting and auditing standards are also out of date, in particular, the auditor's report templates are not in-line with the currently in-force suite of auditor reporting standards. Changes are expected to be greater than administrative only. Examples of controls and audit procedures relating to fundraising revenue require discussion with practitioners to determine whether they are still appropriate.
GS 006	<i>Electronic Publication of the Auditor's Report</i>	2010	N/A	N/A	AUASB ASA 700 ASA 706 ASA 720	✓ ✓ ✓	Electronic publication of auditor's report is normal practice which raises a question over relevance of GS.	<i>Legislative Change</i> N/A. <i>Standards change</i> Auditor reporting standards have changed which will require illustrative example auditor's reports in the GS to be updated.

GS No.	Title	Operative Year	Relevant legislation		Relevant standards		ATG Comments based on legislation	
			Legislation	Change? ⁴	Reporting/ Auditing	Change? ⁴	Any other factors that drive need to amend	Comments
								Other Information requirements under ASA 720 have changed which addresses some of the issues in the GS. <i>Other Factors</i> Electronic publication of auditor's report is normal practice which raises a question over relevance of GS.
GS 007	<i>Audit Implications of the Use of Service Organisations for Investment Management Services</i>	2012	ASIC CO 02/294 <small>[superseded by]</small> CO 13/763 CO 02/296 <small>[superseded by]</small> CO 13/762	✓ ✓ ✓ ✓	AUASB ASA 402 ASA 800 ASA 805 ASAE 3402	✓ ✓ ✓ ✓	None identified by ATG.	<i>Legislative Change</i> Relevant Class Orders referenced in the GS have been superseded. The work of the preparer and the auditor does not appear to have changed. Changes in legislation appeared to be administrative only. <i>Standards change</i> Relevant assurance standards have been re-issued since the publication of the GS. Appears to be administrative changes only.
GS 010	<i>Responding to Questions at an Annual General Meeting</i>	2009	Corps Act. s250	x	AUASB ASA 700 ASA 701 ASA 705 ASA 706 ASA 720	✓ ✓ ✓ ✓ ✓	None identified by ATG.	<i>Legislative Change</i> Legislative requirements for the auditor to respond to AGM questions have not changed. <i>Standards change</i> Suite of auditor reporting standards have significantly changed which will require the sections of the GS related to the auditor's report to be updated, in particular for the introduction of KAMs and changes to the requirements for Other Information. Changes are expected to be greater than administrative. <i>Other Factors</i> AUASB previously agreed that the GS will require updating but deferred due to other priorities.

GS No.	Title	Operative Year	Relevant legislation		Relevant standards		ATG Comments based on legislation	
			Legislation	Change? ⁴	Reporting/ Auditing	Change? ⁴	Any other factors that drive need to amend	Comments
GS 011	<i>Third Party Access to Audit Working Papers</i>	2009	Corps Act. s323A s323B s199A	x x x	AUASB ASA 600 APESB APES 110	✓ ✓	None identified by ATG.	<i>Legislative Change</i> Relevant legislation around indemnity and access to working papers have not significantly changed. <i>Standards change</i> References to standards will require updating, for example, there are references to a superseded version of ASA 600. In addition to the changes to reflect updated AUASB standards changes to the code of ethics will require consideration. Changes expected to be administrative only.
GS 015	<i>Audit Implications of Accounting for Investments in Associates</i>	2009	N/A	N/A	AASB AASB 128 AASB 131 [superseded] AUASB ASA 315 ASA 320	✓ ✓ ✓ ✓	None identified by ATG.	<i>Legislative Change</i> N/A. <i>Standards change</i> References to AASB standards in the GS are considerably out of date (AASB 131 has been withdrawn and merged with AASB 128). The method of accounting for investments has not changed. References to AUASB standards are also out of date. It is expected that the changes will be administrative in nature only, however, some consideration will need to be given to the suggested procedures and whether they still reflect practice.
GS 020	<i>Special Considerations in Auditing Financial Instruments</i>	2012	N/A	N/A	AASB AASB 9 AUASB ASA 540 ASA 315	✓ ✓ ✓	None identified by ATG.	<i>Legislative Change</i> N/A. <i>Standards Change</i>

GS No.	Title	Operative Year	Relevant legislation		Relevant standards		ATG Comments based on legislation	
			Legislation	Change? ⁴	Reporting/Auditing	Change? ⁴	Any other factors that drive need to amend	Comments
								GS was written prior to the issuance of AASB 9 which has changed the accounting for financial instruments. This GS refers heavily to extant ASA 540 and will need to be updated to reflect ASA 540 (2018) including the name change. Expect that the changes will be substantive and not merely administrative in nature.
GS 021	<i>Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes</i>	2012	Clean Energy and Greenhouse Gas legislation	✓	AUASB ASAE 3410 ASAE 3000 ASAE 3100 ASRS 4400	✓ ✓ ✓ ✓	None identified by ATG.	The Clean Energy Regulator has issued its own specific regulation around auditing issues. ASAE 3410 is heavily referred to in the regulation. There has also been a significant amount of other relevant legislation introduced since the GS was prepared. More time is needed to consider the impact on the work of the auditor and preparer as a result of these changes and the need to revise this GS.
APRA Related Subject Matter								
GS 002	<i>Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities</i>	2014	SIS Act SPS 310	✓	AUASB ASA 805 ASRE 2410 ASAE 3000 ASAE 3100 ASAE 3150	✓ ✓ ✓ ✓ ✓	None identified by ATG.	<i>Legislation Change</i> The Superannuation (Prudential Standard) determination made under the Superannuation Industry (Supervision) Act 1993 has been superseded. The auditor's requirements under the most recent SPS 310 have changed. Under SPS 310, the auditors do not have to address ORFR strategy in the auditor's report and the

GS No.	Title	Operative Year	Relevant legislation		Relevant standards		ATG Comments based on legislation	
			Legislation	Change? ⁴	Reporting/ Auditing	Change? ⁴	Any other factors that drive need to amend	Comments
								<p>auditor must submit the auditor's report to APRA within 3 months after the year end. As a result of above changes, there is an impact on both auditors and report preparers.</p> <p><i>Standards Change</i></p> <p>Relevant AUASB standards have been amended since the GS was issued including changes to reporting formats which will require updating of illustrative examples in the GS. The SPS 310 requires limited assurance over internal controls. The AUASB will consider whether this should be done under ASAE 3150 (issued post GS 002) and update GS 002 accordingly.</p>
GS 004	<i>Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups</i>	2013	GPS 310 GPS 230 GPS 220 <i>Risk Management</i> Replaced by CPS 220 <i>Risk Management</i>	✓ ✓ ✓ X	AUASB ASAE 3000 ASAE 3100 ASAE 3150	✓ ✓ ✓	None identified by ATG.	<p><i>Legislation Change</i></p> <p>GPS 310, 230 and CPS 510 have all been updated since the GS was issued. GPS 220 has been replaced by CPS 220.</p> <p>There does not appear to be any material changes in GPS 230 and CPS 510 which impact on assurance requirements.</p> <p>GPS 220 has been replaced by CPS 220 <i>Risk Management</i>. The scope of the prudential standard has been extended to include additional entities. The CPS 220 inserts new sections for the risk management framework</p>

GS No.	Title	Operative Year	Relevant legislation		Relevant standards		ATG Comments based on legislation	
			Legislation	Change? ⁴	Reporting/ Auditing	Change? ⁴	Any other factors that drive need to amend	Comments
			CPS 510					<p>including the role of the board, use of group risk management by an APRA-regulated institution, additional requirements of the Head of a group, clarifies material risks and revises the requirements on financial information declaration. The assurance required has not changed; however, what is part of the framework has.</p> <p>Under GPS 310 the responsibilities of the auditor have not changed.</p> <p><i>Standard change</i></p> <p>The example auditor's report in the Appendices require re-structuring in accordance with revised standards.</p> <p>GPS 310 requires the auditor to review and test the insurer's systems, processes and controls. The AUASB will consider whether this should be done under ASAE 3150 (issued post GS 004) and update GS 004 accordingly. Greater than administrative changes expected.</p>
GS 017	<i>Audit Implications for Prudential Reporting Requirements of a Life Company</i>	2014	Life Act LPS 310	X	AUASB ASAE 3100 ASA 320 ASAE 3150	✓ ✓ ✓	None identified by ATG.	<p><i>Legislation Change</i></p> <p>LPS 310 which outlines the auditor's responsibility has not changed.</p> <p><i>Standard Change</i></p> <p>The auditor's responsibility under LPS 310 includes a review of systems, processes and internal controls. The AUASB will need to consider whether this should be done under ASAE 3150 (issued post GS 017) and update GS 017 accordingly.</p>

GS No.	Title	Operative Year	Relevant legislation		Relevant standards		ATG Comments based on legislation	
			Legislation	Change? ⁴	Reporting/ Auditing	Change? ⁴	Any other factors that drive need to amend	Comments
								The example auditor's report in the Appendices require re-structuring in accordance with revised reporting standards. (ASAEs or ASAs).



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5.5.0**

Meeting Date: 11 September 2019

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

Date Prepared: 28 August 2019

Prepared By: See Wen Ewe

Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the AUASB to consider and approve the revision of GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001*, as included at **Agenda Item 5.5**.

Background

1. A project plan to revise GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* was approved by the AUASB at the 12-13 June 2019 AUASB Meeting.
2. The AUASB Technical Group (ATG) has drafted the revision of GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* with the following changes from extant:
 - (a) Amended "disclosing entity" to "listed companies" to be consistent with the changes in Section 300A of the *Corporations Act 2001*.
 - (b) Removed reference to AASB 124 *Related Party Disclosures* as AASB 124 has removed any reference to "disclosing entities".
 - (c) Updated Appendices 1 and 2 with the new audit report format illustrated in ASA 700¹ and ASA 705².

¹ ASA 700 *Forming an Opinion and Reporting on a Financial Report*

² ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*

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

- (i) Appendix 1 – Unmodified opinion on both financial report and remuneration report.
- (ii) Appendix 2 – Unmodified opinion on financial report with qualified remuneration report.

Matters to Consider

1. With regards to the Appendix 1 Unmodified Opinion, the AUASB is requested to consider two options:
 - (a) Example of unmodified audit report and remuneration report to be excluded and referenced to ASA 700 in paragraph 10 of **Agenda Item 5.5.1**. (This option prevents duplication of content.)
 - (b) Example of unmodified audit report and remuneration report to be included as shown in **Agenda Item 5.5.1**. (This option duplicates content but may be user friendly containing the example report within the revised GS 008.)

Material Presented

Agenda Item 5.5.0	AUASB Board Meeting Summary Paper
Agenda Item 5.5.1	Revision of GS 008 <i>The Auditor’s Report on a Remuneration Report Under Section 300A of the Corporation Act 2001</i> (mark-up)
Agenda Item 5.5.2	Revision of GS 008 <i>The Auditor’s Report on a Remuneration Report Under Section 300A of the Corporation Act 2001</i> (clean)

Action Required

No.	Action Item	Responsibility	Due Date	Status
1.	To approve the revised Guidance Statement	AUASB	11 September 2019	Pending

GS 008
(October 2019)

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

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

Draft

DISCLAIMER

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



Australian Government

Auditing and Assurance Standards Board

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

Obtaining a Copy of this Guidance Statement

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

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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

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

relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement. Further, Guidance Statements do not establish or extend the requirements under an existing AUASB Standard(s).

Guidance Statement *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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Draft

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

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

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

This Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

R Simnett AO
Chair - AUASB

GUIDANCE STATEMENT GS 008

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

Application

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

Issuance Date

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

Introduction

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

Auditor's Reporting Requirements

Responsibility to Express an Opinion on the Remuneration Report

- 4 Section 308(3C) of the Act requires that, if the directors' report for the financial year includes a Remuneration Report, the auditor must also report to members on whether the auditor is of the opinion that the Remuneration Report complies with section 300A of the Act. If not of that opinion, the auditor's report must state why.
- 5 The requirement to express a distinct opinion on the Remuneration Report in the directors' report is additional to the auditor's

¹ Listed companies is defined in the *Corporations Act 2001*.

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

responsibility to express an opinion on the financial report. In accordance with Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report*, the auditor is required to address other reporting responsibilities in a separate section of the auditor's report that follows the opinion paragraph on the financial report, in order to clearly distinguish them from the auditor's primary responsibility to express an opinion on the financial report.³

- 6 Where a company has included a Remuneration Report in the annual directors' report pursuant to section 300A of the Act, the auditor's report identifies clearly the paragraph numbers or pages of the directors' report that have been audited pursuant to section 308(3C) of the Act. This is necessary to avoid any misunderstanding by users as to which part of the directors' report has been subjected to audit.
- 7 Furthermore, the auditor's report describes the respective responsibilities of the directors and the auditor in relation to the Remuneration Report. See Appendix 1 for an illustrative example of an unmodified report.

Materiality

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

Modifications

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

The Auditor's Report

- 10 The example of an unmodified auditor's report, included as [Aus] Illustration 1A in Appendix 1 of ASA 700 incorporates the audit reporting requirements of the Act and the Auditing Standards. This

³ See ASA 700, paragraph 38.

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

auditor's report format has been used in the Appendices to this Guidance Statement to illustrate example wording regarding the auditor's reporting responsibilities over the Remuneration Report, pursuant to section 308(3C) of the Act.

Conformity with International Pronouncements

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

Draft

Appendix 1

(Ref: Para. 9)

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

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

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

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

In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

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

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report

Opinion

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

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

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

Basis for Opinion

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

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

relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Key Audit Matters

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

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

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

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

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

Paragraph 41(c) of ASA 700 explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. When the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the Auditing and

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

Assurance Standards Board and the website address is <http://www.auasb.gov.au/Home.aspx>
(Ref: Para. Aus A57.1 of ASA 700)

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

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

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

Responsibilities

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

[Auditor's name and signature]*

[Name of Firm]

[Date of the auditor's report]#

[Auditor's address]

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

The date of the auditor's report is the date the auditor signs the report.

Appendix 2

(Ref: Para. 11)

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

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

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

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

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

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

- The auditor has concluded a qualified opinion on the remuneration report is necessary based on the audit evidence obtained.

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

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

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

Key Audit Matters

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

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

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern

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

basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on the Remuneration Report

Qualified Opinion on the Remuneration Report

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

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

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

Basis for Qualified Opinion on the Remuneration Report

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

Responsibilities

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

[Auditor's name and signature]*

[Name of Firm]

[Date of the auditor's report]#

[Auditor's address]

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

The date of the auditor's report is the date the auditor signs the report.

Guidance Statement GS 008

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

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

Draft

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



Australian Government

Auditing and Assurance Standards Board

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Draft

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ISSN 1833-7600

Important Note

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

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

Guidance Statement *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

Draft

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Draft

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

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

This Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

R Simnett AO
Chair - AUASB

GUIDANCE STATEMENT GS 008

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

Application

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

Issuance Date

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

Introduction

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

Auditor's Reporting Requirements

Responsibility to Express an Opinion on the Remuneration Report

4. Section 308(3C) of the Act requires that, if the directors' report for the financial year includes a Remuneration Report, the auditor must also report to members on whether the auditor is of the opinion that the Remuneration Report complies with section 300A of the Act. If not of that opinion, the auditor's report must state why.
5. The requirement to express a distinct opinion on the Remuneration Report in the directors' report is additional to the auditor's responsibility to express an opinion on the financial report. In accordance with Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report*, the auditor is required to address other reporting responsibilities in a separate section of the auditor's report that follows the opinion paragraph on the financial report, in order to clearly distinguish them from the auditor's primary responsibility to express an opinion on the financial report.²
6. Where a company has included a Remuneration Report in the annual directors' report pursuant to section 300A of the Act, the auditor's report identifies clearly the paragraph numbers or pages of the directors' report that have been audited pursuant to section 308(3C) of the Act. This is necessary to avoid any misunderstanding by users as to which part of the directors' report has been subjected to audit.
7. Furthermore, the auditor's report describes the respective responsibilities of the directors and the auditor in relation to the Remuneration Report. See Appendix 1 for an illustrative example of an unmodified report.

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

Materiality

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

Modifications

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

The Auditor's Report

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

Conformity with International Pronouncements

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

Appendix 1

(Ref: Para. 9)

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report

Opinion

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

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

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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

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

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

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

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

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

Responsibilities

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

[Auditor's name and signature]*

[Name of Firm]

[Date of the auditor's report]#

[Auditor's address]

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

Appendix 2

(Ref: Para. 11)

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report

Opinion

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

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

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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

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

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

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

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

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

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

Report on the Remuneration Report

Qualified Opinion on the Remuneration Report

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

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

Basis for Qualified Opinion on the Remuneration Report

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

Responsibilities

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

[Auditor's name and signature]*

[Name of Firm]

[Date of the auditor's report]#

[Auditor's address]

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



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **7.0.0**

Meeting Date: 11 September 2019

Subject: GS 005 *Using the Work of a Management's Expert*

Date Prepared: 19 August 2019

Action Required

For Information Purposes Only

Agenda Item Objectives

For the AUASB to:

- a) Provide input into the way forward to progress the finalisation of GS 005 *Using the Work of a Management's Expert* (GS 005); and
- b) Review and provide input into the draft of revised GS 005.

Background

1. At the 4/5 December 2018 AUASB meeting, the AUASB approved the project plan to revise GS 005. This project arose as part of the AUASB's strategic project on working together with the audit regulator and practitioners to respond appropriately to audit and assurance issues identified through inspection reports as well as where the firms are finding internal practice issues with the use of the standards. The aim of this strategic project was to identify how the AUASB, as a stakeholder in the financial reporting supply chain, can assist in the improvement of audit quality, by filling gaps/needs in the suite of standards and guidance. Using the work of a management's expert is an area consistently coming up through regulator inspection findings and was identified as an area where additional guidance was needed.
2. The aim of the revision to GS 005 is ultimately to enhance audit quality in the area of management's experts and provide additional guidance to practitioners so that there can be consistently rigorous practices among audit firms of all sizes.
3. The ATG have consulted with several other National Standard Setters (including South Africa, Canada and New Zealand) and we are not aware of any other jurisdictions undertaking a similar exercise.
4. It was agreed that the updated guidance statement would include/address the following:
 - a. Linkage of Revised ASA 540 *Auditing Accounting Estimates and Related Disclosures* to ASA 500 *Audit Evidence*, in light of the new requirement (para 30) and application material (A3 and A130-A131) in relation to using the working of a management's expert, in auditing estimates and related disclosures particularly around methods, assumptions and data. *See paragraphs 11, 26, 42 and 44-50 of Agenda Item 7.0.3.*

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

- b. Linkage of ASA 620 *Using the Work of an Auditor's Expert* into using the work of a management's expert. *See paragraphs 7-10 of Agenda Item 7.0.3.*
 - c. Providing more guidance and examples in relation to assessing competence and capabilities of management's expert and obtaining understanding and evaluating appropriateness and adequacy of the work of a management's expert. *See paragraphs 21-25 of Agenda Item 7.0.3.*
 - d. Providing additional guidance in relation to documentation/work papers. *See paragraph 55 of Agenda Item 7.0.3.*
5. The audit technical group (ATG) established a project advisory group to provide input into the revision to GS 005. Owing to the nature of the subject matter, the ATG set up a project advisory group that was chaired by an AUASB member and consisted of practitioners representing the Big 6, public sector as well as a representative from the staff of the NZAuASB. The audit regulator was offered to observe these meetings, but instead accepted to review and provide input offline into the revised guidance statement.
6. In addition to the matters listed in point 1 above, the PAG identified two additional areas to include in the scope of the revision to GS 005, those being:
- a. The considerations of cumulative audit evidence. *See paragraphs 19 and 38-39 of Agenda Item 7.0.3.*
 - b. Independence and objectivity matters. *See paragraphs 26-31 of Agenda Item 7.0.3.*
7. At the 13 June 2019 AUASB meeting, the ATG provided the AUASB with a project update (Agenda Item 4, 13 June 2019 AUASB meeting, included for reference at Agenda Item 7.0.1), this update included:
- a. Principles underpinning the revision to GS 005
 - b. Consultation/research undertaken on the revision to GS 005
 - c. Principles coming out of the research incorporated into the revision to GS 005
- The matters included under 4(a)-4(c) above were shared with ASIC.
8. The PAG held 2 teleconferences to progress the revision of GS 005. The representative's comments have been incorporated into the preliminary draft provided to the AUASB. Feedback from the representatives of the PAG on the draft that is provided to the AUASB is supportive. The draft as presented at Agenda Item 7.0.4 was shared with ASIC for feedback in May 2019.

Specific matters for consideration

- 9. Refer way forward section below.
- 10. Feedback on revised paragraphs as listed in italics in the background section above.
- 11. Considerations for an auditor in relation to data tested by a management's expert – the AUASB is directed to Agenda Item 7.0.2 for a detailed background to this issue. This matter has been specifically raised with the IAASB ISA 540 implementation working group.
- 12. The ATG will take the AUASB through the consultation process with and themes of the feedback from ASIC. The feedback received from ASIC has been received by the ATG on a confidential basis.

Way Forward

13. The ATG to discuss the way forward with the AUASB, so as to achieve the most favourable public interest outcomes, including consideration of some or all of the following:
 - a) possible public consultation paper on this draft guidance;
 - b) seeking input from other National Standard Setters;
 - c) working with ASIC on receiving more detailed feedback on the draft GS 005, with a view to working through detailed feedback with the PAG and the AUASB;
 - d) waiting on the progression of ISA 500 (still in research phase, no project plan approved as yet);
 - e) obtaining AUASB input into the draft GS 005 and after taking feedback into account, progress with issuance of GS 005, with cautionary language attached to the guidance.

AUASB Technical Group Recommendations on the way forward

14. The AUASB Technical Group recommends that:
 - a) The AUASB Chair discusses with ASIC the need for more definitive commentary / mark-up on the draft GS 005, so that the PAG and AUASB have a deeper understanding of exactly where the regulator concerns are, in order to work together to achieve improved audit quality in this area;
 - b) The ATG shares this draft GS with Canada and New Zealand to obtain feedback from those jurisdictions – the purpose of this, is really a sense check that the proposed Australian position is aligned with other jurisdictions. Feedback to be shared with the PAG and any issues worked through;
 - c) The AUASB members provide fatal flaw commentary to the ATG (offline), for the ATG to work through with the PAG. This may result in the need for a teleconference with the AUASB; and
 - d) The draft GS 005 is brought back to the December 2019 AUASB meeting with a view to approve and issue the guidance statement
15. The AUASB Technical Group does not recommend option a) or d) of paragraph 13.

Material Presented

Agenda Item 7.0.0	AUASB Board Meeting Summary Paper
Agenda Item 7.0.1	Agenda Item 4 from the 13 June 2019 AUASB meeting – project update
Agenda Item 7.0.2	Background to auditor’s considerations around data that has been tested by a management’s expert.
Agenda Item 7.0.3	GS 005 <i>Using the Work of a Management’s Expert</i> – Marked-Up Draft [confidential]
Agenda Item 7.0.4	GS 005 <i>Using the Work of a Management’s Expert</i> – Clean Draft [confidential]



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **7.0.1**

Meeting Date: 13 June 2019

Subject: GS 005 Using the Work of a Management's Expert

Date Prepared: 4 June 2019

Action Required

For Information Purposes Only

Agenda Item Objectives:

To inform the AUASB on the progress to the revision of GS 005 *Using the Work of a Management's Expert*.

Background

1. The audit technical group (ATG) met with the big 6 audit firms to identify areas of the auditing standards that may require clarification or guidance, as identified through internal quality review findings or, external inspection findings. The ATG summarised the findings and came up with a summary of matters that had been raised consistently across the firms – these findings were shared with ASIC and the AUASB.
2. The ATG and the AUASB Chair met with ASIC to discuss the findings as well as discussing a possible way forward on some of these matters.
3. The ATG presented the AUASB with a paper at the September 2018 AUASB meeting that summarised the areas that the ATG had identified as potentially being appropriate for supporting some form of guidance from the AUASB.
4. At the 4/5 December 2018 AUASB meeting, the AUASB approved the Project Plan to revise GS 005.

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

Purpose of Revision:

5. Using the work of a management's expert has expanded in practice. This has been largely led by changes in financial reporting frameworks and changes in current thinking in this area across jurisdictions. Examples of such changes include the release of the new standard on auditing accounting estimates (ASA 540) and the PCAOB amendments to its standards (AS 1105 *Audit Evidence* Appendix A) for using the work of specialists. Additionally, in recent times, this area has been the subject of internal and external audit file reviews. As a result of these changes the AUASB has become aware that the current GS 005 does not reflect current practice in this area, so in order to enhance audit quality in the area of management's experts and provide additional guidance to practitioners so that there can be consistently rigorous practices among audit firms of all sizes, the AUASB agreed to revise GS 005.

Principles underpinning the revision:

6. The revision needs to improve audit quality in the area of using the work of a management's expert by increasing auditor's focus when using that work, particularly when that work is significant in areas of higher risk. By enhancing the guidance for evaluating the work of a management's expert, reflecting the requirements of ASA 500, ASA 620, ASA 540 and other leading national jurisdictions guidance/standards, the expected audit effort in this area is expected to be made clearer, thereby resulting in a consistent and appropriate approach to auditing this area, thus enhancing audit and assurance quality.
7. The public interest needs of consistent and appropriate application of auditing and assurance standards and guidance needs to be achieved. Accordingly the revision needs to provide guidance around the requirements already contained within ASA 500, ASA 540 (revised) and ASA 620.
8. To achieve international consistency of interpretation, the revision of the guidance will need to consider interpretation of recently updated guidance / standard of using the work of a management's expert in other leading national jurisdictions.
9. The revision needs to provide sufficient and appropriate guidance so that interpretation of the expectations of auditors in this area is consistent across user groups including practitioners and regulators.

Consultation / research that has occurred on revision to GS 005

10. The AUASB approved the setting up, of a Project Advisory Group (December 2018) to advise the writing of this guidance, and given the need to reflect best current practice it was decided to involve practitioners. Each practitioner (including Public Sector) on the AUASB nominated an appropriate person from their respective firms to provide input into the revision of GS 005, all feedback from 6 practitioner firms as well as the QAO have been incorporated into the draft Guidance Statement. Two teleconferences have been held on this subject matter to progress the revision to the guidance statement.
11. Reference to the requirements and guidance of ASA 500 Audit Evidence, ASA 540 Auditing Accounting Estimates and Related Disclosures and ASA 620 Using the Work of an Auditor's Expert.
12. Review of CPA Canada Implementation tool for auditors Using the Work of a Management's Expert (April 2017) – which is evaluated as fairly aligned to the extant GS 005.
13. Review of PCAOB Release No 2018-006 Amendments to Auditing Standards for Auditor's Use of the Work of Specialists, where the PCAOB sought to enhance the testing and evaluation of the work

of a company's specialist designed to increase audit attention in areas where a specialist is used and to align the applicable requirements with the PCAOB's risk assessment standards.

14. Review of South African Institute of Chartered Accountants Frequently Asked Questions (October 2018): When information to be used as audit evidence involves the work of experts. The purpose of the FAQ was to address uncertainty about the meaning of a management's expert and an auditor's expert, the differences between these experts and the differing levels of work effort to be applied by the auditor in complying with the requirements of the ISAs when information to be used as audit evidence involves the work of these experts.

Principles that have come out of the findings from the research above that have been incorporated into the proposed revised GS 005:

15. Using the work of a management's expert needs to be scalable to the circumstances of an engagement so that the auditor's work to evaluate the work of a management's expert is commensurate with the risk of material misstatement associated with the financial statement assertion to which the experts work relates and the significance of the experts work to that assertion. To this end and consistent with PCAOB Release No 2018-006 Appendix 3 Discussion of Amendments Page A3-22-25, the guidance centres around the principle that more persuasive evidence (independent audit procedures) is needed as the risk of material misstatement increases, or where knowledge/skill/competency of the expert is not able to be assessed as high or where the management's expert lacks objectivity. PCAOB Release No 2018-006 Appendix 3 Discussion of Amendments Page A3-14/15 notes that the auditor's assessment that the company has the ability to influence the specialist, does not preclude the auditor from using the work of a company's specialist, whether employed or engaged, as audit evidence. Rather, it is a factor in determining the necessary audit effort to evaluate that specialist's work.
16. With these principles in mind the guidance statement has been significantly expanded in the areas of assessing knowledge/skill/competency and objectivity of a management's expert and the resulting impact of the auditor's assessment on the extent of auditor's procedures on the work of a management's expert.
17. Engagement Partners or personnel available in the audit firms today that can be included in the engagement team often have the expertise to evaluate the work of management's experts. The revisions explain that there may not always be the need to involve an auditor's expert and there is no requirement in the standard to do so. However, GS 005 recognises that whether or not to involve an auditor's expert is an area of professional judgement and the revised guidance statement provides extensive guidance to auditor's to assist in this area.
18. The revisions clarify the auditor's responsibilities for evaluating the work of a management's expert and avoids potential confusion that the auditor is required to reperform the work of the management's expert (PCAOB Release No 2018-006 Appendix 3 Discussion of Amendments Page A3-19). To this end, and consistent with the PCAOB standard, the revised guidance statement uses the word 'evaluate' rather than 'test'. Evaluate still requires independent audit evidence and assurance in relation to that work but not to the same extent as reperformance. The PCAOB standard reserve the use of the term "test" for procedures applied to company-produced information used by the specialist
19. The revisions increase auditor's attention on the work of management's experts and the guidance is significantly expanded across the guidance statement particularly in relation to evaluation of the work of the auditor's expert around methods, assumptions and data. Again, the guidance indicates that independent audit evidence and assurance in relation to that work is needed and accepting the work of a management's expert as audit evidence without independent audit procedures around that work would not meet the requirements of ASA 500 or ASA 540 and would not be following the guidance of GS 005 as this would not be considered 'assessing' the work of the management's expert.

20. As financial reporting frameworks continue to evolve and require greater use of estimates, accounting estimates have become both more prevalent and significant. As a result, the use of the work of management's experts also continues to increase in both frequency and significance. If a management's expert's work is not properly evaluated by the auditor, there may be a heightened risk that the auditor's work will not be sufficient to detect a material misstatement in accounting estimates. With the revised auditing standard on accounting estimates, the revisions to the guidance statement provide clear guidance on when a management's expert has been used in relation to auditing accounting estimates, with the updated guidance aligning to the requirements of ASA 540. The AUASB technical group have sought interpretation from the ISA 540 taskforce regarding the extent of audit procedures expected around data in relation to auditing accounting estimates, where data has been tested by a management's expert. Until such time as interpretation is received from the IAASB, GS 005 has been revised to reflect the words used in ASA 540.

Next Steps

21. The Audit Technical Group (ATG) and the Chair of the AUASB met with ASIC on 3 June 2019. ASIC provided the ATG with some high level considerations but intends to review in detail the draft GS 005 and supporting documentation as provided by the ATG. The ATG will meet with ASIC in late June 2019 to obtain and consider ASIC feedback which will be then shared with the PAG.
22. The AUASB response to the IAASB's Proposed Strategy and Work Plan for 2020 – 2023, will include a specific reference for the IAASB to provide implementation guidance around the use of management's experts in the context of ISA 540 as this area has a direct link into GS 005.
23. The ATG intends to bring a draft of the revised GS 005 to the September 2019 AUASB meeting for AUASB consideration and input.

GS 005 Using the Work of a Management's Expert

Issues Arising through the issuance of revised ISA 540 Auditing Accounting Estimates and Related Disclosures

A. Issue arising from Revised ISA 540 on the revision to GS 005:

1. One of the significant issues identified by the GS 005 Project Advisory Group, is in relation to the extent of audit effort around data that has been tested by a management's expert.

B. Revised ISA 540 Auditing Accounting Estimates and Related Disclosures

2. The IAASB in October 2018 released the revised ISA 540 *Auditing Accounting Estimates and Related Disclosures* effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA 540 contains requirements and application material in relation to using the work of a management's expert.
3. Paragraph 30 of ISA 540, states that 'when using the work of a management's expert, the requirements in paragraphs 21-29 may assist the auditor in evaluating the appropriateness of the expert's work as audit evidence.....'. Additionally, we note that paragraph 82 of the Basis For Conclusions ISA 540, comments that it was not the IAASB's intention that the auditor addresses every single requirement in paragraphs 21-29 when using the work the work of a management's expert but that the auditor may consider the matters described in those paragraphs.
4. We further note, that the application material of ISA 540 makes a clear distinction between assumptions and data. Paragraph A130 is clear about the expectations of the auditor in relation to assumptions:

Assumptions relating to accounting estimates that are made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate. Accordingly, the auditor applies the relevant requirements in this ISA to those assumptions.

5. Paragraph A131 is less clear about the expectations of the auditor in relation to data.

If the work of a management's expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this ISA may assist the auditor in applying paragraph 8(c) of ISA 500.

C. The PCAOB in its December 2018 Release No 2018-006

6. The PCAOB's Release No 2018-006 amends AS 1105 *Audit Evidence*, to add a new Appendix A that addresses using the work of a company's specialist as audit evidence. The amendments are designed to be risk based and scalable so that the auditor's work effort to evaluate the specialist's work is commensurate with the risk of material misstatement associated with the financial statement assertion to which the specialist's work relates and the significance of the specialist work to that assertion.
7. Appendix A to AS 1105 includes the requirement that the auditor should **test** the accuracy and completeness of company-produced data used by the specialist and **evaluate** the relevance and reliability of data from sources external to the company that are used by the specialist.

8. In the Additional Discussion of Amendments, the PCAOB notes that the intent of the amendments is to increase audit attention to the work of company's specialist, but that evaluation of work does not require re-performance. The revisions also seek to clarify the auditor's responsibilities for evaluating the work and are intended to avoid confusion that the auditor is required to re-perform work. The use of the word 'test' is reserved for procedures applied to company-produced information.

D. *Questions requiring consideration/interpretation*

9. There is a level of concern by Australian practitioners, as to how regulators may interpret the wording of paragraph 30 and A131/ISA 540, particularly in light of the new PCAOB standard.
10. What is the expectation of the auditor in relation to testing that data set?

E. *Way forward for revision of GS 005*

11. Sections A-D above has been raised/shared with the ISA 540 implementation working group. The ATG have yet to receive a response to this query. Until such time as clarification can be sought from the IAASB, the PAG has agreed to keep the wording used in GS 005 in relation to testing data consistent with that used in revised ASA 540, particularly paragraph 50 below.

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

- *Identifying the source of the data, including obtaining an understanding of the data, and where applicable, testing the internal controls over the data and, where relevant, its transmission to the management's expert.*
- *Assessing the data for completeness, accuracy and consistency with information available to the auditor.*

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

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

¹ Refer to ASA 620.

² See ASA 540 paragraph A131.

GS 005
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Guidance Statement **GS 005** *Using the Work of a Management's Expert*

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GUIDANCE STATEMENT

Guidance Statement GS 005 *Using the Work of a Management's Expert*

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 *Using the Work of a Management's Expert* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 005 *Using the Work of a Management's Expert* 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.

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Dated: 16 March 2015

R Simnett AO
Chair - AUASB

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GUIDANCE STATEMENT GS 005

Using the Work of a Management's Expert

Application

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

Issuance Date

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

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Introduction

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

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Scope of this Guidance Statement

5. ASA 500² *Audit Evidence*, establishes mandatory requirements and provides application and explanatory material on using the work of a management's expert as audit evidence. This Guidance Statement is to be read in conjunction with ASA 500.
6. This guidance applies equally to the use of a management's expert whether they are internal or external to an entity, but does not deal with the use of experts that are not engaged or employed by management.

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

² See ASA 500, paragraph 8.

Guidance Statement GS 005 *Using the Work of a Management's Expert*

Interaction with Using the Work of an Auditor's Expert

7. It is the responsibility of the engagement partner³ to determine that the engagement team has the appropriate competence and capabilities, including sufficient time, to perform an audit engagement in accordance with the Australian Auditing Standards, relevant ethical requirements, and applicable legal and regulatory requirements. When management uses the work of a management's expert to assist the entity in preparing the financial report, the auditor determines whether the involvement of an auditor's expert is required.
8. There is no requirement for the auditor to use an auditor's expert to assess the work performed by a management's expert, however the auditor assesses whether or not an auditor's expert is needed. An auditor who is not an expert in a relevant field other than accounting or auditing may be able to obtain a sufficient understanding of that field to perform the audit without the use of an auditor's expert. Examples of how this understanding may be obtained include:
- (a) Experience in auditing entities that require such expertise;
 - (b) Education or professional development in the particular field which may include formal courses;
 - (c) Discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own competence to deal with matters in that field;
 - (d) Discussion with auditors who have performed engagements in the same or similar industries with the same or similar use of experts for the preparation of financial statements.
9. The auditor's decision on whether to use an auditor's expert may be influenced by factors such as:
- (a) The nature and significance of the matter, including its complexity;
 - (b) The risks of material misstatement;
 - (c) The expected nature of procedures to respond to the identified risks, including:
 - (i) the auditor's knowledge and experience with the work of experts in relation to such matters; and
 - (ii) the availability and extent of alternative sources of audit evidence;
 - (d) The extent to which management has used a management's expert.
10. This Guidance Statement does not provide guidance on the auditor's use of the work of an auditor's expert nor does using the work of a management's expert preclude the need to use the work of an auditor's expert if the auditor using their professional judgement considers it necessary. ASA 620 *Using the Work of an Auditor's Expert* establishes mandatory requirements and provides explanatory guidance on using the work of an auditor's expert as audit evidence.
11. The work of a management's expert is often associated with accounting estimates, accordingly this Guidance Statement should be read in conjunction with ASA 540 *Auditing Accounting Estimates and Related Disclosures*.

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³ ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 14.

Definitions

7.12. For the purposes of this Guidance Statement the following items have the meanings attributed below:

- (a) Expertise means skills, knowledge and experience in a particular field.
- (b) Management's expert means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial report or other historical financial information. ~~External information sources, provide information that has been used by the entity in preparing the financial report (for example pricing services), and that is suitable for a use by a broad range of users, is not considered use of a management's expert.~~
- (b) —

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The Auditor's Responsibility for the Conclusion

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

Examples of the use of Management's Experts

9.14. The preparation and presentation of a financial report and/or other historical financial information of an entity is the responsibility of management and those charged with governance. Determination of amounts included in the financial report and/or other historical financial information may require expertise in a field other than accounting or auditing. Management may engage or employ experts (this may include but is not limited to actuaries, valuers, engineers, environmental consultants, geologists, scientists, health practitioners, taxation specialists, legal advisors and other industry specialists) to obtain the necessary information to prepare the financial report and/or historical financial information. ~~Failure to do so when such expertise is necessary increases the risk of material misstatement.~~ Examples of such expertise include:

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

⁴ See ASA 500 paragraph 5(d)

Considerations in Determining the Extent that the Auditor's Need to Use the Work of a Management's Expert

~~10-15.~~ When a financial report and/or other historical financial information includes amounts determined by, or based upon the work of ~~an a~~ management's expert, the auditor considers and concludes on whether the work of that expert is adequate for the auditor's purposes, and can be accepted as appropriate audit evidence.

~~16.~~ The auditor's decision on whether to use the work of a ~~a~~management's expert will be influenced by:

- ~~(a)~~ the nature and significance of the matter including its complexity;
- ~~(b)~~ the risks of material misstatement in the matter; ~~and~~
- ~~(c)~~ ~~and~~ the expected nature of procedures to respond to the identified risks, including the auditor's knowledge of, and experience with, the work of the experts in relation to such matters and the availability of alternative sources of audit evidence.

~~11-17.~~ When determining the nature, timing and extent of audit procedures in relation to the work of the expert, the auditor makes reference to the requirements, application material and guidance contained in ASA 500.

Considerations in Determining the Information to Be Used as Audit Evidence

~~12-18.~~ ASA 500⁵ requires that if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:

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

~~19.~~ In relation to the work of a management's expert, the auditor obtains more persuasive evidence as:

- ~~(a)~~ the significance of the management's expert's work on the financial statements increases, including the risk of material misstatement;
 - ~~(b)~~ the ability of the company to affect the management's expert's judgements increases; and
 - ~~(c)~~ the level of knowledge, skill and ability possessed by the management expert decreases.
- Generally, the required audit effort when evaluating the work of a management's expert is the greatest when the risk of material misstatement is high, the management's expert's work is critical to the auditor's conclusions, the management's expert has lower levels of knowledge, skill and ability; and the company has the ability to significantly influence the management's expert's judgements.

Competence, Capabilities and Objectivity of a Management's Expert

~~20.~~ The auditor makes reference to the requirements, application and other explanatory material contained in ASA 500 and evaluates whether the ~~management's~~ expert has the necessary

⁵ See ASA 500, paragraph 8.

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competence, capabilities and objectivity for the auditor's purposes. This is ordinarily performed as part of the audit planning and risk assessment process but timing may be restricted by management's process for planning and selecting experts.

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

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

13. —

Competence

23. Competence may be described as the nature and level of expertise of the management's expert. The auditor uses professional judgement when determining the competency of a management's expert. When assessing competence, the auditor may consider:

(a) The management's expert's experience in the type of work performed, including applicable areas of speciality within the expert's field;

(b) The reputation and standing of the management's expert including:

(i) Previous experience with the work of the expert;

(ii) Enquiring of other practitioners who have used that management's expert or others working in the same industry;

++(c) The professional certification, license or professional accreditation of the management's expert. Experts Experts may have professional obligations under their professional or industry bodies. These obligations vary significantly and are determined by the professional or industry body⁶. ~~Auditors use their professional judgement when determining the competency of an expert.~~ The auditor's confidence when assessing the competency of the management's expert may increase with membership of professional or industry bodies that:

- Require professional qualification or accreditation;
- Subject their members to regulatory requirements/guidance;
- Subject their members to a specific set of standards or guidance on the expert's services;
- Require continuous professional development; and
- Require professional obligations to be followed by their members.

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

⁶ For example actuaries are governed by the Institute of Actuaries of Australia, an actuary's specific responsibilities in relation to data are set out in the *Actuarial Code of Professional Conduct, Actuarial Professional Standards* and where relevant other regulatory and legislative requirements, *APRA Prudential Standards* and the *Life Insurance Act 1995*.

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Capability

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

- Geographic location
- Availability of time
- Availability of resources Furthermore, the auditor's confidence in the expert may be influenced by the expert's work environment, for example the expert's internal quality control policies and procedures.
- Instructions on scope provided by management

Objectivity

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

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

15-27. ASA 500 indicates that evidence from external sources is generally more reliable than that generated internally. The auditor may assess the relationship to the company of the management's expert, specifically, whether circumstances exist that give the company the ability to significantly affect the management's expert's judgements about the work performed, conclusions or findings. The existence of a relationship between the management's expert and the entity being audited may impair the management's expert's ability to be objective. The risk that the objectivity of an management's expert will be impaired increases when the management's expert is employed by the entity or is related in some way to the entity. Where an management's expert is employed by the entity, the auditor needs to consider whether there are any mitigating factors such as professional and/or statutory obligations governing the work of the management's expert that would impact on the objectivity of the management's expert. If the auditor is concerned with the competence or objectivity of the expert, the auditor communicates any reservations with management and if appropriate those charged with governance and considers whether sufficient appropriate audit evidence can be obtained concerning the work of the expert. The auditor may undertake additional procedures or seek audit evidence from another expert including an auditor's expert.

28. Circumstances which may threaten the objectivity of the management's expert may include: advocacy threats, familiarity threats, self-review threats and self-interest threats⁷. Examples include economic dependency of the management's expert on the entity and contingency based fee arrangements.

29. The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the management's expert and the significance of the expert's work in the context of the audit. There may be safeguards specific to the audit engagement, however there may be circumstances where safeguards cannot reduce threats to an acceptable level⁹.

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⁷ Refer ASA 620.

⁸ See ASA 500, paragraph A41.

⁹ See ASA 620, paragraph A19.

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~~16.~~

~~17-30.~~ When the management's expert is an employee of the entity, mitigating factors which enhance the ability of the management's expert to be objective, and therefore are safeguards for the lack of independence, include:

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

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

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

~~31.~~ If the auditor is concerned with the competence, capability or objectivity of the management's expert, the auditor communicates any reservations concerns with management and if appropriate those charged with governance and considers whether sufficient appropriate audit evidence can be obtained concerning the work of the management's expert. The auditor may undertake additional alternative procedures or seek audit evidence from another expert including an auditor's expert¹⁰.

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

~~18-32.~~ The auditor makes reference to the requirements, application and other explanatory material in ASA 500 when obtaining an understanding of the management's expert's work to assess whether it is adequate for the purposes of the audit ~~and obtains sufficient appropriate audit evidence.~~

~~19-33.~~ When obtaining an understanding of the management expert's work, ~~including making enquiries of management regarding the potential use of that work,~~ the auditor, having regard to whether the management's expert is internal or external to the entity, considers:

- The terms of the engagement between the entity and the management expert including understanding the nature, timing and extent of work to be performed by the management's expert and the form of any report to be provided by that expert;
- Whether the auditor has any prior knowledge of the management expert's field of expertise, or with that expert;
- The economic and competitive conditions impacting the entity and its operating results;
- Whether there is evidence of undue management pressure on the management's expert;
- The existence of controls within the entity over the work of the management's expert (for example whether there are procedures in place to challenge or review the expert's work, such as review by those charged with governance) or controls over the source data used in the expert's assessment;

¹⁰ Refer ASA 620.

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- Whether management has authorised their expert to discuss their findings or conclusions with the auditor¹¹;
- Whether the management's expert has consented to the auditor's intended use of their findings⁷; and
- Whether the management's expert has agreed for the auditor to access their work papers (review of the expert's work papers is not normally required other than as considered necessary by the auditor using their professional judgement).

29-34. Where management has not consented for their expert to discuss their findings or conclusions with the auditor, or the management's expert has not consented to the auditor's intended use of their findings, the auditor considers the guidance as provided in paragraphs 29-53 and 3054.

Engagement with the Management's Expert

24-35. As early as practicable during the engagement, the auditor communicates with the management's expert either directly or indirectly through management, and considers the management's expert's approach and methodology. The auditor assesses whether the approach and methodology is an appropriate basis for determination of the matter included in the financial report or other historical financial information. For example where management uses a valuation expert for a purchase price adjustment calculation, the auditor communicates with the management's expert early on in the valuation process so as to understand and agree on the basis for identification of assets and the basis of the valuation methodology.

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

22-36. ASA 500¹² contains application and other explanatory material that when evaluating the appropriateness of the management expert's work as audit evidence for the relevant assertion, the auditor considers:

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

ASA 540¹³ contains requirements and application material when evaluating the appropriateness of the work of a management's expert as audit evidence in relation to the audit of accounting estimates.

37.

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

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

¹¹ Agreement for the expert to discuss findings with the auditor, and consent for the auditor to use the expert's findings, is generally discussed and agreed with management or those charged with governance and the expert at the planning phase of the engagement.

¹² See ASA 500, paragraph A48.

¹³ See ASA 540 paragraph 30

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

(a) Consistent with ASA 330¹⁴, the higher the risk of material misstatement for an assertion, the more persuasive the evidence needed to support a conclusion about that assertion.

(b) The significance of a management's expert's work refers to the degree to which the auditor gathers evidence in evaluating the management's expert's work to support the auditor's conclusions about the assertion. Generally, the greater the significance of the management's expert's work to the auditor's conclusion, the more persuasive the evidence from the management's expert's work needs to be. The significance of the management's expert's work stems from:

(i) The extent to which the management's expert's work affects the account balances, classes of transactions and disclosures in the financial report. In certain situations that work may be a primary source of audit evidence, while in other situations, the management's expert's work may only be used as a cross-check.

(ii) The auditor's approach to testing the relevant assertion and the availability of alternative sources of audit evidence. For example, when a company's accounting estimate is determined principally based on the work of a management's expert, and the auditor plans to test how management made the accounting estimate, the auditor would plan to use the work of the management's expert for evidence regarding the estimate. If the auditor tests an assertion by developing an independent expectation, the auditor would give less consideration to the work of the management's expert.

The Findings and Conclusions of the Management's Expert

23-40. The auditor considers the final findings and conclusions in the agreed form of report of the expert. The auditor using their professional judgement considers what additional procedures are required, particularly when the risk of material misstatement has been assessed as significant. The auditor may consider performing more extensive procedures or engaging an auditor's expert¹⁵ to review some or all of the work of ~~the~~ the management's expert. Specific procedures to evaluate the reasonableness of the management's expert's work for the auditor's purposes may include:

- Enquiries of the management's expert.
- Comparing the management's expert's final report to the draft report (if a draft report is provided) and understanding and enquiring into material differences.
- Understanding the accuracy of prior period estimates made by that management's expert.
- Corroborative procedures, such as:
 - observing the management's expert's work;
 - examining published data, such as statistical reports from reputable, authoritative sources;
 - confirming relevant matters with relevant third parties;

¹⁴ Refer ASA 330 *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

¹⁵ Refer ASA 620.

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- performing detailed analytical procedures; and/or
- re-performing calculations including sensitivity analysis on key inputs.
- Consultation with another expert with relevant expertise when, for example, the findings or conclusions of the expert are not consistent with other audit evidence or the findings indicate an error, deviation, deficiency in internal control, or other significant matter or the scope of the engagement or adequacy of evidence is insufficient.
- Discussion of the **management's** expert's report with management and if appropriate those charged with governance, including understanding their assessment of the expert's findings. In addition, if material, the auditor may seek to understand the reasons for the final report differing from initial draft reports.

24-41. Relevant factors when evaluating the relevance and reasonableness of the findings or conclusions of the **management's** expert, whether in a report or other form, may include whether they are:

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

Methods, Assumptions, Methods and Source Data

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

Assumptions and Methods

25-43. When an **management's** expert's work involves the use of **significant significant assumptions and methods**, factors relevant to the auditor's evaluation of ~~those the appropriateness of assumptions and~~ methods include whether they are:

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

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

- (a) obtaining an understanding of the model;
- (b) reviewing descriptions of the model in the management's expert's report;
- (c) testing controls over the company's evaluation of the management's expert's work;
- (d) assessing inputs to and outputs from the model or in place of other procedures, the auditor may consider using an alternative model for comparison.

45. If the work of a management's expert involves the use of methods relating to accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in a financial report, the auditor follows the requirements contained within ASA 540.¹⁶

Assumptions

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

The auditor then considers:

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

47. Assumptions relating to accounting estimates that are made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate¹⁷. In these circumstances, the auditor applies the relevant requirements of ASA 540 to those assumptions.

¹⁶ See ASA 540 paragraph 30 and A131.

¹⁷ See ASA 540 paragraph A130.

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Source Data Used by the Management's Expert

26-48. The auditor considers whether the source data is sufficiently relevant and reliable for their purposes, including evidence relating to the accuracy and completeness of the data and evaluating whether the data is sufficiently precise and detailed. The extent of the auditor's procedures is dependent on the nature and risk of the source data and the materiality of the underlying balance, transaction and/or disclosure to which it relates. When an management's expert's work involves the use of source data that is significant to that expert's work, procedures such as the following may be used to test-evaluate that data:

- Identifying the source of the data, including obtaining an understanding of the data, and where applicable, testing the internal controls over the data and, where relevant, its transmission to the management's expert.
- Assessing the data for completeness, accuracy and consistency with information available to the auditor.

49. In many cases, the auditor may test the source data directly, particularly where the data is internally produced by the company. However, in other cases, for example when the nature of the source data used by the management's expert is highly technical in relation to the expert's field, that expert may test the source data. If the management's expert has tested the source data, the auditor considers the most appropriate way of evaluating whether the source data is sufficiently reliable for their purposes such as enquiry of that expert as to the scope and nature of the testing they performed, supervision or review of that expert's tests and/or the involvement of an auditor's expert¹⁸.

50. If the work of a management's expert involves sources of data relating to accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in a financial report, the auditor may find the requirements and application material of ASA 540¹⁹ helpful.

27. —

Conclusion on the Work Undertaken by the Expert

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

52. Factors that affect the relevance and reliability of the management's expert's work include:

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

28-53. If the auditor determines that the work of the management's expert is not appropriate for the auditor's purposes, or does not address material errors, deviations, deficiencies in internal controls or other material matters, or does not constitute sufficient appropriate audit evidence, the auditor agrees with management on the nature and extent of further work to be performed

¹⁸ Refer to ASA 620.

¹⁹ See ASA 540 paragraph A131.

Commented [HR2]: This is the area that still needs more guidance. It is impacted by the discussion around 540.

Commented [HR3]: PCAOB distinguishes between source data that is internal to the entity verses that which is external to the entity. The auditor tests internal company produced data, but evaluates relevance and reliability of data from sources external to the entity.

Commented [HR4]: Note the difference in the use of words test verses evaluates. The PCAOB makes this a clear distinction.

Commented [HR5]: Open question with the IAASB.

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by the management's expert; or performs additional audit procedures appropriate to the circumstances. The auditor may communicate this with those charged with governance. If the matter cannot be resolved, this is reported to those charged with governance and it may be necessary for the auditor to express a modified opinion in the auditor's report if the auditor cannot obtain sufficient appropriate audit evidence.

~~29-54.~~ When the auditor concludes that the work of the management's expert is appropriate for the auditor's purposes, the auditor may accept that expert's findings or conclusions as appropriate audit evidence. The auditor then determines whether the management's expert's findings or conclusions have been accurately reflected in the financial report or other historical financial information including relevant disclosures.

Documentation

~~30-55.~~ Although there are no specific documentation requirements in ASA 500, the auditor is required to comply with the documentation requirements of ASA 230, that requires the auditor when assessing the extent of documentation, the auditor considers what audit documentation is necessary to enable an experienced auditor, having no previous connection with the audit, to understand the auditor's:

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

~~• Evaluation of the results of procedures and the audit evidence obtained in evaluating the appropriateness and adequacy of the expert's work;~~

~~• Assessment and conclusions around errors, deviations, deficiencies in internal controls and other material matters identified by the expert;~~

~~• Assessment of the conclusions reached by the expert including the auditor's application of professional scepticism in the assessment of those conclusions; and~~

~~• Conclusion on the work undertaken by the expert.~~

~~56.~~ The auditor ordinarily includes in their documentation relevant extracts from the management's expert's work findings including the conclusions reached.

~~57.~~ The auditor follows the documentation requirements of ASA 540²⁰ when the management's expert's work is used in the preparation of an accounting estimate.

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

~~31-58.~~ The auditor does not refer to the work of the management's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor indicates in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.

~~32-59.~~ If the auditor makes reference to the work of the management's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's

²⁰ See ASA 540 paragraph 39.

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opinion, the auditor indicates in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

Communication with Those Charged with Governance and Others

~~33-60.~~ Due to uncertainties that may be associated with the work undertaken by a ~~management's~~ expert, the potential effects on the financial report and/or other historical financial information of any significant risks are likely to be of governance interest.

~~34-61.~~ ASA 260 *Communication with Those Charged with Governance* contains the auditor's responsibility to communicate with those charged with governance in an audit of a financial report. In relation to using the work of a ~~management's~~ expert, the auditor, using professional judgement, may communicate:

- ~~Whether management has engaged a management's expert;~~
- Concerns regarding competency or objectivity of the ~~management's~~ expert;
- Materiality and risk of the subject matter subject to determination by the ~~management's~~ expert;
- The proposed intended use of the ~~management's~~ expert's work by the auditor;
- Key findings/conclusions of the ~~management's~~ expert's report including commentary on:
 - Significant assumptions, ~~methods and data~~ used;
 - Degree of subjectivity of assumptions;
 - Whether the expert's work is adequate for audit purposes and obtains appropriate audit evidence; and
 - Significant differences in judgement between the auditor and expert.

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

Conformity with International Pronouncements

~~35-62.~~ There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

GS 005
(date)

Guidance Statement GS 005

Using the Work of a Management's Expert

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

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Auditing and Assurance Standards Board

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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 *Using the Work of a Management's Expert* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 005 *Using the Work of a Management's Expert* 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: 16 March 2015

R Simnett AO
Chair - AUASB

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GUIDANCE STATEMENT GS 005

Using the Work of a Management's Expert

Application

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

Issuance Date

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

Introduction

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

Scope of this Guidance Statement

5. ASA 500² *Audit Evidence*, establishes mandatory requirements and provides application and explanatory material on using the work of a management's expert as audit evidence. This Guidance Statement is to be read in conjunction with ASA 500.
6. This guidance applies equally to the use of a management's expert whether they are internal or external to an entity, but does not deal with the use of experts that are not engaged or employed by management.

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

² See ASA 500, paragraph 8.

Interaction with Using the Work of an Auditor's Expert

7. It is the responsibility of the engagement partner³ to determine that the engagement team has the appropriate competence and capabilities, including sufficient time, to perform an audit engagement in accordance with the Australian Auditing Standards, relevant ethical requirements, and applicable legal and regulatory requirements. When management uses the work of a management's expert to assist the entity in preparing the financial report, the auditor determines whether the involvement of an auditor's expert is required.
8. There is no requirement for the auditor to use an auditor's expert to assess the work performed by a management's expert, however the auditor assesses whether or not an auditor's expert is needed. An auditor who is not an expert in a relevant field other than accounting or auditing may be able to obtain a sufficient understanding of that field to perform the audit without the use of an auditor's expert. Examples of how this understanding may be obtained include:
 - (a) Experience in auditing entities that require such expertise;
 - (b) Education or professional development in the particular field which may include formal courses;
 - (c) Discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own competence to deal with matters in that field;
 - (d) Discussion with auditors who have performed engagements in the same or similar industries with the same or similar use of experts for the preparation of financial statements.
9. The auditor's decision on whether to use an auditor's expert may be influenced by factors such as:
 - (a) The nature and significance of the matter, including its complexity;
 - (b) The risks of material misstatement;
 - (c) The expected nature of procedures to respond to the identified risks, including:
 - (i) the auditor's knowledge and experience with the work of experts in relation to such matters; and
 - (ii) the availability and extent of alternative sources of audit evidence;
 - (d) The extent to which management has used a management's expert.
10. This Guidance Statement does not provide guidance on the auditor's use of the work of an auditor's expert. *ASA 620 Using the Work of an Auditor's Expert* establishes mandatory requirements and provides explanatory guidance on using the work of an auditor's expert as audit evidence.
11. The work of a management's expert is often associated with accounting estimates, accordingly this Guidance Statement should be read in conjunction with *ASA 540 Auditing Accounting Estimates and Related Disclosures*.

Definitions

12. For the purposes of this Guidance Statement the following items have the meanings attributed below:

³ ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 14.

- (a) Expertise means skills, knowledge and experience in a particular field.
- (b) Management's expert means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial report or other historical financial information. External information sources⁴ provide information that has been used by the entity in preparing the financial report (for example pricing services), and that is suitable for a use by a broad range of users, is not considered use of a management's expert.

The Auditor's Responsibility for the Conclusion

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

Examples of the use of Management's Experts

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

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

15. When a financial report and/or other historical financial information includes amounts determined by, or based upon the work of a management's expert, the auditor considers and concludes on whether the work of that expert is adequate for the auditor's purposes, and can be accepted as appropriate audit evidence.

⁴ See ASA 500 paragraph 5(d)

16. The auditor's decision on whether to use the work of a management's expert will be influenced by:
- (a) the nature and significance of the matter including its complexity;
 - (b) the risks of material misstatement in the matter; and
 - (c) the expected nature of procedures to respond to the identified risks, including the auditor's knowledge of, and experience with, the work of the experts in relation to such matters and the availability of alternative sources of audit evidence.
17. When determining the nature, timing and extent of audit procedures in relation to the work of the expert, the auditor makes reference to the requirements, application material and guidance contained in ASA 500.

Considerations in Determining the Information to Be Used as Audit Evidence

18. ASA 500⁵ requires that if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:
- Evaluates the competence, capabilities and objectivity of that expert;
 - Obtains an understanding of the work of that expert; and
 - Evaluates the appropriateness of that expert's work as audit evidence for the relevant assertion.
19. In relation to the work of a management's expert, the auditor obtains more persuasive evidence as:
- (a) the significance of the management's expert's work on the financial statements increases, including the risk of material misstatement;
 - (b) the ability of the company to affect the management's expert's judgements increases; and
 - (c) the level of knowledge, skill and ability possessed by the management expert decreases.

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

Competence, Capabilities and Objectivity of a Management's Expert

20. The auditor makes reference to the requirements, application and other explanatory material contained in ASA 500 and evaluates whether the management's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. This is ordinarily performed as part of the audit planning and risk assessment process but timing may be restricted by management's process for planning and selecting experts.
21. Competence, capability and objectivity of a management's expert impacts the degree of reliability of the management's expert's work as audit evidence, that is, the extent to which the management's expert's work could provide persuasive evidence.

⁵ See ASA 500, paragraph 8.

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

Competence

23. Competence may be described as the nature and level of expertise of the management's expert. The auditor uses professional judgement when determining the competency of a management's expert. When assessing competence, the auditor may consider:
- (a) The management's expert's experience in the type of work performed, including applicable areas of speciality within the expert's field;
 - (b) The reputation and standing of the management's expert including:
 - (i) Previous experience with the work of the expert;
 - (ii) Enquiring of other practitioners who have used that management's expert or others working in the same industry;
 - (c) The professional certification, license or professional accreditation of the management's expert. Experts may have professional obligations under their professional or industry bodies. These obligations vary significantly and are determined by the professional or industry body⁶. The auditor's confidence when assessing the competency of the management's expert may increase with membership of professional or industry bodies that:
 - Require professional qualification or accreditation;
 - Subject their members to regulatory requirements/guidance;
 - Subject their members to a specific set of standards or guidance on the expert's services;
 - Require continuous professional development; and
 - Require professional obligations to be followed by their members.
24. The auditor's evaluation of the management's expert may be influenced by the management's expert's work environment, for example the expert's internal quality control policies and procedures.

Capability

25. Capability may be described as the ability of the management's expert to exercise their competency in the circumstances. When assessing capability, the auditor may consider:
- Geographic location
 - Availability of time
 - Availability of resources

⁶ For example actuaries are governed by the Institute of Actuaries of Australia, an actuary's specific responsibilities in relation to data are set out in the *Actuarial Code of Professional Conduct, Actuarial Professional Standards* and where relevant other regulatory and legislative requirements, *APRA Prudential Standards* and the *Life Insurance Act 1995*.

- Instructions on scope provided by management

Objectivity

26. Objectivity is described as the absence of any affects that bias, conflict of interest, or the influence of others may have on the professional or business judgement of the management's expert. When assessing objectivity, the auditor considers:
- (a) circumstances that threaten the objectivity of the management's expert; and
 - (b) whether appropriate safeguards are in place to eliminate those threats or reduce them to an acceptable level.
27. ASA 500 indicates that evidence from external sources is generally more reliable than that generated internally. The auditor may assess the relationship to the company of the management's expert, specifically, whether circumstances exist that give the company the ability to significantly affect the management's expert's judgements about the work performed, conclusions or findings. The existence of a relationship between the management's expert and the entity being audited may impair the management's expert's ability to be objective. The risk that the objectivity of a management's expert will be impaired increases when the management's expert is employed by the entity or is related in some way to the entity. Where a management's expert is employed by the entity, the auditor needs to consider whether there are any mitigating factors such as professional and/or statutory obligations governing the work of the management's expert that would impact on the objectivity of the management's expert.
28. Circumstances which may threaten the objectivity of the management's expert may include: advocacy threats, familiarity threats, self-review threats and self-interest threats⁷. Examples include economic dependency of the management's expert on the entity and contingency based fee arrangements.
29. The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the management's expert and the significance of the expert's work in the context of the audit. There may be safeguards specific to the audit engagement, however there may be circumstances where safeguards cannot reduce threats to an acceptable level⁸.
30. When the management's expert is an employee of the entity, mitigating factors which enhance the ability of the management's expert to be objective, and therefore are safeguards for the lack of independence, include:
- Adherence to the professional standards issued by the expert's regulating body.
 - Formal appointment of the management's expert by those charged with governance and direct access to those charged with governance by that expert.
- Ordinarily, the basis on which the management's expert is remunerated and or incentives offered as part of that remuneration are considered by the auditor when assessing the management's expert's objectivity.
- Consideration of the above may also be relevant in evaluating the objectivity of a management's expert that is external to the entity.
31. If the auditor is concerned with the competence, capability or objectivity of the management's expert, the auditor communicates any concerns with management and if appropriate those charged with governance and considers whether sufficient appropriate audit evidence can be

⁷ See ASA 500, paragraph A41.

⁸ See ASA 620, paragraph A19.

obtained concerning the work of the management's expert. The auditor may undertake alternative procedures or seek audit evidence from another expert including an auditor's expert⁹.

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

32. The auditor makes reference to the requirements, application and other explanatory material in ASA 500 when obtaining an understanding of the management's expert's work to assess whether it is adequate for the purposes of the audit.
33. When obtaining an understanding of the management expert's work, the auditor, having regard to whether the management's expert is internal or external to the entity, considers:
- The terms of the engagement between the entity and the management expert including understanding the nature, timing and extent of work to be performed by the management's expert and the form of any report to be provided by that expert;
 - Whether the auditor has any prior knowledge of the management expert's field of expertise, or with that expert;
 - The economic and competitive conditions impacting the entity and its operating results;
 - Whether there is evidence of undue management pressure on the management's expert;
 - The existence of controls within the entity over the work of the management's expert (for example whether there are procedures in place to challenge or review the expert's work, such as review by those charged with governance) or controls over the source data used in the expert's assessment;
 - Whether management has authorised their expert to discuss their findings or conclusions with the auditor¹⁰;
 - Whether the management's expert has consented to the auditor's intended use of their findings⁷; and
 - Whether the management's expert has agreed for the auditor to access their work papers (review of the expert's work papers is not normally required other than as considered necessary by the auditor using their professional judgement).
34. Where management has not consented for their expert to discuss their findings or conclusions with the auditor, or the management's expert has not consented to the auditor's intended use of their findings, the auditor considers the guidance as provided in paragraphs 53 and 54.

Engagement with the Management's Expert

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

⁹ Refer ASA 620.

¹⁰ Agreement for the expert to discuss findings with the auditor, and consent for the auditor to use the expert's findings, is generally discussed and agreed with management or those charged with governance and the expert at the planning phase of the engagement.

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

36. ASA 500¹¹ contains application and other explanatory material that when evaluating the appropriateness of the management expert's work as audit evidence for the relevant assertion, the auditor considers:
- The relevance and reasonableness of the management expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial report;
 - If the management expert's work involves the use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
 - If the management expert's work involves significant use of source data, the relevance, completeness and accuracy of that source data.
37. ASA 540¹² contains requirements and application material when evaluating the appropriateness of the work of a management's expert as audit evidence in relation to the audit of accounting estimates.

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

38. ASA 500 and ASA 540 do not require that the auditor reperforms the work of a management's expert. Instead the auditor's responsibility is to evaluate whether the management's expert's work provides sufficient appropriate audit evidence to support a conclusion regarding whether the corresponding accounts or disclosures in the financial report are in conformity with the relevant financial reporting framework.
39. Factors that impact the sufficiency of evidence when evaluating the work of a management's expert include the risk of material misstatement and the significance of the management's expert's work to the auditor's conclusion.
- (a) Consistent with ASA 330¹³, the higher the risk of material misstatement for an assertion, the more persuasive the evidence needed to support a conclusion about that assertion.
 - (b) The significance of a management's expert's work refers to the degree to which the auditor gathers evidence in evaluating the management's expert's work to support the auditor's conclusions about the assertion. Generally, the greater the significance of the management's expert's work to the auditor's conclusion, the more persuasive the evidence from the management's expert's work needs to be. The significance of the management's expert's work stems from:
 - (i) The extent to which the management's expert's work affects the account balances, classes of transactions and disclosures in the financial report. In certain situations that work may be a primary source of audit evidence, while in other situations, the management's expert's work may only be used as a cross-check.
 - (ii) The auditor's approach to testing the relevant assertion and the availability of alternative sources of audit evidence. For example, when a company's accounting estimate is determined principally based on the work of a management's expert, and the auditor plans to test how management made the accounting estimate, the auditor would plan to use the work of the management's expert for evidence regarding the estimate. If the auditor tests

¹¹ See ASA 500, paragraph A48.

¹² See ASA 540 paragraph 30

¹³ Refer ASA 330 *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

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

The Findings and Conclusions of the Management's Expert

40. The auditor considers the final findings and conclusions in the agreed form of report of the expert. The auditor using their professional judgement considers what additional procedures are required, particularly when the risk of material misstatement has been assessed as significant. The auditor may consider performing more extensive procedures or engaging an auditor's expert¹⁴ to review some or all of the work of the management's expert. Specific procedures to evaluate the reasonableness of the management's expert's work for the auditor's purposes may include:

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

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

- Consistent with the auditor's understanding of the entity and its environment;
- Clearly expressed, including reference to the objectives agreed with management, the scope of the work performed and standards applied;
- Consistent with the results of other audit procedures;
- Cross-checked against one or more other methodologies;

¹⁴ Refer ASA 620.

- Based on an appropriate period/point in time and take into account events occurring after that date, where relevant;
- Subject to any reservation, limitation or restriction on use, and if so, whether this has implications for the auditor; and
- Based on appropriate consideration of errors, deviations, deficiencies in internal controls or other significant matters identified by the management's expert.

Methods, Assumptions and Source Data

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

Methods

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

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

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

- (a) obtaining an understanding of the model;
- (b) reviewing descriptions of the model in the management's expert's report;
- (c) testing controls over the company's evaluation of the management's expert's work;
- (d) assessing inputs to and outputs from the model or in place of other procedures, the auditor may consider using an alternative model for comparison.

45. If the work of a management's expert involves the use of methods relating to accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in a financial report, the auditor follows the requirements contained within ASA 540.¹⁵

Assumptions

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

¹⁵ See ASA 540 paragraph 30 and A131.

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

47. Assumptions relating to accounting estimates that are made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate¹⁶. In these circumstances, the auditor applies the relevant requirements of ASA 540 to those assumptions.

Source Data Used by the Management's Expert

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

- Identifying the source of the data, including obtaining an understanding of the data, and where applicable, testing the internal controls over the data and, where relevant, its transmission to the management's expert.
- Assessing the data for completeness, accuracy and consistency with information available to the auditor.

49. In many cases, the auditor may test the source data directly, particularly where the data is internally produced by the company. However, in other cases, for example when the nature of the source data used by the management's expert is highly technical in relation to the expert's field, that expert may test the source data. If the management's expert has tested the source data, the auditor considers the most appropriate way of evaluating whether the source data is sufficiently reliable for their purposes such as enquiry of that expert as to the scope and nature of the testing they performed, supervision or review of that expert's tests and/or the involvement of an auditor's expert¹⁷.

50. If the work of a management's expert involves sources of data relating to accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related

¹⁶ See ASA 540 paragraph A130.

¹⁷ Refer to ASA 620.

disclosures for inclusion in a financial report, the auditor may find the requirements and application material of ASA 540¹⁸ helpful.

Conclusion on the Work Undertaken by the Expert

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

Documentation

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

¹⁸ See ASA 540 paragraph A131.

56. The auditor ordinarily includes in their documentation relevant extracts from the management's expert's findings including the conclusions reached.
57. The auditor follows the documentation requirements of ASA 540¹⁹ when the management's expert's work is used in the preparation of an accounting estimate.

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

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

Communication with Those Charged with Governance and Others

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

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

¹⁹ See ASA 540 paragraph 39.

Conformity with International Pronouncements

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

*Confidential
Draft*