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AUASB Policy and Process for International Conformance and Harmonisation of Standards

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AUASB Policy and Process for International Conformance and Harmonisation of Standards

Part A – Introduction

Application Date

1. The policies detailed in this paper apply from 10 March 2021.
2. The key strategic objectives set by the Financial Reporting Council (FRC) for the Auditing and Assurance Standards Board (AUASB) include using the International Standards on Auditing (ISAs) to develop Australian Auditing Standards, and modifying the ISAs to conform to the Australian regulatory environment, in the public interest¹ in Australia.

Objectives

3. In implementing the FRC’s strategic direction, the AUASB has determined the following objectives:
 - To adopt international auditing and assurance standards in Australia unless modifications are considered to be in the public interest and these do not conflict with, or result in lesser requirements to, the international standards; and
 - To work with the New Zealand Auditing and Assurance Standards Board (NZAuASB) towards the establishment of harmonised standards based on international standards.
4. A key aspect of the AUASB’s strategic objectives is the convergence of international and local standards. Implicit in this approach is the need for the AUASB to mostly be a “standards-taker”, i.e. to use the international standards as a base for Australian standards. For those standards to be appropriate in Australia, the AUASB seeks to influence international standards² during the various stages of standards development to ensure high quality global standards that are both applicable in Australia and considered to be in the public interest.

Purpose of this paper

5. The purpose of this paper is to set out the principles of convergence to international standards and harmonisation with New Zealand standards. The Board will use this as the framework for the standard setting process of the AUASB.
6. It is expected that this paper will be revised from time to time to take account of changes to the Australian financial reporting and assurance environment.

Part B – Modifications from International Standards (“The Compelling Reason Test”)

Principles of Convergence to International Standards

7. The AUASB recognises that the AUASB may consider modifying international standards for application in Australia under either of the objectives of this policy. The AUASB considers such modifications acceptable provided they consider the public interest, and do not conflict with or result in lesser requirements than the international standards.

¹ The Australian standard’s responsiveness to the public interest in Australia to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1

² Refer to the [AUASB International Strategy](#).

Context

8. For the purposes of this policy:
 - (a) Factors the AUASB should consider when assessing whether modifications to the international standards are considered to be in the public interest are described in Appendix 1.
 - (b) The test to determine whether modifications do not conflict with or result in lesser requirements than the international standards is described in paragraphs 12 to 14 below.
 - (c) The international standards should be adopted and only be modified if there are compelling reasons to do so. This ‘Compelling Reasons Test’ is described in paragraphs 12 to 14 below.
9. The [IAASB Policy Position, Modifications to International Standards of the IAASB - A Guide for National Standard Setters that Adopt IAASB's International Standards but Find It Necessary to Make Limited Modifications \(July 2006\)](#) sets out the policy that National Standard Setters must comply with to assert compliance with the international standards when making modifications.
10. The principles of convergence set out in this paper adhere to the principles set out in the IAASB’s Policy Position. This enables the AUASB to assert compliance with the international standards when making modifications.

Policy

11. Any modifications the AUASB make to an international standard must comply with the IAASB’s Policy Position (as described in Paragraph 9) and the strategic objectives of the AUASB (referred to previously in Paragraph 3). Accordingly:
 - (a) Additions to an international standard are limited to addressing:
 - (i) National legal and regulatory requirements.
 - (ii) Other requirements or guidance that are not lesser or in conflict with the current requirements or guidance in the international standard.
 - NB: Any additions made under paragraph 11(a)(ii) are to be communicated to the IAASB for future consideration.
 - (b) Deletions from, or other modifications to, an international standard are limited to:
 - (i) The elimination of options or alternatives provided for in the international standard.
 - (ii) Requirements or application guidance which law or regulation does not permit, or which needs to be modified to be consistent with law or regulation.
 - (iii) Requirements or application guidance where the international standard recognises that different practices may apply in different jurisdictions and this is the case for Australia.
 - NB: Before deleting a requirement under paragraph 11(b)(ii) or (iii), the AUASB will consider whether the objective of the deleted requirement could be met by replacing it with an appropriate alternative.

Modifications of International Standards (“The Compelling Reason Test”)

12. In the case of an international standard that is being reviewed for the purpose of adoption in Australia, the compelling reason test for modifications is triggered when the international standard does not reflect, or is not consistent with:
 - (a) Australian legal and regulatory arrangements; or

- (b) principles and practices that are appropriate having regard to the public interest³ in Australia (including in the use of different terminology).
13. Where paragraph 12(a) applies, any new or modified requirement will:
- (a) ensure effective and efficient compliance with the legal and/or regulatory framework in Australia; and
 - (b) not result in a requirement that is lesser than or in conflict with the international standard.
14. Where paragraph 12(b) applies, any modification to the standard must:
- (a) ensure compliance with principles and practices that the AUASB considers appropriate and in the public interest⁴ in Australia;
 - (b) be clear and promote consistent application by all practitioners in Australia;
 - (c) promote significant improvement in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the Australian environment;
 - (d) not result in a standard that conflicts with, or results in lesser requirements than the international standard;
 - (e) not be overly complex and confusing; and
 - (f) not change the meaning or intent of the international standard by imposing more onerous requirements on practitioners in Australia than are necessary.
15. Before making any modification under paragraph 13 or paragraph 14, the AUASB will consider whether, and be satisfied that, the benefits of modifying the standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).
16. Any deletion from the international standards will be clearly noted, and any addition will be clearly marked as an Australian paragraph. However, minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology) need not be reflected in the Australian standard as a modification to the international standard where the intent remains unchanged.

Part C – Harmonisation of Australian and New Zealand Standards

Principles of Harmonisation

17. The joint objective of the NZAuASB and AUASB is to achieve a harmonised set of assurance standards between New Zealand and Australia, based on international standards. This co-operation contributes to the outcome framework of the Single Economic Market which was established by the New Zealand and Australian Prime Ministers in 2009. The aim of the framework is to enable businesses, consumers, and investors to conduct operations across the Tasman in a seamless regulatory environment.
18. The approach to harmonisation set out in this paper acknowledges the principles that:
- (a) Regulatory harmonisation requires a flexible approach that takes account of both the benefits and costs of a particular solution.
 - (b) Achieving harmonisation in relation to the Australian and New Zealand assurance standards benefits from a collaborative approach to the adoption of the standards (whether based on an international or AUASB developed standard) in the respective

³ The Australian standard's responsiveness to the public interest in Australia to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1

⁴ The standard's responsiveness to the public interest to be assessed with reference to the qualitative characteristics in the Public Interest Framework

jurisdictions, based on a common set of principles (in particular, the compelling reason test).

- (c) In seeking harmonisation, the standards should be consistent or compatible to the extent that they do not result in barriers for users of the standards in the Trans-Tasman environment.
 - (d) A recognition that each of the Boards act autonomously and independently and there may be instances where standards may differ because of country specific requirements and public interest considerations in each jurisdiction.
19. Compelling reasons for differences between Australian and New Zealand standards are where:
- (a) different legal and regulatory requirements apply; and/or
 - (b) different principles and practices are appropriate having regard to the public interest⁵ in Australia (including in the use of different terminology).

Process for harmonisation with New Zealand standards

20. When considering harmonisation between international equivalent standards that have been modified in accordance with the compelling reasons test (refer paragraphs 12 - 14), the AUASB will consider whether any change made by the NZAuASB to the New Zealand standard covers a matter not covered in the international standard and reflects different principles and practices having regard to the public interest⁶ in Australia (including in the use of different terminology).
21. When considering developing a standard for which there is no equivalent international standard, revising a domestic standard where the equivalent international standard is considered out of date and is unlikely to be revised in the immediate future, compelling reasons for developing or revising the standard are that:
- (a) the new or revised standard appropriately considers the public interest⁷ within the Australian environment;
 - (b) the new or revised standard will promote significant improvements in audit/assurance quality in the Australian environment; and
 - (c) the benefit of applying the new or revised standard will outweigh the costs (with cost primarily being compliance cost and benefit primarily relating to audit/assurance quality).
22. Where there is an existing equivalent New Zealand standard, the development of an Australian standard should be harmonised with the equivalent New Zealand standard by:
- (a) using the existing New Zealand standard as a starting point;
 - (b) liaising with the NZAuASB on compelling reason differences; and
 - (c) applying the same approach to harmonisation as for the adoption of an international standard.

When the NZAuASB decides to revise an existing equivalent New Zealand standard there is no requirement for the AUASB to also revise that standard.

23. The principles of convergence to the IAASB, and the principles of harmonisation with the Australian standards are set out in flowcharts in the Appendices to this document.

⁵ The Australian standard's responsiveness to the public interest in Australia to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1

⁶ The Australian standard's responsiveness to the public interest in Australia to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1

⁷ With reference to the qualitative characteristics in the Public Interest Framework

Part D - AUASB and NZAuASB Communication Protocols in Standard Setting

24. The following protocols between the AUASB and the NZAuASB apply to ensure a joint consideration of compelling reason modifications and harmonisation during the two boards' standard setting processes.

Overall principles

25. The overall principles are that there should be sufficient appropriate communication, dialogue and sharing of information and the position or decisions of each Board, throughout each stage of the process to develop auditing and assurance standards, in order to:
- reduce the risk of unintended differences in the final auditing and assurance standards approved by each Board;
 - enhance the individual and collective understanding of each Board and the effective application of the compelling reason test in each jurisdiction;
 - enhance the quality and robustness of each Board's debate and consideration of issues relevant to the development and promulgation of auditing and assurance standards through the sharing of views and discussions of each Board on a particular matter; and
 - facilitate, or enhance, the accountability that each Board has back to their respective Governments for the contribution to, or delivery on, the Trans-Tasman outcomes framework, in particular, enhancing the ability for auditors in one jurisdiction to operate in the other jurisdiction through the effective harmonisation of auditing and assurance standards.

Sharing of information

26. Communication on the known possible compelling reason modifications in either of the two jurisdictions occurs during the due process of each Board. To mitigate or reduce the risk of unintended differences in the two jurisdictions, the points in the standard setting process for sharing of information are (refer to the flowcharts in Appendices 2 and 3):
- (a) When the IAASB ED is released for exposure internationally (for any issues identified at this stage).
 - (b) At the close of the comment period for the international ED, and before finalising the submissions by each Board to the IAASB.
 - (c) As soon as the IAASB standard is finalised.
27. As a matter of course staff inform their respective Board of any possible emerging differences/issues throughout the process by liaising with staff from the other Board.

Content of the communication

28. Each Board communicates to the other Board any contentious issues identified with a proposed international standard, and the proposed compelling reason modifications.
29. The content of the communication will depend on the stage reached in the due process of each Board. The communication is to include as much of the following matters that are known at each communication point:
- (a) The reason why it is a contentious issue in the particular jurisdiction;
 - (b) The proposed modification to the international standard;
 - (c) The rationale as to why the Board considers it to be a compelling reason modification, with reference to the AUASB and NZAuASB's agreed principles on convergence and harmonisation; and
 - (d) A request to the other Board for its view on whether:

- it is also a contentious issue in its jurisdiction; and
- the proposed modification meets the compelling reason test in its jurisdiction.

Form/manner of the communication

30. The form of the communication could be one of the following, or a combination thereof:
- (a) Verbal feedback from the respective Chair of the other Board.
 - (b) Staff papers prepared based on feedback from staff from the other Board.
 - (c) Board meeting papers of the other Board.

Resolving differences

31. Where the two Boards have different views about the matters identified as contentious and/or the compelling reasons for modifications, the Boards jointly consider, debate and, where possible, resolve any differences as early as practically possible in the standards development process. The appropriate process for this joint consideration is agreed by the two Boards on a case by case basis, and could be one of the following (under direction by each Board):
- A joint Board meeting.
 - Establishment of a joint AUASB/NZAuASB subcommittee by the Chairs to address any differences.
 - Consideration of joint staff papers at each of the subsequent Board meetings.
 - Consideration by Chairs and Technical Staff only.
 - Consideration by Chairs only.
 - Where the two Boards reach different conclusions after the joint consideration of their different views on compelling reason modifications, the rationale for the different conclusions are clearly documented and communicated to the audit market in both jurisdictions.

* * *

Appendix 1

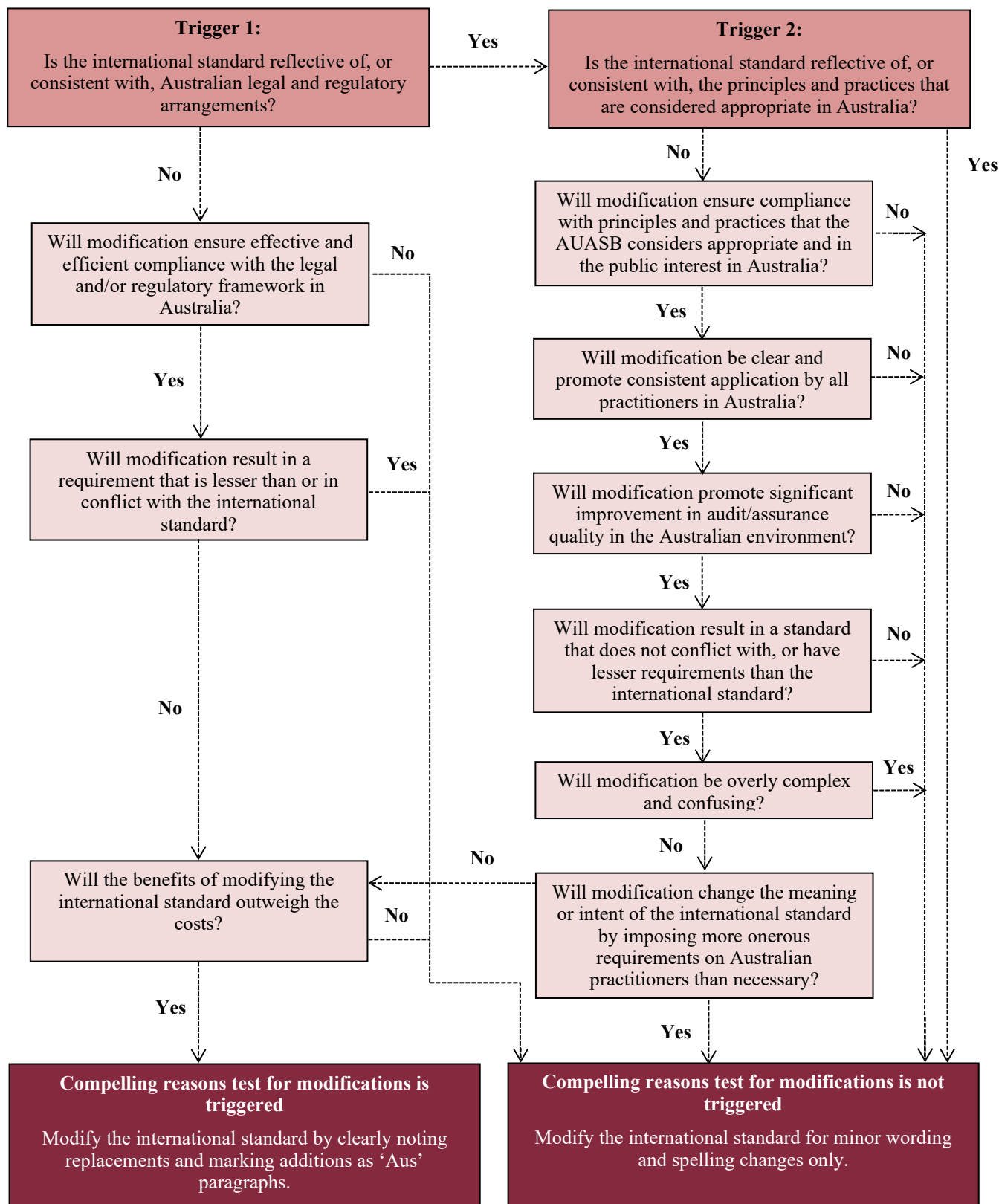
Consideration of Public Interest

1. The Monitoring Group⁸ issued its report *Strengthening the International Audit and Ethics Standards Setting System* in July 2020 to address the need for more independent audit standard setting, with a key focus on the public interest. The “Public Interest” has not been defined but a Public Interest Framework (PIF) has been developed under which international audit related standard setting activities will be undertaken.
2. The characteristics in the PIF provide a useful frame of reference for the AUASB to assess whether modifications to the international standards for application in Australia appropriately consider the public interest in the context of Australia.
3. The PIF sets out the following qualitative characteristics to be used to assess the international standards responsiveness to the public interest, including but not limited to:
 - (a) Consistency with priorities established in the strategic planning process.
 - (b) Coherence with the overall body of standards, to avoid conflict.
 - (c) Appropriate scope to address key issues, and to specify to whom the standard applies.
 - (d) Scalability, including proportionality.
 - (e) Timeliness, without sacrificing quality.
 - (f) Relevance in recognising and responding to emerging issues, changes in business environment, developments in accounting practices or technology.
 - (g) Completeness, reflecting results of broad consultation and balancing stakeholder priorities.
 - (h) Comprehensiveness, by limiting exceptions to the principles.
 - (i) Clarity and conciseness.
 - (j) Implementability and ability to be consistently applied.
 - (k) Enforceable, through clearly stated responsibilities.
4. The public interest responsiveness is assessed by applying the qualitative characteristics in the following steps:
 - (a) Identify the perspectives and needs of groups with legitimate interests.
 - (b) Define the desired goal that would allow the standard to best serve user needs.
 - (c) Identify criteria to assess responsiveness to the goal.
 - (d) According to the criteria, reasonably weigh input from different groups.
 - (e) Assess the expected contribution of the standard to meeting its goal and consider whether it is responsive to the public interest.

⁸ The members of the Monitoring Group are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, and the World Bank Group

Appendix 2

Flowchart to depict the ‘compelling reasons test’ in the Principles of Convergence with the IAASB and IESBA standards



Appendix 3

Flowchart to depict the ‘compelling reasons test’ in the Principles of Harmonisation with the Australian/New Zealand standards

