



Subject: Agenda for the 76th meeting of the AUASB
Venue: Ken Spencer Room, AUASB offices
Level 7, 600 Bourke St, Melbourne
Time: Tuesday, 9 June 2015 from 10.30 a.m. to 5.15 p.m.

Note: Agenda papers marked

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

Time	Agenda Item No.	Type	Resp.
10.30 a.m.	1. Introductory Comments (a) Welcome (b) AUASB Declarations of Interest	V E	RL RL
10.35 a.m.	2. Minutes of Previous AUASB Meetings Minutes of the previous meeting of the AUASB held on 20 April 2015 and special teleconference meeting held on 19 May 2015	P/E	RL/RM
10.40 a.m.	3. Matters Arising from Previous Meetings and Action List Consider action list of key matters from previous meetings.	P	RL/RM
10.50 a.m.	4. GS 022 Grant Acquittals and Multi-Scope Engagements Consider final for approval to issue	E	HP
11.35 a.m.	5. GS 003 Audit and Review Requirements for Australian Financial Services Licensees under the Corporations Act 2001 Update on status of FS71, recent discussions with ASIC and status of GS 003.	V/T	RH
11.50 a.m.	6. GS 009 Auditing Self-Managed Superannuation Funds Consider project plan	P	RH
12.05 p.m.	7. GS 018 Franchising Code of Conduct – Auditor's Report Draft revised GS 018 for consideration and approval	P	MM
12.45 p.m.	Lunch		

* Closed session



1.45 p.m.	8. International		
	(a) Report on IAASB-NSS Meeting 7-8 May;	V	RM
	(b) IAASB Meeting 15-19 June 2015 – consider key papers	E/V	All
3.15 p.m.	Break		
3.30 p.m.	9. Other Auditing and Assurance Matters		
	(a) ASAE 3100 <i>Compliance Engagements</i> – consider project update	E	MM
	(b) Revision of ASAE 3500 <i>Performance Engagements</i> – consider project update	P	CG
	(c) Research project on the Australian Financial Reporting Framework – consider briefing paper	E	SF
	(d) Integrated Reporting – update for noting	E	MM
4.10 p.m.	10. Corporate Matters		
	(a) Report on AUASB Chairman's Activities – for noting	E	RL
	(b) Report from NZAuASB Chairman;	V	NC
	(c) AUASB Consultative Meeting – report on feedback	P	RH
	(d) AUASB Strategy 2015-2019 (for review) and updated AUASB Technical Work Program for year ending 30 June 2015– AUASB (for noting)	E	MK/RM
	(e) AUASB PAG Memberships – for noting;	E	All
	(f) Review of meeting	V	RL
5.15 p.m.	Close		



Draft Minutes

Special Meeting 19 May 2015

Subject: Minutes of the Special meeting of the Auditing and Assurance Standards Board (AUASB)
Venue: Teleconference
Date: 19 May 2015 from 10.00 a.m. to 11:30 a.m.

Attendance via Teleconference

AUASB Members: Ms Merran Kelsall (Chairman)
Ms Valerie Clifford
Ms Robin Low
Prof. Nonna Martinov-Bennie (until 11:00 a.m.)
Ms Caithlin Mc Cabe
Ms Jane Meade
Mr Colin Murphy
Mr Bernie Szentirmay (from 10:30 a.m.)

AUASB Technical Group: Mr Richard Mifsud (Executive Director)
Ms Susan Fraser
Ms Rene Herman
Mr Howard Pratt)

Apologies Ms Jo Cain
Mr Neil Cherry

Minutes

ED 02/15: The Auditor's Responsibilities Relating to Other Information

The AUASB considered the updated issues paper and "compelling reasons test" paper relating to ED 02/15. The updated papers include the disposition of each item from the 20 April 2015 AUASB meeting and a consideration of the pre-existing "Aus" paragraphs contained in Standards impacted by the ASA 720 conforming amendments. The AUASB requested that the ASA 720 Exposure Draft include a question specifically related to the stakeholder's views regarding the proposed AUASB removal of existing "Aus" paragraph references to the *Corporations Act 2001* and other non-*Corporations Act 2001* references. The AUASB considered the draft ASA 720 Exposure Draft and requested several amendments/additions to the Request for Comment questions as follows:

- Include a question on whether further guidance than provided at paragraphs A49-A50 (related to paragraph 19) is required to assist auditors in understanding their options in circumstances where there is a material misstatement in the other information obtained after the date of the auditor's report.
- Include a separate question on whether the differential reporting requirements in respect of listed or non-listed entities contained in the paragraph 21 may:
 - cause confusion; or
 - encourage poor practice by entities through delaying finalisation of the annual reportand therefore remove the existing reference to reporting from previous question 3.



- Include a question on whether stakeholders have any practical difficulties in identifying what the other information (as defined in paragraph 12(c)) is.

The AUASB requested that once the exact wording has been drafted for the above questions that the AUASB review and provide feedback to these questions prior to issuance of the Exposure Draft.

The AUASB requested that an additional [Aus] Appendix be included in the ASA 720 Exposure Draft, located before the appendix containing the illustrative audit reports, to summarise the reporting requirements contained in paragraphs 21 and 22 into a decision tree. This was to make it easier for practitioners to understand the proposed differential reporting requirements relevant to listed and non-listed entities.

The AUASB considered the related draft Amending Standard, and agreed with the approach taken in the proposed Amending Standard to incorporate both the conforming amendments to various Auditing Standards arising from ASA 720 and the removal of any existing “Aus” paragraphs within those same Auditing Standards that do not meet the compelling reasons test. The AUASB considered the issues paper identifying all existing “Aus” paragraphs and approved the proposed treatment of these paragraphs – to either be deleted, retained, or retained and amended. As part of this, the AUASB agreed that the definition of summary financial statements as currently included in ASA 810¹ “Aus” paragraph 41, met the compelling reasons test and was to be retained. The AUASB then approved the proposed Amending Standard, reflecting these decisions.

Subject to the additional appendix and amendments to the request for comment questions, the AUASB considered and approved for issue ED 02/15 comprising:

ASA 720	<i>The Auditor's Responsibilities Relating to Other Information</i>	Revised
Several	Conforming amendments to several standards including those that may have been included in ED 01/15	Amending standard

The Exposure draft, when issued, will be available for public consultation for a period of 60 days.

¹ See ASA 810 *Engagements to Report on Summary Financial Statements*.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4**

Meeting Date: 9 June 2015

Subject: *GS 022 Grant Acquittals and Multi-Scope Engagements*

Date Prepared: 2 June 2015

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

Consider the final draft GS 022 and approve for issue.

Background

Part One of the Project – GS 022

1. The project was originally proposed as a guidance statement (GS) relating only to the development of single-form auditor/assurance practitioner reports when multiple reporting frameworks existed.
2. The AUASB requested the scope of the GS to be expanded to cover performance of such engagements as well as reporting them.
3. The AUASB adjusted the scope further to focus on practical implementation issues in a Q&A type format as opposed to a summarised audit approach manual.
4. The AUASB has also considered the use to which this GS may be put in lobbying for consistency in the industry.
5. A PAG was formed which comprised mainly auditors/assurance practitioners but also includes two large Federal Government agencies that provide significant grants to a wide range of applicants.
6. The drafting team met on 6 November 2014 and agreed that the practical application issues listed in the draft GS could apply equally to a single-subject grant acquittal as well as a multi-scope engagement, which in turn could be a grant acquittal. Accordingly, the name of the proposed GS has been changed as well as relevant content within the document.
7. The PAG has met three times – all input from PAG members has been included in the final draft.
8. Two partners from a practitioner firm, each from a different State, volunteered to provide a confidential review of the draft GS. Their input has also been included in the final draft.

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.

9. At the 20 April 2015 meeting, the AUASB discussed the draft GS 022 and several members provided input to clarify and improve the document. AUASB comments have also been included in the final draft of GS 022. [Agenda Item 4.1]. The marked up is provided for information only.
10. An initial Quality Assurance Review has been conducted and changes made to GS 022. After the 9 June 2015 meeting, any changes requested by the AUASB will be processed and a final QA process will be conducted prior to submission of the document for approval to issue.

Part Two of the Project – Strategy for Influencing Consistency

11. The AUASB has agreed in principle to a subsequent project to develop a fit-for-purpose strategy to influence consistency in grant acquittals and multi-scope engagements with respect to:
 - (a) Setting requirements within engagement mandates; and
 - (b) Auditor practice.

Matters to Consider

Part A – General

1. The AUASB is asked to:
 - (a) Consider the proposed GS 022; and provide final changes necessary for completion; and
 - (b) Approve Guidance Statement GS 022 for issuance, subject to AUASB requested changes and final QA procedures.

Part B – NZAuASB

1. Once approved, GS 022 would be available to the NZAuASB and staff for their adoption and/or amendment to enable appropriate use in NZ.

Part C – “Compelling Reasons” Assessment

1. N/A

The proposed changes conform to IAASB modification guidelines for NSS? N/A Y ☐ - N ☐ -

AUASB Technical Group Recommendations

The AUASB is requested to approve GS 022.

Material Presented

Agenda Item 4	AUASB Board Meeting Summary Paper
Agenda Item 4.1	GS 022 Proposed Guidance Statement (clean version)
Agenda Item 4.2	GS 022 Proposed Guidance Statement (marked up version) [electronic only]

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Approve GS 022	AUASB approval	AUASB	9 June 2015	o/s

GS 022
(June 2015)

Guidance Statement GS 022

Grant Acquittals and Multi-Scope Engagements

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

Draft

DISCLAIMER

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

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

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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 AUASB Standards.

Guidance Statements are designed to provide assistance to auditors and assurance practitioners to assist them in fulfilling the objective(s) of the audit, other assurance engagement or non-assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of specific AUASB Standards; 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, or non-assurance engagement. Further, Guidance Statements do not establish or extend the requirements under existing AUASB Standards.

Guidance Statement GS 022 *Grant Acquittals and Multi-Scope Engagements* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standards and auditors and assurance practitioners are required to comply with the relevant AUASB Standards when conducting an audit, other assurance engagement or non-assurance engagement..

CONTENTS

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	1-2
Issuance Date	3
Introduction	4-6
Introduction	7-22
Definitions	23-24
Summary of the Auditor's Approach to a SSGA or and a MSE	1-26
Addressing Common Practical Application Issues	27-32
A. Unclear Engagement Mandates	33-42
B. Subject Matter(s) Not Able to be Assured, or Difficult to be Assured	43-48
C. Obtaining Evidence from Third Parties	49-50
D. Determining Reporting Responsibilities	51-65
E. Prescribed Reporting	66-71
F. Prescribed Scopes and/or Procedures	72-77
G. Performing SSGA and MSE concurrently with the Statutory Audit	78-83
H. SSGA or MSE Reporting Periods Differing from the Entity's Financial Reporting Period	84-88
I. Performing SSGA or MSE when not the Auditor of the Entity's Annual Financial Report	89-91
J. Setting Materiality	92-1
K. Cost Allocations	106-110
L. Substantive Procedures (Assurance Engagements)	111
M. Concluding and Reporting	112-127
Appendix 1: Summary	
Appendix 2: Elements of Assurance and Non-Assurance Engagements	
Appendix 3: Example of Multi-Scope Engagements	
Appendix 4: Example of an Engagement Letter for a MSE	
Appendix 5: Example of a Representation Letter for a MSE	
Appendix 6: Example Auditor's Reports – MSE (Not Prescribed)	
Appendix 7: Considerations - Prescribed Auditor's Reports	
Appendix 8: Example Auditor's Review Report – MSE (Other Reporting Responsibilities)	
Appendix 9: Intentionally blank for the time being	
Appendix 10: Intentionally blank for the time being	
Appendix 11: Charities and Not-For-Profit	

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 022 *Grant Acquittals and Multi-Scope Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters; and related services engagements.

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

This Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 022

Grant Acquittals and Multi-Scope Engagements

Application

1. This Guidance Statement (GS) applies to auditors and other independent assurance practitioners¹, referred to as the “auditor” in this GS, when the engagement comprises:
 - (a) A single subject² grant acquittal³ (SSGA) achieved through a single level of assurance (*reasonable* or *limited*) ; or
 - (b) A multi-scope engagement (MSE), which may include a grant acquittal, when the terms of an engagement require the auditor to address one or more of the following sections of the engagement:
 - (i) More than one subject matter.
 - (ii) More than one level of assurance.
 - (iii) An engagement comprising both assurance and agreed-upon procedures (where no assurance is provided).
2. Engagements described in paragraph 1(b) necessitate compliance with the requirements of different reporting frameworks and different AUASB Standards; and may therefore involve:
 - (a) Evaluation against different criteria, including reporting frameworks;
 - (b) The auditor developing a tailored *single-form* multi-scope auditor’s report; and/or
 - (c) Reporting requirements prescribed by regulators or other relevant parties.

Issuance Date

3. This Guidance Statement is issued by the Auditing and Assurance Standards Board (AUASB) on 30 June 2015.

Introduction

Objective

4. The purpose of this GS is to assist auditors in exercising professional judgement in applying the AUASB Standards to a selection of common practical application issues (see Table 1), which may arise in either a SSGA or a MSE.

¹ This Guidance Statement is not intended for use by internal auditors, whether employed or engaged by an entity.

² Financial performance and financial position, or compliance with requirements, are each an example of a single subject matter.

³ See definitions at paragraph 23(a).

5. **Table 1:** Common Practical Application Issues Addressed in this GS

	Issues	Paragraphs
A	Clarifying engagement mandates that are unclear and/or defined in out-dated terms.	33-42
B	Addressing engagements where the required scope includes a subject matter(s) that is not able to be assured, or is difficult to be assured.	43-48
C	Obtaining evidence when an entity delegates tasks to a third party.	49-50
D	Determining the auditor's reporting responsibilities and identifying users of the auditor's report	51-65
E	Addressing prescribed reporting, including where requirements may differ from AUASB Standards.	66-71
F	Addressing prescribed scopes and/or procedures.	72-77
G	Performing a SSGA or a MSE concurrently with the audit of a general purpose financial report (GPFR) or a special purpose financial report (SPFR).	78-83
H	Determining the extent of statutory work, if any, that can be used in the performance of a SSGA or a MSE, when the SSGA or MSE reporting periods differ from the statutory audit.	84-88
I	Planning, performing and reporting on a SSGA or a MSE when <i>not</i> the auditor of the entity's annual financial report.	89-91
J	Setting materiality levels.	92-105
K	Auditing or reviewing overhead, labour cost and other expense allocations in a grant acquittal, including the sufficiency and appropriateness of audit/review evidence.	106-110
L	Determining the nature and extent of substantive procedures, including the use of sampling.	111
M	Concluding and reporting appropriately.	112-127

6. Detailed guidance on these issues is provided at the paragraphs references above and in the Appendices.

The Nature of Engagements – Grant Acquittals

7. A “grant acquittal” is the term used where there is a requirement, generally arising pursuant to a grant agreement, to conduct an audit, a review or agreed-upon procedures and can relate to a single-subject matter or multiple subject matters.
8. A grant acquittal as described in paragraph 1(a), is where the auditor is required to report a single level of assurance on *only* one subject matter. Examples of “subject matter information” that relate to single-subject matters include:
- (a) A statement of grant income and expenditure made by the grant recipient.

- (b) A statement of compliance with the terms of the grant agreement made by the grant recipient.
 - (c) A statement with respect to the design and operating effectiveness of internal controls relating to grant monies, made by the grant recipient.
9. Ordinarily, the applicable AUASB Standard for such single subject engagements is easily identified. For example, the relevant AUASB Standards for the examples listed at paragraph 8 are:
- (a) A statement of grant income and expenditure would be audited and reported on in accordance with ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.
 - (b) A compliance statement would be audited and reported on in accordance with ASAE 3100 *Compliance Engagements*.
 - (c) A statement on controls would be audited and reported on in accordance with the requirements of ASAE 3150 *Assurance Engagements on Controls*.
10. A grant acquittal can also be a MSE as described in paragraphs 1(b) and 2.

The Nature of Engagements - Multi-scope

11. For purposes of this GS, where *any* engagement, including a grant acquittal, comprises the elements described in paragraphs 1(b) and 2, it is a “multi-scope engagement”.
12. Appendix 2 and the AUASB [Framework for Assurance Engagements](#) provide information on the nature of assurance and non-assurance engagements.
13. Examples of a MSE include:
- (a) A common grant acquittal where the grant agreement might call for independent assurance over historical financial information, such as a statement of income and expenditure statement, *as well as* assurance over compliance with the terms of the grant agreement.
 - (b) A special purpose audit where management requests the auditor to audit the cash statement of the company’s social club and the related internal controls, agree employee leave taken to employee records (an agreed-upon procedure) and provide limited assurance (a review) as to whether leave balances are calculated in accordance with corporate policy.
 - (c) The requirements of the Australian Taxation Office in relation to self-managed superannuation funds – where reasonable assurance is given over historical financial information and over compliance with legislation over a period of time. [See AUASB Guidance Statement, GS 009 *Auditing Self-Managed Superannuation Funds*]
 - (d) An Annual Prudential Reporting Engagement undertaken pursuant to APRA Prudential Standard LPS 310 *Audit and Related Matters* - where the Regulator requires reasonable assurance over the annual return and limited assurance over the existence of, and compliance with, internal controls.⁴
 - (e) A financial licensee’s obligations to lodge an annual report with ASIC – where the Regulator requires, inter alia, reasonable assurance over financial information and the operation of internal controls; limited assurance over statements made by the licensee; and a mixture of reasonable and limited assurance over compliance (over a period of time) with the requirements of the relevant Class Orders. In addition, the Regulator

⁴ See AUASB Guidance Statement, GS 017 *Prudential Reporting Requirements for Auditors of a Life Company*.

prescribes the form and content of the auditor's report (Form FS71). [See AUASB Guidance Statement, GS 003 *Audit and Review Requirements for Australian Financial Services Licensees under the Corporations Act 2001*]

14. Appendix 3 provides further information about these examples.

Specific Issues

15. The AUASB recognises that SSGA and MSE may give rise to specific issues, including:
- (a) Determining which AUASB Standards and requirements are relevant, and how to apply them.
 - (b) Planning and performing the engagement effectively and efficiently to address multiple objectives.
 - (c) Reporting appropriately in compliance with:
 - (i) Relevant AUASB Standards; and
 - (ii) Engagement mandates.
 - (d) Demands for the use of prescribed auditor's reports that are not in accordance with the AUASB frameworks.
 - (e) Difficulties in conducting a MSE that comprises *assurance*, where professional judgement is exercised, and *agreed-upon procedures*, where no professional judgement is exercised.
16. Reporting appropriately may cause particular difficulties when the auditor seeks to combine statements, opinions, conclusions and sometimes factual findings in a single tailored auditor's report. [See paragraph 51 onwards.]

AUASB Standards

17. This GS does not summarise the requirements and approaches contained in the AUASB Standards - it focusses on common practical application issues – see Table 1.
18. In conducting a SSGA or a MSE, the auditor is required to comply with the relevant requirements in (all) the relevant AUASB Standards. The auditor's understanding of the composition of, and user requirements, in the engagement is necessary in determining the relevant AUASB Standards.
19. Although largely focussed on "reasonable assurance" engagements, the auditor exercises professional judgement in appropriately applying the relevant AUASB Standards and the principles described in this GS, where the engagement mandate is to:
- (a) Provide "limited assurance"; and/or
 - (b) Perform agreed-upon procedures.
20. The *relevant* requirements of the AUASB's Standards are to be applied, regardless of the entity's size, legal form, activities or the nature of the engagement, when:
- (a) The terms of the engagement require the auditor to comply with, and report in accordance with, AUASB Standards;
 - (b) A prescribed auditor's report requires the auditor to state that the engagement has been conducted in compliance with AUASB Standards; or
 - (c) A member of an Australian professional accounting body is required to comply with APES 210 *Conformity with Auditing and Assurance Standards*.

21. The AUASB's assurance Standards are to be applied in the context of the AUASB [*Framework for Assurance Engagements*](#).
22. Where the MSE comprises both assurance and non-assurance requirements, the relevant AUASB Auditing Standards, Standards on Reviews and Standards on Assurance are applied to the assurance sections of the MSE and the AUASB Standard on related services (ASRS 4400 *Agreed-upon Procedures Engagements to Report Factual Findings*) is applied to the non-assurance section(s) of the MSE. So too are any other applicable requirements that may exist in other Standards, legislation, regulation or contract.

Definitions

23. For the purposes of this GS the following words and phrases have the meanings attributed below:
- (a) A "grant acquittal" means a requirement of a funding agreement and is performed by the recipient of the funding (the responsible party). An acquittal can take a number of forms such as financial reports/statements, written reports, documentation of activities performed and attestations/declarations by the funding recipient. Some funding agreements require independent assurance in relation to the acquittal, or parts thereof. In this GS, "grant acquittal" denotes the auditor's engagement under the funding agreement.
 - (b) "Mandate" means the requirement, documented or otherwise, for an independent auditor to conduct an audit, other assurance engagement, agreed-upon procedure or combination thereof. Mandates may be prescribed in legislation or regulation; or may be specified by contract or agreement.
 - (c) "Criteria" means the benchmarks used to measure or evaluate the underlying subject matter. An applicable financial reporting framework is an example of "criteria".
 - (d) "Prescribed report" means the form and/or content of the auditor's report is prescribed by a statutory authority, by the terms of a contract or by other applicable mandate.
 - (e) "Prescribed procedures" means procedures that are to be performed by the auditor in accordance with the prescribed requirements of a statutory authority, a contract or other applicable mandate.
 - (f) The term "subject matter information" is used to mean the outcome of the measurement or evaluation of an underlying subject matter against the relevant criteria. [Examples include financial reports, compliance plans and attestations/declarations by responsible parties]
 - (g) Engagement risk is the risk of expressing inappropriate opinions and/or conclusions when the subject matter is materially misstated, including when the subject matter has material deficiencies or deviations or is materially non-compliant.
24. The meanings of other words and phrases used in this GS are those included in the AUASB pronouncements and which are also reproduced in the *AUASB Glossary*.

Summary of the Auditor's Approach to a SSGA and a MSE

25. The fundamental principles and concepts employed in all audits and other engagements are to be applied equally to a SSGA and a MSE. For example:
- (a) The exercise of professional judgement and professional scepticism;
 - (b) Compliance with quality control and ethical requirements;
 - (c) Appropriateness of subject matter and the existence of suitable criteria; and

- (d) The concepts of auditability, materiality, risk, assertions, evidence, assurance, documentation etc.
26. To illustrate the progressive approach to be adopted in conducting a SSGA and a MSE, Table 2 broadly summarises the main phases and steps in an assurance engagement under the AUASB Standards.

Table 2: Broad Summary of the Main Phases and Steps in a SSGA and a MSE in an Assurance Engagement

Main Phases	Steps in an Assurance Engagement	Documentation and Quality Control ⁵
Accepting	- Firm capabilities and ethical requirements, including independence - Determining the acceptability of the engagement and the client relationship - Determining preconditions for the assurance engagement and agreeing the terms - Establishing engagement objectives [subject matter(s); level(s) of assurance; and reporting]	↕ All phases of the Engagement are: <i>Documented in accordance with the requirements of the relevant AUASB Standards;</i> <i>and</i> <i>Subject to quality control policies and procedures that comply with the requirements of the relevant AUASB Standards</i> ↕
Planning	- Understanding the entity to: - identify and assess risks of material misstatement/non-compliance; - set materiality; and - develop the overall strategy and plan the detailed work	
Performing	- Implementing the planned approach to obtain sufficient appropriate evidence - Evaluating evidence obtained	
Reporting	- Forming conclusions - Reporting [expressing the overall conclusion(s)]	

For specific details of the approach and steps involved in an assurance engagement, refer to the relevant [AUASB Standards](#) - Australian Auditing Standards, Standards on Review Engagements and Standards on Assurance Engagements.

Addressing Common Practical Application Issues

Introduction

27. This section of GS 022 provides guidance to auditors on addressing the common practical application issues that commonly arise in SSGA and MSE - see Table 1.

⁵ Quality control and documentation requirements are found in the AUASB Standards comprising: the Australian Auditing Standards, Standards on Review Engagements, Standards on Assurance Engagements and Standards on Related Services. They include, but are not limited to, ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*; ASA 230 *Audit Documentation*; ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*; ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

Overall Strategy for Responding to Issues

28. The most effective approach auditors can adopt to address practical application issues regarding a SSGA and a MSE, is comprehensive planning through:
- (a) Considering separately the engagement mandates, user needs and objectives for each of the different sections of the engagement in order to clearly identify the distinct scoping requirements and relevant AUASB Standards [see Appendix 9];
 - (b) Communicating with relevant parties to clarify uncertainties and resolve issues; and
 - (c) Establishing detailed strategies, plans and efficiencies *only* when there is clarity about each section of the engagement(s).

Preconditions

29. Under the AUASB Standards, the preconditions for each assurance aspect of the MSE engagement are established. In order to determine whether the preconditions for an assurance engagement are present, the auditor:
- (a) Determines whether the criteria are suitable and the financial reporting framework(s) acceptable; and
 - (b) Obtains agreement from management that it accepts responsibility for: the preparation of the entity's reports (subject matter information), internal control and providing the auditor with information and access to personnel.

Terms of Engagement

30. The practical issues discussed below are considered and resolved by the auditor in the context of the auditor's obligations under the AUASB Standards and relevant ethical standards⁶ to confirm the terms of the engagement in writing. Each SSGA and/or separate section of a MSE is included in the engagement letter.
31. The engagement letter is a contract which is required on all engagements conducted by an auditor.⁷ The requirement for an engagement letter is not conditional on the timing of appointment; clarity of mandates and reporting requirements; or the level of fees and costs. However, where law or regulation prescribes the terms of engagement in sufficient detail; and management acknowledges and understands its responsibilities, the auditor need not record the terms in a written agreement.
32. Appendix 4 provides examples of MSE engagement letters.

Practical Issues and Guidance

A. Unclear Engagement Mandates [Ref: Table 1]

33. The key to an effective and efficient approach is for the auditor to think of each SSGA and/or section of the MSE as a separate engagement in its own right and therefore requiring its own planning, performance and discrete file, or section of a file, containing supporting evidence.
34. It is not uncommon for an entity to request a SSGA or a MSE without proper articulation of the engagement requirements. Auditors seek to clarify the requirements, purpose and other

⁶ See ASA 102, *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

⁷ Requirements to agree the terms of engagements are found in:

- The AUASB Standards comprising: the Australian Auditing Standards, Standards on Review Engagements, Standards on Assurance Engagements and Standards on Related Services, ASA 210 *Agreeing the Terms of Audit Engagements*, ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity*, ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*; and
- APES 305 *Terms of Engagement*, issued by the Accounting Professional and Ethical Standards Board.

relevant preliminary details, for each SSGA or discrete section of the MSE prior to accepting the engagement. The auditor's engagement objectives and responsibilities can only be apparent when the engagement mandates are properly understood.

35. The auditor obtains a thorough understanding of all mandates, establishes whether the preconditions are present, management's (the responsible party's) responsibilities and broad engagement scope/objectives before accepting the engagement and agreeing to the terms in writing and before proceeding with the engagement.
36. Of particular importance for the auditor, is clarity about the suitability of criteria and the acceptability of the reporting framework, the auditor's assessment of the acceptability of that framework and management's acceptance of its responsibility to report under that framework. As auditors do not introduce new information about the entity in the auditor's report, it is important for management to disclose the applicable reporting framework, particularly when it is a special purpose framework.

For example: Management is responsible for an accounting policies note to accompany a grant income and expenditure statement (e.g. whether a cash or accruals basis of accounting has been used). Such disclosure may be additional to a prescribed or recommended subject matter report.

37. It is not uncommon for an entity to approach the auditor of the entity's financial report at the completion of that audit with a request to conduct a SSGA or MSE. Regardless of the timing of such a request, the auditor needs to obtain a clear understanding of the mandate(s) and objectives of the SSGA or MSE and to ensure the terms of the engagement are agreed to in writing.
38. In obtaining that understanding, auditors are mindful of the threats to effectiveness and efficiency in conducting the engagement as well as potential non-compliance with AUASB Standards. Planning and performing assurance procedures, and agreed-upon procedures if applicable, are undertaken with an appropriate understanding of the various mandates directing the engagement and establishing that the relevant preconditions required by the AUASB Standards are present.
39. The expected reporting requirements or available reporting options of the SSGA or MSE are an important part of understanding the engagement mandates. See paragraphs 51-78 for further discussion on reporting.
40. Where engagement mandates are defined in out-dated terms, such as is the case in some legislation, regulation or long-standing contracts, the auditor may communicate with the relevant regulator or parties to the contract (the users). The auditor's objective is to clarify user expectations regarding the engagement scope and reporting requirements. Such clarification reconciles out-dated terms with current AUASB frameworks. The auditor may:
 - (a) Determine that an "Other Matter" paragraph in the auditor's report would be an appropriate way to communicate changes in terminology from that used in the engagement mandate to that used in the AUASB Standards.
 - (b) Seek legal advice and when appropriate and possibly seek amendment to the terms of the engagement.
41. The auditor reconciles user expectations with the auditor's capabilities under the legislative environment and AUASB Standards prevailing at the time. In some circumstances, it may be necessary for the auditor to inform users of any relevant restrictions imposed on the auditor so as to reach agreement on the auditor's responsibilities regarding the engagement. In such cases, it may be appropriate for the auditor to include in the auditor's report, additional

explanatory detail regarding the restriction(s). An “Other Matter” paragraph may be used for such additional material.⁸

42. When an auditor is not confident of meeting user expectations or delivering appropriately against the engagement mandate; or is unable to resolve the issue through other means, including additional explanation in the auditor’s report, the auditor declines the engagement unless prevented from doing so by law or regulation. Refer paragraphs 48 and 70 for options when the auditor is not able to decline the engagement.

B. Subject Matter(s) Not Able to be Assured, or Difficult to be Assured [Ref: Table 1]

43. In certain circumstances, an engagement mandate may seek assurance on a subject matter that is unable to be assured, or very difficult to be assured, such as an entity’s future ability to generate a specified level of unencumbered cash or its ability to fund a future project in part or whole. The auditor’s inability to provide assurance ordinarily arises because there is no appropriate subject matter or suitable criteria against which to measure or evaluate (see AUASB’s *Framework for Assurance Engagements*). Furthermore, the responsible party may not be required to provide subject information, such as an attestation statement (e.g. solvency declaration), to the auditor.

44. The auditor may consider:

- (a) Identifying the specific reasons why some or all of the engagement requirements are unable to be achieved.
- (b) Communicating with the relevant regulator or parties to the contract (the users) to determine the precise expectations of the users.
- (c) Communicating with the responsible party to confirm their responsibilities regarding the engagement and to understand their expectations and the subject matter information they intend to provide to the auditor.
- (d) Determining whether users would accept an alternative engagement. This may include, for example:

- (i) An agreed-upon procedure; or
- (ii) Assurance over an alternative subject matter.

For example: Although an auditor may be unable to assure an entity’s *future ability* to generate a specified level of unencumbered cash or fund a future project, the auditor could undertake a reasonable, or limited, assurance engagement over the *historical levels* of unencumbered cash and/or the *reasonableness* of the underlying assumptions used to determine the entity’s business plans, budgets and forecasts. This may be sufficient for the users to form their own conclusion as to the entity’s future abilities. Ordinarily, such assurance work would not necessitate a full audit of the entity’s previous or current financial report and would not constitute the provision of limited assurance over prospective information.

- (e) Exploring effective alternative solutions, including legal and legitimate options that may resolve the issue of dealing with matters that may be unable to be assured.
- (f) Evaluating whether:
 - (i) A disclaimer of opinion over certain subject matter is an appropriate option; or

⁸ See ASA 706, paragraph 8 for information on “Other Matter” paragraphs.

- (ii) Additional explanation in the auditor's report can mitigate possible misunderstanding as to what has *not* been assured and the reasons for the auditor's inability to assure the particular subject matter. [Additional explanation may be located in an "Other Matter" paragraph in the auditor's report.]
 - (g) When alternative arrangements are unable to be made, determining whether the auditor is able to decline the engagement under relevant laws/regulations.
- 45. In communicating with users, it would be necessary for the auditor to inform the relevant parties of the reasons why the auditor is unable to assure a particular subject matter. When a mutual understanding is achieved, the auditor may be able to reach agreement on the auditor's responsibilities regarding the SSGA or MSE and the effect on the auditor's report. Any such agreement is committed to writing so as to comply with standards and to avoid any misunderstanding.
- 46. If the auditor concludes that a disclaimer over specific subject matter or additional explanation in the auditor's report are necessary to comply with the requirements of relevant AUASB Standards, but is prohibited from doing so (say because of an inflexible prescribed reporting regime); or if permitted, are unable to adequately mitigate possible misunderstanding, the auditor does not include within the auditor's report that the audit has been conducted in accordance with (the relevant) AUASB Standards. [See paragraph 67]
- 47. When an auditor determines that the subject matter is not appropriate, the criteria is not suitable or the engagement does not have a rational purpose, the auditor declines the engagement, unless required by law or regulation to accept the engagement.
- 48. When in rare and exceptional circumstances, the auditor is prevented from any of the alternatives described in paragraph 44, and therefore effectively faces an inappropriate engagement, the auditor consults with relevant parties and when necessary seeks legal advice. When considered appropriate by the auditor, the auditor may:
 - (a) Issue a disclaimer of opinion on the basis of a limitation in the scope of the engagement.⁹
 - (b) Issue concurrently, a separate auditor's report to the user(s) that complies with the auditor's obligations under the AUASB Standards and refers to the prescribed report.
 - (c) Write separately to the users, referring to the auditor's report and setting out:
 - (i) The auditor's concerns, including the misleading nature of the prescribed auditor's report, the use of which is mandated;
 - (ii) The reasons for the auditor's predicament, particularly the reporting inconsistency with the auditor's responsibilities under the AUASB Standards and the relevant ethical requirements; and
 - (iii) If applicable, the auditor's inability to obtain evidence to the level of sufficiency and appropriateness considered necessary by the auditor to support the auditor's conclusion as required by the prescribed reporting format.

C. Obtaining Evidence from Third Parties [Ref: Table 1]

- 49. An entity may, in some cases, delegate to a third party some, or all, of the tasks which would be subject to the SSGA or MSE. For example, a portion of grant monies received may be used to engage a third party to perform procedures required under the grant agreement. Any such arrangements do not affect the requirements of the AUASB Standards or the underlying responsibilities of the auditor.

⁹ See ASA 705, paragraphs 9 and 10.

50. In the circumstances described in paragraph 49, the overriding issue for the auditor, is the ability to obtain sufficient appropriate evidence in order to conclude on each of the matters in the scope of the engagement. Table 3 outlines options that may be available to the auditor in different circumstances:

Table 3: Obtaining Evidence from a Third Party

Situation	Auditor's Response
The auditor is given access to the relevant records of the third party and provided with adequate explanations in relation to the work performed by the third party.	The auditor performs the procedures, and obtains adequate explanations, considered necessary by the auditor in order to obtain sufficient appropriate evidence to conclude.
The auditor is given access to the relevant working papers of the third party's auditor and provided with adequate explanations in relation to the work performed by the third party's auditor.	The auditor uses AUASB Guidance Statement, GS 011 <i>Third Party Access to Audit Working Papers</i> to obtain sufficient appropriate evidence with which to conclude.
Where applicable, the auditor is permitted to request the third party's auditor to perform the procedures considered necessary by the auditor; and to report thereon accordingly.	The auditor instructs the third party's auditor in accordance with the relevant AUASB Standard(s). For example, in the case of an audit of historical financial information, paragraph 2 of ASA 600 <i>Special Consideration—Audits of a Group Financial Report (Including the Work of Component Auditors)</i> , is applied, as appropriate, to obtain sufficient appropriate evidence with which to conclude.
The entity uses a service organisation and a report on controls under ASAE 3402 is available from the service organisation	The auditor complies with the requirements of ASA 402 <i>Audit Considerations Relating to an Entity Using a Service Organisation</i> in using the report issued by the service organisation's auditor
Sufficient appropriate audit evidence is not available.	The auditor considers the effect on the auditor's report.

D. Determining Reporting Responsibilities [Ref: Table 1]

51. An auditor's responsibilities and associated procedures, to obtain a clear understanding of reporting responsibilities for a SSGA or a MSE are no different from those in any other engagement. The auditor obtains an understanding of the auditor's reporting responsibilities at the accepting and planning stages of the engagement, including whether the auditor's report is prescribed or not prescribed.
52. The following guidance aims to illustrate the *principles* of reporting particularly when the auditor determines that issuance of a single-form auditor's report, incorporating the different sections of the MSE, is most effective and efficient in the circumstances of the specific engagement.

Overview

53. When reporting on a SSGA or a MSE, the auditor's objectives are the same as when reporting on other assurance engagements, namely to:

- (a) Form overall opinions and/or conclusions based on evaluation of conclusions drawn from evidence obtained.
 - (b) Express overall opinions and/or conclusions clearly in a report that also describes the basis for the opinions and/or conclusions.
 - (c) Reduce engagement risk to an appropriate level.
 - (d) Ensure the auditor's report complies with relevant AUASB Standards and other applicable reporting requirements, including when the auditor's report:
 - (i) Is modified (qualified opinion, adverse opinion, disclaimer of opinion or includes an emphasis of matter paragraph or other matter paragraph); and
 - (ii) Contains supplementary reporting information such as a detailed list of minor instances of the entity's non-compliance with specified regulation that have been identified by the auditor.
 - (e) Ensure that the auditor's report is not misleading in the context of the specific engagement circumstances.
54. In expressing opinions and conclusions, the auditor uses the appropriate form of expression in the context of the applicable reporting framework and the relevant AUASB Standards.
- For example: Where a SSGA or a MSE report comprises a special purpose financial report (SPFR) and an entity's attestation on compliance with legislation, regulation or the terms of a contract, the auditor conforms with the reporting requirements in ASA 700 and ASA 800 regarding the SPFR; and ASAE 3000 and ASAE 3100 regarding the compliance section.
- Users*
55. Concurrently with procedures to understand the engagement mandates, the auditor performs procedures to identify users of the entity's report(s) and the auditor's report(s). Identification of users assists the auditor to determine the nature (form) of the auditor's report(s), including:
- (a) Whether there is a requirement to alert users of the special purpose of the entity's report; and/or
 - (b) Whether to restrict distribution of the auditor's report.
56. In the case of a grant acquittal or other contractual arrangement, the users are ordinarily the parties to the grant agreement or other contract. The signatories to the agreement(s) and the parties they represent, should provide a clear indication of the users.
- For example: Where a grant is given to a company by a government department, the signature of the CEO, or other authorised staff, on the grant agreement, indicates that one group of users is the board of directors acting on behalf of the company that receives the grant. The signature of a government Department Head, authorised officer/delegate or notices within the funding agreement, indicate that the other user group is the government department providing the funds.
57. Where identification of users is not straightforward, the auditor discusses the matter with the party engaging the auditor. When such communication does not yield sufficient detail on identifying users, the auditor contacts the other party to the contractual arrangement or the regulator(s) responsible for each separate engagement mandate.
58. When communicating with users, the auditor considers whether it is appropriate to inform users that they do not "own" or "direct" the audit and that auditor independence is a fundamental concept of audit and assurance.

Reporting when the Auditor's Report(s) is not Prescribed

59. When the form and content of the auditor's report is *not* prescribed by the engagement mandate, the auditor complies with the reporting requirements of the relevant AUASB Standards. The auditor may choose to:
- (a) Provide multiple reports, separately for each subject matter and/or level of assurance;¹⁰
 - (b) Issue a single-form multi-scope report—i.e. a single-form report that identifies each different subject matter and level of assurance of the MSE; or
 - (c) A combination of (a) and (b). Table 4 illustrates this option where the auditor decides to issue a single-subject report addressing one subject matter *and* a single-form multi-scope auditor's report covering the remaining subject matters:

Table 4: Example of auditor reporting (see paragraph 59(c) above)

Subject Matters	Reporting under AUASB Standard
First Auditor's Report – single subject	
Audit of an historical financial report	Auditor's report in accordance with ASA 700 <i>Forming an Opinion and Reporting on a Financial Report</i> or ASA 800 <i>Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i> , as applicable
Second Auditor's Report – multi-scope	
Part A, audit of a single statement of grant income and expenditure	Report in accordance with ASA 805 <i>Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>
Part B, reasonable assurance on the entity's compliance with the terms of a grant agreement	Report in accordance with ASAE 3100 <i>Compliance Engagements</i>
Part C, limited assurance on a statement of employee numbers required under a grant agreement	Report in accordance with ASAE 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>

Examples of how the 2 auditor's reports described above might be presented are demonstrated in Appendix 6, Illustrations 2(a) and 2(b).

60. In choosing whether to issue multiple reports or a single-form report, the auditor considers:
- (a) any relevant requirements of the engagement mandate;
 - (b) user needs;
 - (c) the requirements of any other relevant standards; and
 - (d) reporting effectiveness and efficiency.

¹⁰ This GS does *not* address multiple auditor's reports that individually address different subject matters and/or levels of assurance—the auditor simply complies with the reporting requirements of each applicable AUASB Standard.

61. Where the auditor intends to issue a single-form MSE report, the auditor designs a unique report developed according to the circumstances, and which incorporates the reporting requirements of the relevant AUASB Standards as well as any reporting mandates, such as relevant requirements of a grant funding agreement.
62. In developing a unique single-form MSE report, the auditor seeks efficiency by avoiding repetition through blending similar reporting requirements when appropriate, but without blurring the different sections of the MSE.

For example: A single paragraph could be used to describe management's responsibilities for the various subject matters, rather than several, and in parts repetitive, paragraphs describing management's responsibilities for each subject matter.

Other Reporting Responsibilities

63. Auditors satisfy themselves as to whether there are any other reporting obligations under legal and regulatory requirements.
64. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the entity's relevant financial, or other, reports that, in the auditor's judgement, is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor considers use of an "Other Matter" paragraph in the auditor's report.¹¹
65. If the auditor addresses other reporting responsibilities that are in addition to the auditor's responsibilities under the AUASB Standards, the auditor considers use of a separate section of the report titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate.¹²

E. Prescribed Reporting [Ref: Table 1]

66. In some circumstances, the form and/or content of the auditor's report is prescribed and in some cases, may include a prohibition on modified opinions. In such cases, the auditor compares the prescribed report with the reporting requirements of the relevant AUASB Standards. This comparison, taken together with the auditor's ability, if any, to remedy any reporting issues, is an important part of the engagement acceptance procedures.
67. Although applicable to audits under the Australian Auditing Standards, the following extracts are consistent with requirements under ASAE 3000 and provide helpful guidance on the considerations to be applied regardless of which AUASB Standards apply:

- (a) Extract from ASA 210 *Agreeing the Terms of Audit Engagements*:¹³

In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of the Australian Auditing Standards. In these circumstances, the auditor shall evaluate:

- (a) *Whether users might misunderstand the assurance obtained from the audit of the financial report and, if so,*
- (b) *Whether additional explanation in the auditor's report can mitigate possible misunderstanding.*

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in

¹¹ See ASA 706, paragraph 8.

¹² See ASA 700, paragraph 38.

¹³ See ASA 210, paragraph 21.

accordance with such law or regulation does not comply with Australian Auditing Standards. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with Australian Auditing Standards.

- (b) Extract from ASA 700 *Forming an Opinion and Reporting on a Financial Report*:¹⁴

If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout or wording of the auditor's report, the auditor's report shall refer to Australian Auditing Standards only if the auditor's report includes, at a minimum, each of the following elements:

- (a) *A title;*
- (b) *An addressee, as required by the circumstances of the engagement;*
- (c) *An introductory paragraph that identifies the financial report audited;*
- (d) *A description of the responsibility of management (or other appropriate term, see paragraph 24 of this Auditing Standard) for the preparation of the financial report;*
- (e) *A description of the auditor's responsibility to express an opinion on the financial report and the scope of the audit, that includes:*
 - *A reference to Australian Auditing Standards and the law or regulation; and*
 - *A description of an audit in accordance with those Standards;*
- (f) *An opinion paragraph containing an expression of opinion on the financial report and a reference to the applicable financial reporting framework used to prepare the financial report (including identifying the jurisdiction of origin of the financial reporting framework that is not Australian Accounting Standards and, where applicable, Australian law or regulation);*
- (g) *The auditor's signature;*
- (h) *The date of the auditor's report; and*
- (i) *The auditor's address.*

68. When an auditor determines that the prescribed reporting requirements do not align with, or conform to, the requirements of the relevant AUASB Standards, the auditor, as appropriate:
- (a) Communicates with the relevant authority, individual or group, seeking agreement to amend the prescribed auditor's report such that it conforms to AUASB Standards.
 - (b) Issues an alternative report that complies with the requirements of the AUASB Standards. This option is considered especially when the auditor has experience with the relevant party having accepted such alternative auditor's reports in the past.
 - (c) Communicates any matters described in paragraph 67 above that may be deficient in the prescribed auditor's report, through an "Other Matter" paragraph.
69. Prescribed financial reporting formats may, for example, not include reference to management's responsibilities for the preparation of the entity's reports (financial, non-financial). In such cases, an "Other Matter" paragraph can be used to describe management's responsibilities. When the auditor is unable to redress issues with prescribed reporting

¹⁴ See ASA 700, paragraph 43.

requirements by appropriate application of the principles or procedures conveyed above, the auditor declines the engagement, unless required by law or regulation to accept the engagement.

70. When the auditor is not able to decline the engagement and is prevented from amending or adding to a prescribed auditor's report, the auditor has been prevented from exercising professional judgement as required by the AUASB Standards. Accordingly, the auditor consults with appropriate parties and when necessary seeks legal advice. When considered appropriate by the auditor, the auditor may, in the circumstances, be able to:
- (a) Issue a modified auditor's opinion or conclusion statement in accordance with the relevant AUASB Standards.
 - (b) Issue *concurrently* and preferably accompanying the prescribed auditor's report, a separate auditor's report to the user(s) that complies with the auditor's obligations under the AUASB Standards.
 - (c) Write separately to the user(s,) referring to the specific prescribed auditor's report and setting out:
 - (i) The auditor's concerns, including the misleading nature of the prescribed report;
 - (ii) The form and content of a report under the relevant AUASB Standards;
 - (iii) The reasons for the auditor's predicament, particularly the reporting inconsistency with the auditor's responsibilities under the AUASB Standards and relevant ethical requirements; and
 - (iv) If applicable, the auditor's inability to obtain evidence to the level of sufficiency and appropriateness considered necessary by the auditor to support the auditor's conclusion as required by the prescribed reporting format.
71. Appendix 7 provides further considerations relating to prescribed auditor's reports.

F. Prescribed Scopes and/or Procedures [Ref: Table 1]

72. In some SSGA or MSE, certain procedures and/or scopes may be prescribed by a relevant party, such as a regulator or the provider of grants.

Assurance

73. Prescribed procedures may be considered by the relevant party to be necessary to meet a specified assurance objective.

For example: In the audit guidance material¹⁵ issued by the Department of Health and Ageing, the Regulator sets out its expectations of the auditor and the information that auditors are expected to consider in the conduct of their audit.

74. When prescribed scopes and/or procedures are a prerequisite to a SSGA or MSE, the auditor:
- (a) Preserves the auditor's independence and professional judgement in determining the extent, timing and scope of audit procedures—a fundamental principle underpinning the value of independent assurance. This is achieved by the auditor determining whether the prescribed scopes and/or procedures:
 - (i) Will enable the auditor to obtain sufficient appropriate evidence to meet the *auditor's* objectives; or

¹⁵ See [Guide to Audit of the Approved Provider's Compliance with the Prudential Requirements for 2012-13](#)

- (ii) Will need to be incorporated into procedures determined by the auditor as necessary to meet the *auditor's* objectives; or
 - (iii) Are additional to the procedures determined by the auditor to be necessary to meet the *auditor's* objectives.
 - (b) Determines the auditor's reporting responsibilities, if any, in regard to the prescribed scopes and/or procedures.
 - (c) Assesses whether the auditor is reasonably confident that the auditor will be able to discharge their responsibilities regarding the prescribed scopes and/or procedures.
75. The auditor does not accept the engagement, unless required to by law or regulation, if the auditor is unable to meet the prescribed scopes and/or procedures. This situation may arise, for example, where the auditor's independence will be compromised, the prescribed scope is not able to be assured, or the prescribed procedures are unable to be performed.

Agreed-upon Procedures (no assurance)

76. Prescribed procedures, on the other hand, may not be considered by the relevant party as necessary to meet a specified *assurance* objective. Consequently, prescribed procedures are treated as agreed-upon procedures with factual findings reported accordingly. The auditor communicates this to the relevant party and ensures that the engagement letter correctly reflects how the prescribed procedures will be addressed by the auditor. In these circumstances, where the auditor intends to restructure a prescribed report, the auditor communicates this intention to the relevant parties.

Acceptance

77. Where the auditor is required by law or regulation to accept an engagement that the auditor would otherwise not accept, the auditor considers the guiding principles described at paragraphs 48 and 70.

G. Performing SSGA and MSE concurrently with the Statutory Audit [Ref: Table 1]

78. Auditors commonly receive a late request from the entity to perform a SSGA or a MSE, when they are conducting the statutory audit. The auditor then considers whether, and if so to what extent, audit work completed on the statutory audit can be applied to the SSGA or MSE.
79. When considering how to address the additional engagement, the auditor follows the requirements in the relevant AUASB Standards:
- (a) Acceptance – including preconditions, agreeing terms, additional fees and an engagement letter;
 - (b) Planning – including potential use of work completed for other purposes, such as the statutory audit;
 - (c) Performance – including a separate representation letter;¹⁶ and
 - (d) Reporting – including the form and content of the auditor's report(s).
80. Where any such engagements are identified at the acceptance stage of the financial report audit, the auditor considers the potential for concurrent work and plans accordingly.
81. As the mandates, objectives, users, reporting frameworks etc., differ for each distinct subject matter, so the detailed work plans will differ. It is only at the engagement planning stage where the auditor finalises the engagement strategy and detailed plans, that using work performed on one section of the engagement for use on another, can be *planned*.

¹⁶ See Appendix 5 for an example of a management representation letter for a MSE.

82. Using assurance procedures for multiple purposes can be achieved by appropriate planning, such as:
- (a) Arranging the scope of procedures in areas that are common to the overall engagement generally and using the evidence for multiple purposes.

For example: When the auditor undertakes procedures to “understand the business” and to “assess risk”, the auditor may design procedures, performed concurrently, that appropriately address the SSAGA and/or each of the distinct sections of the MSE. This approach enables the auditor to avoid returning unnecessarily to these planning stages.
 - (b) Utilising the common practice of “dual-purpose” testing such as, substantive tests of detail that can also be used as evidence of the operating effectiveness of internal control.
 - (c) Avoiding the double-handling of the entity’s records.

For example: The auditor may choose to:
 - (i) Use the same records to concurrently obtain *different* sample selections to perform different procedures to achieve different objectives for different sections of the engagement.
 - (ii) Combine into one work programme, several procedures that:
 - ◆ Utilise the *same* sample selections from the entity’s records.
 - ◆ Are designed to meet different substantive test objectives for different sections of the SSAGA or MSE.
 - ◆ Are to be performed concurrently.
83. Where the auditor decides to adopt a concurrent approach to meet differing engagement objectives, care is taken with, in particular:
- (a) Utilising materiality levels that are appropriate for each objective where work is performed simultaneously.

For example: To utilise a materiality level based on an entity’s annual financial statements as a whole would be inappropriate for performing tests of a specific type of expenditure in accordance with a grant contract. [See discussion on materiality at paragraph 92-105]
 - (b) The nature of testing procedures that relate to the auditor’s specific objectives.

For example: The results of a substantive (representative) sample from a financial population that uses a statistical method driven by the cumulative monetary amount could not be a substitute for attribute sampling seeking pre-determined confidence rates regarding the performance of internal control.
 - (c) Appropriate audit documentation supporting the different audit objectives, procedures, results and assessments. [See also paragraphs 87 - 88]
- H. SSAGA or MSE Reporting Periods Differ from the Entity’s Financial Reporting Period**
[Ref: Table 1]
84. The date of the annual financial report may differ from the relevant date for the other assurance requirements. This scenario does not prevent use, at least in part, of some evidence for the overlapping period; however, additional work would be necessary to achieve the planned approach for the other assurance requirements.

For example: Assuming the nature of the tests are appropriate to meet differing objectives, substantive tests performed in the annual statutory audit to (say) 30 June may be used in a SSGA or a MSE to (say) 30 September. The auditor extends the tests for the period 1 July to 30 September; however, the tests already performed in the statutory audit are efficiently used for two or more purposes.

85. When deciding on additional work to cover a period that extends beyond the work already performed, the auditor ordinarily considers matters such as:
- (a) Whether the objectives and procedures already performed are appropriate for the additional work;
 - (b) Any significant changes that have occurred in the subject matter since the previous work was completed;
 - (c) The need to update the auditor's risk assessment for the additional period, including any potential cut-off issues;
 - (d) The possibility and practicality of testing internal control in order to reduce substantive procedures for the extended period;
 - (e) Choosing the most appropriate substantive procedures – substantive analytical procedures versus tests of detail; and
 - (f) Other core considerations such as materiality levels and the availability of evidence.
86. Whenever the auditor seeks efficiencies through using work from other engagements, it is essential that the auditor determines that the work performed and the evaluation of that work is sufficient and appropriate to meet the objectives of the SSAG and/or each separate section of the MSE. Otherwise there will be a significant risk that the auditor will not obtain sufficient appropriate evidence to support each objective.

Documentation

87. Whenever leveraging work effort is achieved, the auditor determines that the engagement files contain appropriate documentation to support the conclusions on the SSGA and/or each distinct section of the MSE. It is not appropriate to assume that because evidence is documented in one file, or part of a file, that documentation requirements have been met for the SSGA and/or all sections of the MSE.
88. Cross referencing between files, or within the same file, may be appropriate but each file, or part of a file, should provide the requisite documentation to support the relevant conclusion. Cross-referencing or copying working papers contained in one file, or section of a file, for inclusion in another file, or part of a file, is an efficient documentation technique that enables each file, or section of a file, to be complete. Copied working papers should be properly labelled to clearly show each relevant section of the engagement, or engagement objective to which they apply. The working papers in each file, or part of a file, include evidence of review by a more senior person and, where applicable, evidence of quality assurance procedures having been performed.

I. Performing SSGA or MSE when *not* the Auditor of the Entity's Annual Financial Report [Ref: Table 1]

89. In the context of the approach outlined in Table 2, an auditor who is *not* the auditor of the entity's annual financial report pays particular attention to the "accepting" phase of the engagement.
90. This particular focus is because the auditor may have little or no knowledge of the entity or its environment, nor will the auditor have undertaken a (recent) risk assessment, all of which are required in an audit undertaken in accordance with the AUASB Standards.

91. The following points are intended as a prompt of some of the more important considerations that an auditor, who is not the auditor of the entity's annual financial report, may consider:
- (a) Firm Capabilities
 - (i) The partner's and team members' knowledge and experience relating to the proposed SSGA and MSE. In assessing this, the engagement mandates need to be thoroughly understood.
 - (ii) The firm's ability to comply with relevant laws, professional, ethical and technical Standards as well as any other requirements stipulated in the engagement mandates.
 - (iii) The firm's quality control policies and procedures at both firm and engagement levels.
 - (b) Engagement Acceptance and Client Relationship
 - (i) The rationale/purpose for the engagement.
 - (ii) Appropriate subject matter and suitable criteria.
 - (iii) Appropriate level of assurance in the circumstances.
 - (iv) The availability of information necessary to perform the engagement.
 - (v) The integrity of management and/or those charged with governance (TCWG).
 - (vi) Any restrictions or limitations in the scope of the engagement.
 - (vii) Any risks/threats to the auditor's reputation or compliance with relevant laws and standards. Particular attention is paid to "independence" and any prescribed reporting and/or prescribed scope/procedures.
 - (c) Objectives
 - (i) The auditor separates the engagement into its different sections for each level of assurance and each subject matter so as to obtain a clear understanding of the specific assurance and reporting objectives for each section.
 - (ii) Of particular importance is developing preliminary objectives and strategies on how to perform procedures to gain an understanding of the entity and its environment; and how to perform appropriate risk assessment procedures.
 - (d) Preconditions for the Assurance Engagement
 - (i) Determining whether the criteria, such as the financial reporting framework, to be applied by management, or TCWG, is/are acceptable/suitable (in relation to the mandate(s) and the intended users).
 - (ii) Obtaining agreement from management/TCWG, that they acknowledge their responsibilities for:
 - ◇ The preparation of reports in accordance with the relevant mandate(s);
 - ◇ For such internal control as management/TCWG determine is necessary to enable the preparation of the report(s) that are free from material misstatement; and
 - ◇ Providing the auditor with:
 - Access to all relevant information;

- Additional information as requested; and
- Unrestricted access to personnel.

(e) Agreeing the Terms of the Engagement

- (i) The auditor agrees the terms of engagement with management, or TCWG, as appropriate.
- (ii) The terms of engagement are in writing, tailored to the circumstances, and comply with the requirements of the relevant AUASB Standards. The engagement letter clearly identifies the SSGA and the different sections of the MSE.
- (iii) Without clarity about the SSGA and the exact sections of the MSE, including the related reporting, there is a significant risk of:
 - ◇ Misunderstanding between the auditor and management/TCWG; and
 - ◇ The engagement team performing the engagement either ineffectively (by not fulfilling the appropriate requirements); or *inefficiently* (by performing unnecessary procedures).
- (iv) The various users of the entity's reports (other than general purpose financial reports) are identified in the engagement letter and consequently, the related auditor's report. This is particularly important where reporting is for a "special purpose", such as an application for a licence.
- (v) An example of an engagement letter for a MSE is set out in Appendix 4.

J. Setting Materiality [Ref: Table 1]

92. The requirements and underlying concepts relating to materiality are found in the relevant AUASB Standards¹⁷ and they apply equally to a SSGA or a MSE.
93. In determining materiality levels, auditors exercise professional judgement by considering *qualitative* and *quantitative* factors, including reasonable expectations of issues that would likely influence the decisions of users.
94. For assurance purposes, materiality is determined in order to establish:
 - (a) A tolerable level of misstatement, deficiency, deviation or non-compliance of the subject matter (which may be in the entity's reports);
 - (b) The scope of assurance work to be performed; and
 - (c) A reasonable basis for evaluating identified misstatements, deficiency, deviation or non-compliance.
95. Given the objectives of setting materiality levels described in paragraph 94, the auditor of a SSGA or MSE develops *separate* materiality levels for each of the sections of the engagement.

Example 1: Developing Separate Materiality Levels

The **entity** is required to report the following to a regulator:

- Its annual financial performance and position (a financial report/statement);

¹⁷ See ASA 320 *Materiality in Planning and Performing an Audit*; ASRE 2400; ASAE 3000; and ASAE 3100.

- Specified non-financial information in a prescribed format (a statistical return); and
- Its compliance with prudential standards (a compliance statement).

The **engagement team** may, for example, set materiality levels for this MSE, by adopting the following approach:

- (a) For the *financial report*, materiality would be set under ASA 320 in the same manner as any other audit of a financial report.
- (b) For the *statistical return*, the auditor may use multiple materiality levels by using each recorded information on the statistical return as the basis for setting materiality for that particular information, for example:

To obtain sufficient appropriate evidence concerning:

- (i) The number of employees recorded in the return, materiality might be set at an appropriate percentage of the recorded number of employees.
- (ii) The number of insurance policies written in the year, materiality might be set at an appropriate percentage of the recorded number of policies written.

In setting these differing materiality levels, the engagement partner takes into consideration qualitative and quantitative factors; and the risk of issuing an inappropriate report. The engagement partner is satisfied with the level of work done when opining that "...the statistical return (i.e. *all* its component parts) has been prepared, *in all material respects*, in accordance with..."

[See ASA 805 paragraphs 10 and A10-A14; and ASA 200 paragraph 2 (the auditor applies Australian Auditing Standards relevant to the audit as necessary in the circumstances of the engagement.)]

- (c) For the *entity's compliance statement*, the auditor may judge that every item, and its component parts, reported by the entity in the statistical return, are material. Compliance may be a simple "yes" or "no" with *all* instances of non-compliance to be reported to the regulator by the auditor. [See paragraph 100 for further discussion and ASAE 3000 paragraphs 44 and A92-A100.]

96. A variation on the above example is where the *statistical return* includes financial information as well as non-financial information.

Example 1.1: Developing Separate Materiality Levels (cont'd)

The **entity** is required to report as described in Example 1 above. However, the *statistical return* comprises both financial and non-financial information.

The **engagement team** may place emphasis on qualitative factors and set multiple materiality levels for the *statistical return* element of the MSE, by adopting a combination of methods, for example:

Non-Financial Information:

- (a) As described in Example 1 (see above and ASAE 3000).

Historical Financial Information:

- (b) For historical financial information extracted from audited financial information (such as a SPFR), the engagement partner may:
 - (i) Determine that the materiality levels used in the audit of the SPFR are acceptable/suitable for the purposes of the statistical return; or
 - (ii) Establish new materiality levels:
 - ◇ In accordance with the principles espoused in ASA 320; or
 - ◇ Based on the amounts recorded in the statistical return.

Prospective Financial Information:

- (c) For prospective financial information, materiality may be set with reference to the principles and guidance provided in ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

In setting these differing materiality levels, the engagement partner takes into consideration the risk of issuing an inappropriate report. The engagement partner is satisfied with the level of work done when opining that "...the statistical return (i.e. *all* its component parts) has been prepared, *in all material respects*, in accordance with..."

- 97. Whatever approach is taken in setting materiality levels, the engagement partner is required under the AUASB Standards to consider that misstatements, deficiencies, deviations or non-compliance, and omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the information.
- 98. In setting materiality levels, regardless of the subject matter or level of assurance, the engagement partner reduces risk to an acceptable level in the circumstances of the assurance engagement.

Exception Reporting

- 99. As indicated in Example 1 above, the engagement requirements may ask for reporting of all exceptions identified in the course of the engagement. The criteria for any such reporting are established during the engagement planning stage. For example, if *every* instance of non-compliance is to be reported to the Regulator, the auditor:
 - (a) Clarifies the exact requirements—to report all instances of non-compliance *identified* during the assurance engagement is not the same as designing an assurance engagement to *identify all* instances of non-compliance.
 - (b) Clarifies the auditor's reporting requirements, including any prescribed reports—where the phrase: "...in all material respects..." is included in the auditor's opinion (or conclusion).
 - (c) Clarifies whether the auditor is expected to include in the auditor's report, all instances of non-compliance (already) reported by the entity, or whether the auditor's report should include only those instances of non-compliance that the auditor has identified and that the entity has yet to report to the Regulator.
 - (d) Where the auditor's responsibilities are unable to be clarified in terms of the matters set out in (a) to (c) above, the auditor communicates with the appropriate user of the auditor's report to obtain clarification.

- (e) Considers the principles in ASA 700 which provides for the auditor's report to include a *separate section* for "Other Reporting Responsibilities".¹⁸
- 100. Commonly, an auditor is expected to report all instances of non-compliance *identified* during the assurance engagement. Where this is the case, the concepts of setting materiality in accordance with the relevant AUASB Standards for the purposes of performing the audit or review, remain unchanged – that is, to determine the scope of the assurance work to be performed. However, materiality is *not* used to determine the scope of reporting non-compliance because *all* identified instances of non-compliance must be reported.
- 101. Appendix 8 provides an example of reporting instances of non-compliance identified during the audit.

Materiality and Reporting

- 102. In certain circumstances, the audit mandate, or a prescribed auditor's report, may require reporting that uses precise terms such as "...is correct". This suggests that "materiality" is not to be applied by the auditor and that the subject matter is audited in its entirety (i.e. the auditor's objective is *absolute* assurance). Such exacting terms are not used in the context of audit and other assurance engagements are *not* in accordance with AUASB Standards and if used in this context, are in fact misleading.
- 103. The AUASB *Framework for Assurance Engagements* provides a structure supporting only "reasonable assurance" and "limited assurance", not *absolute* assurance. This is due to factors such as:¹⁹
 - (a) The use of selective testing.
 - (b) The inherent limitations of internal control.
 - (c) The fact that much of the evidence available to the auditor/assurance practitioner is persuasive rather than conclusive.
 - (d) The use of professional judgement in gathering and evaluating evidence and forming conclusions based on that evidence.
 - (e) In some cases, the characteristics of the underlying subject matter when measured or evaluated against the criteria
- 104. As described in earlier sections of this GS, the auditor communicates with the entity and the user to clarify expectations. Such communication will serve to inform all parties concerned and enable clarification of the auditor's responsibilities under the AUASB Standards and the auditor's objectives which in turn will drive the auditor's procedures and ultimately the auditor's report.
- 105. In these cases, communications among the relevant parties would be expected to lead to:
 - (a) An amendment to the scope of the engagement, such as the addition of agreed upon procedures which enable the auditor to report factual findings and where, if insisted upon by the user, terms like "...are correct" may not be misleading. Any such arrangement would need to be reflected in the terms of the engagement documentation and would ordinarily attract additional fees.

The auditor considers the matters discussed in paragraphs 72-77 (Section F).
 - (b) Clarification of the issues described in paragraphs 99-100.

¹⁸ See ASA 700, paragraphs 38 and 39.

¹⁹ See *Framework for Assurance Engagements* paragraph 72 (and also paragraphs 92-onwards on "Materiality")

K. Cost Allocations [Ref: Table 1]

106. Commonly in grant acquittals, it is necessary for the auditor to obtain sufficient appropriate evidence in relation to the entity's allocation of costs, such as overheads and labour, to the specific project(s) covered by the grant.

Ordinarily, the auditor establishes, among other things:

- (a) What constitutes "eligible expenditure" specific to the particular grant;
- (b) How to determine what is acceptable eligible expenditure; and
- (c) The criteria that the entity uses to allocate expenditure to the specific project to which the grant applies.

The grant agreement may provide some of the information and definitions required, however, if this is not the case, the auditor may find relevant details in the documentation that supports the entity's grant application.

107. It must be remembered that the entity receiving the grant is responsible for proper accounting under the terms of the grant agreement, not the auditor. The auditor's responsibilities are to be objective, exercise professional judgement, maintain professional scepticism and obtain sufficient appropriate evidence with which to conclude (on cost allocations).
108. The auditor considers the auditor's understanding of the engagement mandate and its requirements, and the entity's approach, procedures and internal control for allocating costs to the specific project/subject matter concerned. As with all aspects of a SSGA or a MSE, it is preferable to consider each section separately.
109. The auditor may adopt a full substantive approach by testing the elements and computations of the entity's calculations. Alternatively, the auditor may choose a combination of procedures by auditing the entity's internal control that is designed to ensure proper allocation of costs to specific projects together with supporting substantive procedures. In deciding the approach, the auditor refers to any relevant requirements that may be included in the engagement mandate.
110. However, the entity may not have consistently applied suitable criteria, or adopted a structured, or formal, approach to cost allocation. It is not uncommon for an entity to use an arbitrary approach. In such cases, the auditor:
- (a) Assesses the suitability of the criteria used for cost allocations.
 - (b) Obtains an understanding of the entity's methods of to cost allocation.
 - (c) Assesses the efficacy of the approach used by, for example, comparison with a reasonable model developed by the auditor.
 - (d) Asks the entity to provide the base information and calculations of a reasonable model.
 - (e) Failing the entity's ability or co-operation to support their cost allocation, attempts to obtain the basic information and develop a reasonable model that can be used to assess the reasonableness of the entity's method(s).
 - (f) Where the auditor is unable to obtain sufficient appropriate evidence to support the entity's allocation, the auditor:
 - (i) Communicates with those charged with governance; and
 - (ii) Considers the effect on the auditor's report.

L. Substantive Procedures (Assurance Engagements) [Ref: Table 1]

111. Due to the nature of a SSGA or a MSE, determining the appropriate substantive procedures, including the use of sampling, and the extent of work to be performed, may present difficulties. In such cases, the auditor returns to basic principles, namely:
- (a) Confirming any relevant requirements in the engagement mandate, such as:
 - (i) Procedures that may be necessary to assess and report on compliance with a grant funding agreement.
 - (ii) Requirements to perform and report on (unspecified) tests of detail on specified categories of expenditure.
 - (iii) The existence of prescribed procedures that an auditor is required to perform and report on. [See paragraphs 72-75]
 - (iv) Procedures considered necessary to detect and report weaknesses in internal control, or breaches/non-compliance with laws, regulations or the terms of a contract/agreement.
 - (v) Procedures considered necessary to support communications with management and those charged with governance.
 - (b) The MSE is considered in terms of each distinct section. This facilitates clear understanding of:
 - (i) The relationship and relevance of each section to other sections in the MSE; and
 - (ii) Specific objectives, strategies and work programs to address each specific objective in the context of materiality and reliance on (tested) internal control.
 - (c) Once this clarity of (specific) purpose is established, selecting the appropriate timing, nature and scope of substantive procedures is no different from any other type of engagement.
 - (d) Uppermost is the requirement for sufficient appropriate evidence with which to conclude. The extent of substantive procedures to obtain evidence can be reduced where reliance can be placed on the results of testing the design and operating effectiveness of relevant internal controls. Care is taken that control reliance is obtained only in respect of assertions addressed by controls that have been tested. Where a relevant assertion has not been addressed by a control, or a control test has failed, the extent of the auditor's substantive procedures is increased.
 - (e) Ordinarily, substantive analytical procedures²⁰ (SAPs) are considered first because of the potential for efficiencies and effectiveness. SAPs are most useful in dealing with large populations and where reliable data can be used to develop sufficiently precise predictions/expectations. Analytical procedures include techniques to prove a population in total, and the use of computer-assisted techniques, such as data analytics.
 - (f) Where SAPs are not likely to be efficient or effective, the alternative tests of detail is required. Again, the auditor considers efficiency and effectiveness in determining the nature, timing and extent of procedures.

²⁰ See ASA 520 *Analytical Procedures*.

- (g) Where sampling is chosen to obtain substantive evidence²¹ from which to draw reasonable conclusions, the auditor clarifies the sampling objectives in order to choose the appropriate sampling approach/technique, namely:

- (i) Representative sampling is used when the size of the population is large and the characteristics of the population are reasonably homogeneous – samples can be used appropriately to draw conclusions about the entire population.

Samples can be selected by

- ◇ Statistical methods, which provide a structured approach to evaluating results; or
- ◇ Non-statistical methods, including judgemental selection, the results of which may, however, be difficult to evaluate in terms of drawing a conclusion on the entire population sampled.

- (ii) Stratification sampling is used when the auditor divides a population into items with different characteristics, such as those with (high) values over a particular amount and those falling below the amount.

The auditor tests *all* the items with a particular characteristic (such as those with high values). This type of sampling is commonly used in populations where the auditor can easily select and test a small number of items which account for a majority of the entire population from which they were selected.

The remaining items in the target population, having different characteristics, such as those with low values, may be subjected to representative sampling (see (i) above).

- (h) Care must be exercised when the auditor intends to use substantive tests for more than one purpose.

For example: Payroll testing designed, in combination with tests of internal control, to obtain sufficient appropriate evidence for one section of a MSE, say, the audit of a financial report may not be appropriate to conclude on another section of the MSE, say, compliance with laws over a period of time.

- (i) Regardless of the procedures adopted by the auditor, the auditor obtains sufficient appropriate evidence from which to draw conclusions in relation to each section of the engagement irrespective of the level of disaggregation of that information.

Controls

- (j) For information on testing controls, see ASAE 3150 Assurance Engagements on Controls.

M. Concluding and Reporting [Ref: Table 1]

Forming Conclusions

112. The first step is for the auditor to reach an overall conclusion on the subject matter—regardless of the type of subject matter (financial, non-financial) or the level of assurance (reasonable and/or limited). This is achieved by:

- (a) Determining whether the auditor has obtained reasonable or limited assurance, as the case may be. The auditor evaluates the conclusions drawn from the evidence obtained throughout the engagement. This evaluation is conducted by reference to the auditor's objectives and procedures at each stage of the engagement.

²¹ See ASA 530 *Audit Sampling* and where relevant, the applicable ASAEs.

- (b) The auditor's objective, at this stage, is to determine the overall sufficiency and appropriateness of the evidence obtained.
 - (c) The auditor considers the qualitative aspects of the entity's reporting practices in forming an overall conclusion by taking into account:
 - (i) The persuasiveness of evidence obtained through the planned response to assessed risks of material misstatement, deviation, deficiency or non-compliance.
 - (ii) Whether uncorrected misstatements, deviations, deficiencies or non-compliances are material (either individually or in aggregate).
 - (iii) Whether the entity's financial or other report(s) is presented or prepared, in all material respects, in accordance with the requirements of the applicable criteria/reporting framework.
 - (d) In view of the requirements of the criteria/applicable reporting frameworks, the auditor considers whether the entity's report(s):
 - (i) Identifies the criteria/applicable reporting framework(s).
 - (ii) Adequately discloses what is required to be disclosed;
 - (iii) Reflects appropriate reporting policies applied in accordance with the applicable reporting frameworks;
 - (iv) Reflects reasonable management estimates, where applicable;
 - (v) Is relevant, reliable, comparable and understandable;
 - (vi) Is appropriate in presentation, structure, content and contains terminology that is appropriate; and
 - (vii) Represents the underlying transactions, events and records.
113. The criteria/applicable reporting framework(s) may not require management, or those charged with governance, to evidence their responsibility for the entity's reports by signing an attestation or declaration that accompanies the entity's reports. In such circumstances, the auditor encourages management to do so on the basis that such omission renders the entity's reports incomplete and therefore potentially ambiguous to users.
114. In circumstances where a written management attestation does not accompany the entity's reports, such as is often the case in prescribed reporting formats, the auditor reflects on management's acceptance of the terms of the engagement as evidenced by the engagement letter. In such cases, the auditor may utilise an "Other Matter" paragraph in the auditor's report, to address any lack of clarity regarding responsibilities. [See also paragraph 68]

Expressing Opinions/Conclusions

115. Reporting responsibilities and prescribed auditor's reports are included in the discussions on practical issues - see sections D and E.
116. In developing the auditor's report, the auditor starts by reconfirming their understanding of the following:

Table 5: Reconfirming Reporting Requirements

		Paragraph/Ref
a	Whether the form and content of the auditor's report is prescribed in part or whole	66-71
b	The reporting requirements set out in the engagement mandates	51-65
c	User needs	55-58
d	Other reporting responsibilities	63-65
e	Reporting requirements set out in the relevant AUASB Standards	ASAs; ASREs; ASAEs; and ASRSs

117. Ordinarily, the auditor has a level of discretion in determining the form and content of the auditor's report within the context of the above requirements. In such cases, the auditor pays particular attention to user needs and the purpose of the engagement.

Report Content

118. The reporting requirements included in all AUASB Standards, in particular ASA 700 and ASAE 3000, contain the following basic elements of an auditor's report in common, namely:
- (a) The addressee/intended user.
 - (b) Identification of the subject matter—such as a financial report, an attestation or statement of compliance or a schedule of non-financial information;
 - (c) The criteria used in the preparation of the subject matter information or with which the subject matter will be evaluated—such as the Australian Accounting Standards, the terms of a contract or regulatory requirements;
 - (d) The responsibilities of those whose duty it is to prepare the subject matter information;
 - (e) The auditor's responsibilities; and
 - (f) The opinion or conclusion statement.
119. Overall, the auditor determines that the auditor's report is not misleading – see paragraphs 67-70.

Modifications

120. Modifications to an auditor's report on a SSGA or a MSE are premised on the auditor's obligation to communicate with users. This premise is no different to reporting on any other assurance or non-assurance engagement.
121. Modifications to an auditor's report fall into 2 broad categories:
- (a) Modifications to the auditor's opinion or conclusion statements, (qualifications, adverse opinions and disclaimers of opinion). The auditor draws attention to an issue relating to the subject matter that, in the auditor's opinion, would render the subject matter information misleading but for the auditor's communication; and
 - (b) Drawing attention to important information contained within the subject matter information, (using an emphasis of matter paragraph) or in relation to the audit, the auditor's responsibilities or the auditor's report, (other matter paragraph), so as to focus users' attention on the significance of certain information in understanding the subject matter report or statement and the auditor's report thereon.

122. Auditors of SSGA and MSE who modify their reports apply the principles expounded in *ASA 705 Modifications to the Opinion in the Independent Auditor's Report*; and *ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

Other Reporting Responsibilities

123. When the auditor has reporting responsibilities in addition to the auditor's responsibilities to report on the subject matter, the auditor communicates the relevant information using one or more paragraphs that appear after the auditor's opinion or conclusion statement. This facilitates the auditor presenting information that does *not* affect the auditor's opinion or conclusion statement.
124. The auditor determines what is required to be reported. For example, in some circumstances only "significant" compliance breaches are required to be reported – if this is the case, the auditor obtains an understanding of what constitutes "significance to users" and the relationship with matters considered "material".
125. An example of other reporting responsibilities in a MSE is where an auditor is required to report *all* instances of an entity's non-compliance with regulations. The auditor may use a "Report on Other Legal and Regulatory Requirements" paragraph for this purpose and an attached schedule or detailed report where necessary. Ordinarily, the auditor includes those matters of non-compliance already identified and reported by the entity, together with any additional instances of non-compliance, if any, that the auditor has identified during the audit.
126. In such circumstances, auditors, preparers and users alike may commonly misinterpret the additional reporting requirements as meaning the auditor is required to perform a 100% check of the subject matter (in this example, continual compliance with regulations). It is the auditor's responsibility to clarify such thinking as, in this case, the intention is for the auditor to report all instances of non-compliance *that came to the auditor's attention during the course of the audit* – that is, there is no compliance object per se, and the auditor plans the engagement accordingly.
127. An illustrative example report is provided in Appendix 8.

Appendix 1

(Ref: Para.33 onwards)

SUMMARY

The following tables are intended as reminders only of some of the matters included in this GS that an auditor considers in addressing practical application issues associated with a SSGA and a MSE (see Table 1, paragraph 5). It is not intended that all the considerations in the tables apply to every SSGA or MSE; or that the listings serve as a program or checklist in the conduct of such engagements. Paragraph numbers refer to more extensive commentary in the body of this Guidance Statement.

Table 1.1: Considerations in all SSGA and MSE

Topic	Para Ref:	Considerations
Overall Strategy	28	The most effective approach auditors can adopt to address practical application issues regarding a SSGA or a MSE, is comprehensive planning through: (a) Considering separately the engagement mandates, user needs and objectives for each of the different sections of the engagement in order to identify clear and distinct imperatives; (c) Communicating with relevant parties to clarify uncertainties and resolve issues; and (b) Establishing detailed strategies, plans and efficiencies <i>only</i> when there is clarity about each section of the engagement(s).
Preconditions	29	Under the AUASB Standards, the preconditions for each assurance aspect of the MSE engagement are established.
Terms of Engagement	30	Each SSGA or separate section of a MSE is included in an engagement letter.

Table 1.2: Considerations in Addressing Specific Issues

Issue Ref.	Topic	Para Ref:	Considerations
A	Unclear mandates	34	Auditors seek to clarify the SSGA or MSE requirements. The auditor's engagement objectives and responsibilities can only be apparent when the engagement mandates are properly understood.
A	Unclear mandates	36	Of particular importance for the auditor, is clarity about, and assessment of, the suitability of criteria, the acceptability of the reporting framework, and management's acceptance of its responsibility to report under that framework.
A	Unclear mandates	40	Where engagement mandates are defined in out-dated terms, such as is the case in some legislation, regulation or long-standing contracts, the auditor may communicate with the relevant regulator or parties to the contract (the users) to clarify their current expectations.
B	Subject Matters unable to be assured	44	Engagement mandates may require assurance on a subject matter that is unable to be assured or very difficult to assure. The auditor communicates with the users to determine if alternative arrangements are acceptable.

Issue Ref.	Topic	Para Ref:	Considerations
B	Subject Matters unable to be assured	48	When an auditor is prevented from declining an engagement that the auditor would otherwise not accept, the auditor consults and may issue a disclaimer of opinion; or write or report separately to the user(s).
C	Obtaining Evidence from third parties	50	The overriding issue for the auditor is the ability to obtain sufficient appropriate evidence in relation to those matters considered to be material and relevant to the auditor's objective(s) where evidence is located with a third party. Depending on the circumstances, the auditor may be able to achieve this by: (a) access to the third party's records; or (b) access to the working papers of the third party's auditor; or (c) requesting the third party's auditor to perform procedures; or (d) complying with ASA 402, if applicable, when an ASAE 3402 report on controls at the third party is available When sufficient appropriate evidence is not obtained, the auditor considers the effect on the auditor's report.
D	Reporting	51	The auditor obtains an understanding of the auditor's reporting responsibilities, including whether the auditor's report is prescribed or not prescribed.
D	Reporting	59	When reporting is <i>not</i> prescribed, the auditor may choose to issue a single-form report that comprises several different sections.
E	Prescribed reporting	67	In assessing prescribed reporting requirements, the auditor looks to ASA 210 and ASA 700, and where applicable ASAE 3000, which provide the principles to be considered regardless of which AUASB Standards apply.
E	Prescribed reporting	68	When an auditor determines that the prescribed reporting requirements do not conform with the requirements of the AUASB Standards, including a prohibition on modifying the auditor's opinion, and the auditor is unable to redress the situation appropriately, the auditor considers use of an "Other Matter" paragraph to provide additional explanation in the auditor's report
E	Prescribed reporting	70	When the auditor is unable to decline an engagement that requires a report that does not comply with AUASB Standards, the auditor consults widely. When considered appropriate, the auditor may: (a) Modify the opinion or conclusion statement. (b) Issue concurrently, a separate auditor's report that complies with the AUASB Standards. (c) Write separately to the user(s), referring to the specific prescribed auditor's report and setting out the auditor's concerns.
F	Prescribed scopes and/or procedures	74	The auditor preserves the auditor's independence and professional judgement in determining the extent, timing and scope of audit procedures—a fundamental principle underpinning the value of independent assurance.

Issue Ref.	Topic	Para Ref:	Considerations
			The auditor meets the auditor's objectives and in so doing, may: (a) Incorporate prescribed scopes/procedures into the auditor's plan; or (b) Perform the prescribed procedures in addition to the auditor's plan.
G	Performing MSE concurrently with the statutory audit	81	It is only at the engagement planning stage where the auditor finalises the engagement strategy and detailed plans, that efficiencies (from work performed on one section of the engagement for use on another) can be <i>planned</i> .
H	SSGA or MSE reporting periods differ from the entity's annual financial year.	87	Whenever leveraging work effort is achieved, the auditor determines that the engagement files contain appropriate documentation to support the conclusions on the SSGA and/or each distinct section of the MSE.
I	Performing MSE when <i>not</i> the auditor of the entity	89	An auditor who is <i>not</i> the auditor of the entity's annual financial report, pays particular attention to the "accepting" phase of the engagement.
I	Performing MSE when <i>not</i> the auditor of the entity	91	The more important considerations that an auditor, who is <i>not</i> the auditor of the entity's annual financial statement, considers: (a) Firm capabilities (b) Engagement acceptability and client relationship (c) Objectives (d) Preconditions for the assurance engagement (e) Agreeing the terms of the SSGA and/or MSE
J	Setting Materiality	93	Auditors exercise professional judgement by considering <i>qualitative</i> and <i>quantitative</i> factors in setting materiality, including reasonable understanding of issues that would likely influence the decisions of users.
J	Setting Materiality	95	The auditor of a SSGA or a MSE develops <i>separate</i> materiality levels for each of the sections of the engagement.
K	Cost Allocations	108	The auditor obtains an understanding of the entity's approach, procedures and internal control for allocating costs to the specific project/subject matter concerned. As with all aspects of a SSGA or a MSE, it is best to consider each section separately.
L	Substantive Procedures	112	In determining the nature, timing and extent of substantive procedures in a SSGA or MSE, the auditor applies the same principles as with any assurance engagement. Uppermost is sufficient appropriate evidence and in this context, the auditor selects the most effective and efficient procedures in the circumstances.
M	Concluding and Reporting	112	The auditor reaches an overall conclusion through assessing: the sufficiency and appropriateness of the evidence obtained; and whether the entity's report(s) or attestation are materiality misstated or there is a material non-compliance, deviation or deficiency in the subject matter.
M	Concluding and Reporting	119	Overall, the auditor determines that the auditor's report is not misleading.

Appendix 2

(Ref: Para.12)

NATURE OF ASSURANCE AND NON-ASSURANCE ENGAGEMENTS

Introduction

Some engaging parties require engagements which combine levels of assurance and no assurance, different subject matters, different criteria and both attestation and direct engagements. Multiple AUASB Standards will apply to such engagements and consequently the acceptance, planning, conduct and reporting of those engagements can be complex and confusing.

All assurance engagements involve the evaluation or measurement of a subject matter (financial information, controls, and compliance activities) against criteria (financial frameworks, control objectives, legislation/regulation/contractual requirements) to reach a reasonable or limited assurance conclusion. In attestation engagements, the responsible party (the entity), conducts that evaluation or measurement and presents the results in a statement (financial statement, attestation on operating effectiveness of controls or attestation on compliance with requirements). In direct engagements, no evaluation or measurement is undertaken by the responsible party.

Agreed-upon procedures engagements are engagements to conduct procedures that have been agreed to by the auditor and the engaging party; where the auditor reports factual findings; and the auditor does not provide assurance.

Subject Matters

Subject matters are the focus of specific (assurance) engagement objectives and can take many forms, such as:

- (a) Financial performance or conditions (for example, historical or prospective financial position, financial performance and cash flows) the measurement of which is presented in the subject matter information such as a financial report, a summary or extract from a financial report or a single financial statement.
- (b) Non-financial performance or conditions (for example, performance of an entity) for which the subject matter information may be key performance indicators of efficiency and/or effectiveness.
- (c) Physical characteristics (for example, capacity of a facility) for which the subject matter information may be a specifications document.
- (d) Systems and processes (for example, an entity's internal control or IT system) for which the subject matter information may be an attestation about effectiveness of that system to meet control objectives.
- (e) Behaviour (for example, corporate governance, compliance with regulation and human resource practices) for which the subject matter information may be a statement of compliance or a statement of effectiveness.

Compliance engagements may cover short periods of time or may relate to compliance over the reporting period, such as is expected with legislation and regulation.

An appropriate subject matter is:

- (a) Identifiable, and capable of evaluation or measurement against the identified criteria; and
- (b) Such that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a conclusion.

Suitable Criteria

Criteria are the benchmarks used to measure or evaluate the underlying subject matter. Suitable criteria are those which exhibit the characteristics of: relevance, completeness, reliability, neutrality and understandability [ASAE 300, paragraph 24(b)(ii)].

Levels of Assurance

Assurance is where an auditor expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.

A reasonable assurance engagement means an assurance engagement where the auditor's objective, directed by the engagement mandate, is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for a *positive form* of expression of the auditor's conclusion – an opinion. A reasonable assurance engagement is commonly referred to as an audit.

A limited assurance engagement means an assurance engagement where the auditor's objective, directed by the engagement mandate, is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a *negative form* of expression of the auditor's conclusion – a conclusion. A limited assurance engagement is commonly referred to as a review.

Agreed-upon procedures

Agreed-upon procedures engagements, performed by an auditor, are where factual findings are reported but no conclusion or opinion is expressed and no assurance is provided by the auditor (or assurance practitioner). The intended users draw their own conclusions based on the factual findings reported combined with any other information they may have obtained.

Reporting Frameworks

The form and content of the auditor's report are directed by the reporting frameworks, or other criteria, used to produce the subject matter information. Subject matter reporting frameworks may be:

- (a) Prescribed by law or regulation, such as the Australian Accounting Standards; or
- (b) Established conventions that are generally recognised, such as cash accounting; or
- (c) Established by users to meet their special needs, such as reports on internal controls.

AUASB Standards

The AUASB Standards are set out to address:

- (a) Historical financial information²²:
 - (i) Fair presentation frameworks; and
 - (ii) Compliance frameworks; and
- (b) Other than historical financial reporting²³ - which include compliance, controls and performance engagements.

Under AUASB assurance and agreed-upon procedures Standards, and ethical and professional Standards, an auditor is required to determine that the subject matter reporting framework is

²² See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 13.

²³ See the AUASB's Standards on Assurance Engagements (ASAEs).

acceptable/suitable in the circumstances of the engagement. A clear understanding of the framework used to present the subject matter information is fundamental to the auditor establishing the form and content of the auditor's report.

Draft

Appendix 3

(Ref: Para.14)

EXAMPLES OF MULTIPLE-SCOPE ENGAGEMENTS

The following examples are provided in the context of reporting a MSE using a single-form auditor's report format. References to other AUASB Guidance Statements are included to demonstrate the principles of single-form reporting when addressing more than one subject matter.

A Grant Acquittals

1. Grant acquittal assurance engagements generally arise from requirements stated in a grant agreement issued by Government—Federal, State, Local; or others including Not-for-Profit and Philanthropic organisations.
2. Commonly, the grant agreement details matters such as:
 - (a) The parties to the agreement and their responsibilities;
 - (b) The purpose of the grant;
 - (c) The amount of funding;
 - (d) Guidelines and conditions for the grant;
 - (e) Expected milestones; and
 - (f) Reporting and assurance requirements. In some cases, the form and content of the auditor's report may be prescribed by the grant provider.
3. The assurance aspect of the grant agreement generally relates to matters such as:

Financial

 - (a) The recipient's financial report relating to the grant monies – often an income and expenditure statement drawn up on a cash basis of accounting.
 - (b) The total amount of expenditure on the project.
 - (c) Expenditure per accountability period.
 - (d) Contributions made by the recipient organisation.

Non-Financial

 - (e) Whether the grant monies have been utilised for the purpose(s) stated in the grant agreement.
 - (f) Whether milestones stated in the agreement have been achieved.
 - (g) Whether the project has been completed.
 - (h) Number of hours spent on the project.
 - (i) Whether project assets have been properly insured.

Assurance

 - (j) The level of assurance required—"reasonable" or "limited" or combination of both.

- (k) Qualification of the auditor, including independence.

Commonwealth Grant Guidelines (CGG) - Outline of a Selection of Points

In June 2013, the Department of Finance and Deregulation issued Financial Management Guidance no. 3 [Commonwealth Grant Guidelines](#) which came into effect from 1 June 2013. The CGG establish the Government's overarching grants policy framework, under which agencies can then determine their own specific grants administration practices.

The Department of Finance and Deregulation has developed a range of information products including Finance Circular 2013/01: Grants, Procurement and Other Financial Arrangements and Finance Circular 2013/02: Australian Government Grants Briefing and Reporting. They provide practical examples of how to determine if an activity is a grant and how to meet the requirements in the CGG.

The CGG apply to a broader range of financial activities, such as gifts and ex-gratia payments. The updated CGG introduce important changes which seek to reduce red-tape and improve collaboration between agencies and stakeholders, particularly in the not-for-profit (NFP) sector.

The CGG suggest agencies should simplify and improve grant processes by: streamlining reporting; adopting better practice tools and templates, such as the Low-Risk Grant Agreement Template; and using longer-term grant agreements where appropriate.

The updated CGG emphasise that grant administration processes should be proportional to the scale and risk profile of the granting activity. In particular, they require that reporting and acquittal requirements must be commensurate with the assessed risks. For example, there is no mandatory requirement to acquit a grant, instead the CGG encourage a stronger focus on evaluating whether outcomes have been achieved.

The CGG require that unless agency staff has assessed a granting activity as higher risk, a financial acquittal should not be sought from an entity regulated by the Australian Charities and Not-for-profits Commission (ACNC).²⁴ That said, agency staff may seek certification that grant funds were spent for the purpose of the grant and identification of any unspent amounts.

Under the principle of "report once, use often", agency staff should no longer seek information from grant applicants and recipients that is already collected by government. Agency staff must not request information provided to the ACNC by organisations regulated by them.

B Requests from Management/TCWG

An example of a MSE requested by management, or those charged with governance (TCWG), is where management requests the auditor of the company to audit the cash receipts and disbursements of the company's social club and the related internal controls; agree leave taken during a specified period by a specified employee category to employee records; and review the leave balances calculations of all categories of employee at year-end for compliance with corporate policy.

This MSE comprises:

a	An audit (reasonable assurance) on a special purpose financial report (cash basis of accounting – historical financial information).	Auditor's opinion (positive form)	ASA 800
b	An engagement to provide reasonable assurance on the design and operating effectiveness of internal controls.	Auditor's opinion (positive form)	ASAE 3150

²⁴ See Appendix 11 for further details about the ACNC.

a	An audit (reasonable assurance) on a special purpose financial report (cash basis of accounting – historical financial information).	Auditor's opinion (positive form)	ASA 800
c	An agreed-upon procedures engagement where a factual findings report is provided but no assurance is given.	Factual findings	ASRS 4400
d	A limited assurance engagement to review the calculations of a list of leave balances at year-end in compliance with corporate policy.	Auditor's conclusion (negative form)	ASAE 3100

Requests from management may take the form of a written request or may be verbal. Regardless of how the request is communicated, the auditor complies with AUASB Standards that require agreement on the terms of engagement to be in writing. This requirement enables the auditor to clarify and confirm the various sections and user needs that comprise the MSE.

In these types of engagement, the auditor designs the auditor's report.

C Self-Managed Superannuation Funds

Self-managed superannuation funds (SMSFs) are specific types of superannuation funds which are enabled and governed by the *Superannuation Industry (Supervision) Act 1993* (SISA) and the *Superannuation Industry (Supervision) Regulations 1994* (SISR). This legislation is regulated by the Australian Taxation Office (ATO). The Australian Securities and Investments Commission (ASIC) is given responsibility for the registration of approved SMSF auditors and setting competency Standards.

The auditor reports to the trustees in the "approved form" which includes opinions on two sections:

Part A: Financial Report; and

Part B: Compliance.

In conducting the audits, an auditor complies with the requirements of the Auditing Standards when addressing the financial report (Part A); and the requirements of ASAE 3100 *Compliance Engagements* when addressing the SMSF's legislative compliance (Part B).

In this case, the auditor's report is a single-form prescribed report (see AUASB Guidance Statement GS 009).

D Annual Reporting to a Regulator

Another more elaborate example of prescribed reporting to a regulator is where a *life company* is required to prepare and present an *Annual APRA Return*. Under legislation and APRA requirements, the entity is responsible for various matters, described in the table below, which demonstrate differing subject matters and different levels of required assurance:

Subject Matter	Level of Assurance
Section A: Annual APRA Return:	
- Prepared in accordance with legislation and APRA Reporting Standards - Accounting for statutory funds - Financial position at year-end in accordance with APRA Reporting Standards.	Reasonable [ASA 800]

Subject Matter	Level of Assurance
• Apportionments made in accordance with acceptable accounting principles.	
Section B: Controls to Ensure Compliance with APRA Requirements:	
Parts A, B and C: • Systems, procedures and internal controls to comply with legislation, regulation and APRA requirements	Limited [ASAE 3150]
Part D: <i>Evaluation of the results of the auditor's other procedures in the context of the entity's compliance with Prudential Requirements:</i> • The review of controls • The audit of the Annual APRA Return • The audit of the financial report conducted under the Corporations Act 2001.	Limited [ASAE 3100]

AUASB Guidance Statement GS 017 *Prudential Reporting Requirements For Auditors of a Life Company* provides comprehensive guidance on the APRA requirements under its Prudential Standards, including an example auditor's report that illustrates the reporting principles adopted in a MSE report.

E Applications for Licences

An example of a MSE relating to licence applications is in relation to Australian Financial Services (AFS) licences under the *Corporations Act 2001*, where requirements comprise several sections, namely:

- (a) A (traditional) audit of historical financial statements;
- (b) Reasonable assurance on compliance with certain requirements;
- (c) Limited assurance on compliance with other requirements;
- (d) A statement by the auditor (no matters not previously reported); and
- (e) A prescribed auditor's report (Form 71).

Appendix 4

(Ref: Para.32)

EXAMPLE OF AN ENGAGEMENT LETTER FOR A MSE

Illustration 1

The following is an example of an engagement letter for:

- (a) The audit of a general purpose financial report prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*; and
- (b) A MSE (Grant Acquittal) comprising:
 - (i) Reasonable assurance for one subject matter; and
 - (ii) Limited assurance for a different subject matter.

This letter illustrates (certain) requirements and principles promoted in the AUASB Standards and can be used appropriately for MSE. It will need to be varied according to individual requirements and circumstances. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the requirements of the relevant AUASB Standards and engagement mandates.

To the appropriate representative of management or those charged with governance of ABC Company Ltd.²⁵

[The objective and scope of the audit and grant acquittal (or other assurance engagement)]

You²⁶ have requested that we audit the financial report of ABC Company Ltd., which comprises the statement of financial position as at 30 June 20X1 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

You have also requested that we provide assurance in accordance with the terms of the grant agreement, titled xyz and dated -- -- that you have entered into with Government Department X. The assurance required comprises an audit of the income and expenditure statement for the period to 30 June 20X1 and limited assurance in relation to the company's compliance with the terms of the grant agreement for the period to 30 June 20X1.

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit and other assurance work will be conducted with the objectives of our expressing an opinion on the financial report and the statement of grant income and expenditure; and concluding on compliance with the terms of the grant agreement.

[The responsibilities of the auditor]

We will conduct our audit in accordance with Australian Auditing Standards and other relevant Standards issued by the Auditing and Assurance Standards Board (AUASB). Those Standards require that we comply with ethical requirements and plan and perform the audit and other assurance work to:

²⁵ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see paragraph A21. For an audit under the *Corporations Act 2001*, the appropriate persons are the Directors.

²⁶ Throughout this example letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

- (a) Obtain reasonable assurance about whether the financial report and the statement of grant income and expenditure relating to the xyz grant, are free from material misstatement.; and
- (b) Obtain limited assurance about whether anything has come to our attention to cause us to believe that the company has not complied with the requirements of the grant agreement dated -- -- with Government Department X.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and income and expenditure statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and statement of income and expenditure, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report and the income and expenditure statement.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial report and statement of grant income and expenditure in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial report and the statement of grant income and expenditure that we have identified during the audit.

[The responsibilities of management and identification of the applicable financial reporting frameworks (for purposes of this example, it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms).]

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance]²⁷ acknowledge and understand that they have responsibility for:

- (a) The preparation of the financial report that gives a true and fair view in accordance with the *Corporations Act 2001* and Australian Accounting Standards;²⁸
- (b) The preparation of the statement of grant income and expenditure in accordance with a cash basis of accounting;
- (c) Compliance with the terms of the grant agreement with Government Department X; and
- (d) Such internal control as [management] determines is necessary to enable the preparation of the financial report and the statement of grant income and expenditure that is free from material misstatement, whether due to fraud or error; and

To provide us with:

- (a) Access to all information of which the directors and management are aware that is relevant to the preparation of the financial report and the statement of grant income and expenditure such as records, documentation and other matters;
- (b) Additional information that we may request from the directors and management for the purpose of the audit and other assurance work; and
- (c) Unrestricted access to persons within the company from whom we determine it necessary to obtain audit and other assurance evidence.

²⁷ Use terminology as appropriate in the circumstances. For an audit under the *Corporations Act 2001*, the appropriate terminology is "the Directors".

²⁸ Or for financial reports not prepared under the *Corporations Act 2001* - "For the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards."

As part of our audit and other assurance processes, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit and other assurance work.

We look forward to full cooperation from you and your staff during our audit and other assurance work.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

Our intention is to issue:

- (a) A single auditor's report in relation to the company's general purpose financial report for the year ending XX XX 20XX; and
- (b) A separate single-form auditor's report comprising:
 - (i) Our opinion on the statement of grant income and expenditure; and
 - (ii) Our conclusion on the company's compliance with the terms of the grant agreement with Government Department X.

[Insert appropriate reference to the expected form and content of the auditor's reports.]

The form and content of our reports may need to be amended in the light of our audit and other assurance findings.

Other Matters under the Corporations Act 2001

Independence

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements of the *Corporations Act 2001* in relation to the audit of the financial report. In conducting our audit of the financial report, should we become aware that we have contravened the independence requirements of the *Corporations Act 2001*, we shall notify you on a timely basis. As part of our audit process, we shall also provide you with a written independence declaration as required by the *Corporations Act 2001*.

The *Corporations Act 2001* includes specific restrictions on the employment relationships that can exist between the audited entity and its auditors. To assist us in meeting the independence requirements of the *Corporations Act 2001*, and to the extent permitted by law and regulation, we request you discuss with us:

- (a) the provision of services offered to you by [insert firm name] prior to engaging or accepting the service; and
- (b) the prospective employment opportunities of any current or former partner or professional employee of [insert firm name] prior to the commencement of formal employment discussions with the current or former partner or professional employee.

Annual General Meetings

The *Corporations Act 2001* provides that shareholders can submit written questions to the auditor before an Annual General Meeting provided that they relate to the auditor's report or the conduct of the audit. To assist us in meeting this requirement in the *Corporations Act 2001* relating to Annual General Meetings, we request you provide to us written questions submitted to you by shareholders as soon as practicable after the question(s) is received and no later than five business days before the Annual General Meeting, regardless of whether you believe them to be irrelevant.

Presentation of Audited Financial Report on the Internet

It is our understanding that ABC Company Ltd. intends to publish a hard copy of the audited financial report and auditor's report for members, and to electronically present the audited financial report and auditor's report on its internet web site. When information is presented electronically on a web site, the security and controls over information on the web site should be addressed by the entity to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of audited financial information on the entity's web site is beyond the scope of the audit of the financial report. Responsibility for the electronic presentation of the financial report on the entity's web site is that of the governing body of the entity.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial report and other assurance work including our respective responsibilities.

Yours faithfully

.....

Partner

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company Ltd. by

(signed)

.....

Name and Title

Illustration 2

The following is an example of an engagement letter for a Grant Acquittal comprising:

- (i) Reasonable assurance for one subject matter; and
- (ii) Limited assurance for a different subject matter.

This letter illustrates (certain) requirements and principles promoted in the AUASB Standards and can be used appropriately for MSE. It will need to be varied according to individual requirements and circumstances. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the requirements of the relevant AUASB Standards and the engagement mandates.

To the appropriate representative of management or those charged with governance of ABC Entity/Company Ltd.²⁹

[The objectives and scopes of the grant acquittal audit and other assurance engagement]

You³⁰ have requested that we provide assurance in accordance with the terms of the grant agreement, titled xyz and dated -- -- that you have entered into with Government Department X. The assurance required comprises an audit of the income and expenditure statement for the period to 30 June 20X1 and limited assurance in relation to the entity's compliance with the terms of the grant agreement for the period to 30 June 20X1.

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit and other assurance work will be conducted with the objectives of our expressing an opinion on the statement of grant income and expenditure; and concluding on compliance with the terms of the grant agreement.

[The responsibilities of the auditor]

We will conduct our audit and other assurance work in accordance with Australian Auditing Standards and other relevant Standards issued by the Auditing and Assurance Standards Board (AUASB). Those Standards require that we comply with ethical requirements and plan and perform the audit and other assurance work to:

- (a) Obtain reasonable assurance about whether the statement of grant income and expenditure relating to the xyz grant, is free from material misstatement.; and
- (b) Obtain limited assurance about whether anything has come to our attention to cause us to believe that the company has not complied with the requirements of the grant agreement dated -- -- with Government Department X.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the income and expenditure statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the statement of income and expenditure, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the income and expenditure statement.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

²⁹ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see paragraph A21.

³⁰ Throughout this example letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the statement of grant income and expenditure in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the statement of grant income and expenditure that we have identified during the audit.

[The responsibilities of management and identification of the applicable financial reporting frameworks (for purposes of this example, it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms).]

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance]³¹ acknowledge and understand that they have responsibility for:

- (a)
- (b) The preparation of the statement of grant income and expenditure in accordance with [a cash basis of accounting];
- (c) Compliance with the terms of the grant agreement with Government Department X; and
- (d) Such internal control as [management] determines is necessary to enable the preparation of the statement of grant income and expenditure that is free from material misstatement, whether due to fraud or error; and

To provide us with:

- (a) Access to all information of which the directors and management are aware that is relevant to the preparation of the statement of grant income and expenditure such as records, documentation and other matters;
- (b) Additional information that we may request from the directors and management for the purpose of the audit and other assurance work; and
- (c) Unrestricted access to persons within the entity/company from whom we determine it necessary to obtain audit and other assurance evidence.

As part of our audit and other assurance processes, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit and other assurance work.

We look forward to full cooperation from you and your staff during our audit and other assurance work.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

Our intention is to issue a separate single-form auditor's report comprising:

- (i) Our opinion on the statement of grant income and expenditure; and
- (ii) Our conclusion on the entity's/company's compliance with the terms of the grant agreement with Government Department X.

[Insert appropriate reference to the expected form and content of the auditor's reports.]

³¹ Use terminology as appropriate in the circumstances.

The form and content of our report may need to be amended in the light of our audit and other assurance findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the statement of grant income and expenditure and other assurance work including our respective responsibilities.

Yours faithfully

.....

Partner

XYZ & Co.

Acknowledged and agreed on behalf of ABC Entity/Company Ltd. by
(signed)

.....

Name and Title

Draft

Appendix 5

(Ref: Para. 79)

EXAMPLE OF A REPRESENTATION LETTER FOR A MSE

The following is an example of a representation letter for a Grant Acquittal comprising:

- (i) Reasonable assurance for one subject matter; and
- (ii) Limited assurance for a different subject matter.

This letter illustrates (certain) requirements and principles promoted in the AUASB Standards and can be used appropriately for MSE. The letter is based on (certain) requirements of the Auditing Standards and will need to be varied according to individual requirements and circumstances. In some cases, a MSE representation letter may include representations relating to the statutory audit of the entity's annual financial report. This example letter is not authoritative but is intended only to be a guide that may be used in conjunction with the requirements of the relevant AUASB Standards and MSE mandates.

(Entity Letterhead)

(To Auditor) (Date)

This representation letter is provided in connection with:

- (a) Your audit of ABC Entity's statement of grant income and expenditure for the year ended 30 June 20XX [or period covered by the auditor's report] for the purpose of expressing an opinion as to whether the statement of grant income and expenditure is presented fairly, in all material respects, in accordance with the grant agreement with Government Department X dated -- --; and
- (b) Your review of ABC Entity's compliance with the terms of the grant agreement identified above.

We confirm that *(to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves)*:

Statement of Grant Income and Expenditure

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the statement of grant income and expenditure in accordance with the cash basis of accounting and the terms of the grant agreement with Government Department X dated -- --; in particular the statement of grant income and expenditure presents fairly in accordance therewith.
- All events subsequent to the date of the statement of grant income and expenditure which require adjustment or disclosure so as to present fairly the statement of grant income and expenditure, have been adjusted or disclosed. (ASA 560)
- [Where applicable] The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the statement of grant income and expenditure as a whole. A list of the uncorrected misstatements is attached to this representation letter. (ASA 450)
- [Any other matters that the auditor may consider appropriate.]

Compliance with Grant Agreement

- We have fulfilled our responsibilities, as set out in the terms of the grant agreement with Government Department X, dated -- --.

- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the statement of grant income and expenditure; and the entity's/company's compliance with the grant agreement with Government Department X such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit and other assurance work; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit and other assurance evidence.
- All transactions relating to the grant, referred to above, have been recorded in the accounting records and are reflected in the statement of grant income and expenditure.
- We have disclosed to you the results of our assessment of the risk that the statement of grant income and expenditure may be materially misstated as a result of fraud. (ASA 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the statement of grant income and expenditure or compliance with the terms of the grant, referred to above. (ASA240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's statement of grant income and expenditure and compliance with the terms of the grant referred to above, communicated by employees, former employees, analysts, regulators or others. (ASA 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the statement of grant income and expenditure and complying with the terms of the grant, referred to above. (ASA 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (ASA 550)
- [Any other matters that the auditor may consider necessary.]
- We have provided you with all requested information, explanations and assistance for the purposes of the audit and other assurance work.*
- We have provided you with all information required by the grant agreement with Government Department X.

Management

Management

* There may be a regulatory requirement for particular information to be provided. For example, see section 312 of the *Corporations Act 2001*.

Appendix 6

(Ref: Para.59)

EXAMPLE AUDITOR'S REPORTS - MSE (NOT PRESCRIBED)

INTRODUCTION

The following examples of auditor's reports show how the various sections of a MSE can be reported when the form and content of the auditor's report is *not* prescribed.

The auditor is the auditor of the annual financial report and is also the auditor of the grant acquittal.

The examples are to be used as a guide only and will need to be modified according to the engagement requirements and the circumstances. As explained in paragraphs 59 and 60 of this GS, the auditor considers several factors in determining how best to report on the different sections of the MSE while complying with the engagement mandate(s) and the relevant AUASB Standards.

For example: The following Illustrations 1 and 2(b) could be set out in the auditor's report in a Part A, Part B, Part C format. The elements of the auditor's report – subject matter, responsibilities, conclusions etc., that are required by each relevant AUASB Standard(s) are set out in distinct and self-contained sections of the auditor's report - Part A, Part B etc. [GS 017 *Prudential Reporting Requirements For Auditors of a Life Company* provides an example of such layout]

Important Principles Illustrated

The principles illustrated by the example auditor's reports [**Illustrations 1, 2(a) and 2(b)**] are:

- (a) Using a single-form document to discharge different reporting requirements.
- (b) Using a combination of auditor's reports.
- (c) Using identifiable sections in the auditor's report to assist user understanding.
- (d) Clear identification of various subject matters.
- (e) Clear identification of different levels of assurance provided.
- (f) Clear descriptions of the responsibilities of both management and the auditor, in respect of the different subject matters.
- (g) Discrete descriptions of the auditor's procedures depending on the particular subject matter.
- (h) Although not specifically illustrated, the ability to include other information, such as:
 - (i) A declaration of independence.
 - (ii) A basis for modification.
 - (iii) A restriction on distribution of the auditor's report.
 - (iv) An alert as to the inherent limitations in any internal control structure.
- (i) Conclusions expressed differently to reflect the individual sections of the engagement and the different levels of assurance (reasonable and limited).

Illustration 1

The first example is a single-form MSE auditor's report that comprises *all* subject matters and *all* levels of assurance that comprise the MSE.

The entity is a not-for-profit incorporated association that is required to meet the financial reporting requirements of the applicable State Act or Regulation – that is to prepare and lodge an audited annual financial report with the Regulator. The Regulator:

- (a) does not prescribe the financial reporting framework or the form and content of the auditor's report; and
- (b) accepts a single-form multi-scope auditor's report that includes opinions and conclusions that are in addition to the opinion on the annual financial report. The Regulator accepts that the auditor's report is addressed to the members of the entity and therefore may include other auditor reporting such as a grant acquittal.

This illustrative multi-scope auditor's report has been developed using the requirements and examples provided in the following AUASB Standards:

MSE Section	AUASB Standard	AUASB Standard Reference
<i>Reasonable Assurance</i>		
Annual Financial Report (special purpose)	ASA 800	[Aus] Illustration 5
Statement of Grant Income and Expenditure	ASA 805	Illustration 2
Compliance with the grant agreement	ASAE 3000	Section titled "Preparing the Assurance Report"
	ASAE 3100	Example 1
<i>Limited Assurance</i>		
Statement of employee numbers and labour costs.	ASRE 2405	Example 1

Illustration 1

**EXAMPLE AUDITOR'S REPORT
[SINGLE-FORM MULTI-SCOPE]**

**[Reporting in accordance with ASA 800, ASA 805, ASAE 3000, ASAE 3100
and ASRE 2405]**

[Appropriate addressee]

We have audited:

- (a) The accompanying financial report of ABC Entity, which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration;
- (b) The accompanying statement of grant income and expenditure of ABC Entity for the year ended 30 June 20XX, a summary of significant accounting policies and other explanatory information, and management's attestation statement³² thereon (together "the financial statement"). The financial statement has been prepared by management using the cash basis of accounting described in Note X; and
- (c) ABC Entity's compliance with the terms of the grant agreement between ABC Entity and Government Department X, dated -- --, for the year ended 30 June 20XX (the Grant Agreement).

We have reviewed:

- (a) ABC Entity's statement of employee numbers and labour costs required under the Grant Agreement.

Management's³³ Responsibility

Management is responsible for:

- (a) The preparation and fair presentation of the financial report and has determined that the basis of preparation described in Note X to the financial report is appropriate to meet the requirements of [identify legislative requirement if any] and is appropriate to meet the needs of the members;
- (b) The preparation and fair presentation of the financial statement in accordance with basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in accordance with the grant agreement;
- (c) The preparation of the statement of employee numbers and labour costs required under the grant agreement;
- (d) Compliance with the terms of the grant agreement; and
- (e) Such internal control as management determines is necessary to:

³² Or other appropriate term.

³³ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

- (i) Enable the preparation and fair presentation of the financial report, the financial statement and the statement of employee numbers and labour costs that are free from material misstatement, whether due to fraud or error; and
- (ii) Enable compliance with the terms of the grant agreement.

Auditor's Responsibility

Our responsibilities are:

- (a) To express an opinion, based on our audit, on:
 - (i) The financial report;
 - (ii) The financial statement; and
 - (iii) ABC Entity's compliance, in all material respects, with the terms of the grant agreement; and
- (b) To conclude, based on our review procedures, on the statement of employee numbers and labour costs.

We conducted our audits and review in accordance with Australian Auditing Standards; and applicable Standards on Review Engagements and Standards on Assurance Engagements. Those Standards require that we comply with relevant ethical requirements and plan and perform our work to:

- (a) Obtain reasonable assurance about whether the financial report and the financial statement are free from material misstatement and that ABC Entity has complied with the terms of the grant agreement; and
- (b) Obtain limited assurance as to whether anything has come to our attention that causes us to believe that the statement of employee numbers and labour costs is materially misstated.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the financial statement and about the company's compliance with the grant agreement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the financial statement, and to the company's compliance with the grant agreement, 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. An audit also includes evaluating the appropriateness of accounting policies used by management, as well as evaluating the overall presentation of the financial report and the financial statement.

A review consists of making enquiries and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the statement of employee numbers and labour costs.

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

Inherent Limitations (include where appropriate under paragraph 80(f) of ASAE 3100)

Because of the inherent limitations of any [details provided as appropriate by the auditor, refer to limitations in evidence gathering procedures and limitations in the responsible party's internal control framework], it is possible that fraud, error or non-compliance may occur and not be detected. An audit is not designed to detect all instances of non-compliance with the terms of the grant agreement [requirements], as an audit is not performed continuously throughout the [period] and the audit

procedures performed in respect of compliance with the terms of the grant agreement [requirements] are undertaken on a test basis. The audit conclusion expressed in this report has been formed on the above basis.

Opinion

In our opinion,

- (a) the financial report presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of ABC Entity as at 30 June 20XX, and (*of*) its financial performance and its cash flows for the year then ended in accordance with [the financial reporting requirements of [identify legislative requirement if any];
- (b) the financial statement presents fairly, in all material respects, the grant income and expenditure of ABC Entity for the year ended 30 June 20XX in accordance with the cash basis of accounting described in Note X and the terms of the grant agreement, dated -- --, with Government Department X; and
- (c) ABC Entity has complied, in all material respects, with the requirements of the grant agreement between the entity and Government Department X, dated -- --, for the year ended 30 June 20XX.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the financial report and Note X to the financial statement, which describe the basis of accounting. The financial report has been prepared for the purpose of fulfilling management's financial reporting responsibilities under [identify legislative requirement, if any]. The financial statement is prepared to provide information to Government Department X in accordance with a grant agreement, dated -- --. As a result, the financial report and the financial statement may not be suitable for other purposes. [If applicable: Our report is intended solely for ABC Entity and Government Department X and should not be distributed to or used by parties other than ABC Entity and Government Department X.]

Use of Report

This compliance audit report has been prepared for ABC Entity and Government Department X in accordance with the requirements of the grant agreement between the entity and Government Department X, dated -- --. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than ABC Entity and Government Department X, or for any purpose other than that for which it was prepared.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the statement of employee numbers and labour costs as at 30 June 20XX is not, in all material respects, fairly presented in accordance with the grant agreement dated -- -- with Government Department X.

[Auditor's signature][#]

[Date of the auditor's report][†]

[Auditor's address]

[#] The auditor's report is signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

[†] The date of the auditor's report is the date the auditor signs the report.

Illustration 2(a) and 2(b)

The second and third examples demonstrate how the MSE engagement can be reported upon using two *separate auditor's reports*. An example of why an auditor might choose this option could be that the entity may be required, or wish, to use its annual financial report and the related auditor's report for more than one purpose and accordingly, a single-form multi-scope auditor's report (such as shown in illustration 1 above) may be confusing or an unnecessary distraction for users; or simply may not be permitted.

The entity is a small proprietary company controlled by a foreign company and is required to prepare and lodge an audited financial report with ASIC under the *Corporations Act 2001*. The entity is a non-reporting entity.

The Regulator does not prescribe the form and content of the auditor's report; however, requires conformity with the Act which prescribes compliance with the Auditing Standards issued by the AUASB under section 336 of the Act. Accordingly, the Regulator would be unlikely to accept a multi-scope auditor's report that includes reporting other than that required by the Act. Consequently, the company agrees that the auditor will issue 2 separate reports – one for statutory purposes and one for the grant acquittal.

The illustrative multi-scope auditor's reports have been developed using the requirements and examples provided in the following AUASB Standards:

MSE Section	AUASB Standard	AUASB Standard Reference
Illustrative Report 2(a)		
<i>Reasonable Assurance</i>		
Statutory Annual Financial Report (special purpose)	ASA 800	[Aus] Illustration 4
Illustrative Report 2(b)		
<i>Reasonable Assurance</i>		
Statement of Grant Income and Expenditure	ASA 805	Illustration 2
Compliance with the grant agreement	ASAE 3000	Section titled "Preparing the Assurance Report"
	ASAE 3100	Example 1
<i>Limited Assurance</i>		
Statement of employee numbers and labour costs.	ASRE 2405	Example 1

Illustration 2(a)

AUDITOR'S REPORT
[SINGLE SUBJECT SPECIAL PURPOSE FINANCIAL REPORT]
[Fair Presentation Reporting Framework]
[Reporting in accordance with ASA 800 – Corporations Act 2001]

[Appropriate addressee]

Report on the Financial Report[†]

We have audited the accompanying financial report of ABC Company, which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility 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 and have determined that the basis of preparation described in Note X to the financial report is appropriate to meet the requirements of [identify legislative requirement if any] and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company, would be in the same terms if given to the directors as at the time of the auditor's report.

[†] The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

Opinion

In our opinion the financial report of ABC Company 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 20XX and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note X, and the *Corporations Regulations 2001*.

*Basis of Accounting*³⁴

Without modifying our opinion, we draw attention to Note X to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature][#]

[Date of the auditor's report][†]

[Auditor's address]

³⁴ The auditor may also restrict distribution and use – see ASA 800 paragraphs 14 and A15.

[#] The auditor's report is signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

[†] The date of the auditor's report is the date the auditor signs the report.

Illustration 2(b)

AUDITOR'S REPORT

[SINGLE-FORM MULTI-SCOPE]

[Reporting in accordance with ASA 805, ASAE 3000, ASAE 3100 and ASRE 2405]

[Appropriate addressee]

We have audited:

- (a) The accompanying statement of grant income and expenditure of ABC Company for the year ended 30 June 20XX, a summary of significant accounting policies and other explanatory information, and Management's attestation statement* thereon (together "the financial statement"). The financial statement has been prepared by management using the cash basis of accounting described in Note X to the financial statement; and
- (b) ABC Company's compliance with the terms of the grant agreement between ABC Company and Government Department X, dated dd mm yy, for the period ended 30 June 20XX (the Grant Agreement).

We have reviewed:

- (c) ABC Company's statement of employee numbers and labour costs required under the Grant Agreement.

Management's³⁵ Responsibility

Management is responsible for:

- (a) The preparation and fair presentation of the financial statement in accordance with basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in accordance with the grant agreement;
- (b) Compliance with the terms of the grant agreement;
- (c) The preparation of the statement of employee numbers and labour costs required under the grant agreement; and
- (d) Such internal control as management determines is necessary to:
 - (i) Enable the preparation of the financial statement and the statement of employee numbers and labour costs that are free from material misstatement, whether due to fraud or error; and
 - (ii) Enable compliance with the terms of the grant agreement.

Auditor's Responsibility

Our responsibilities are:

- (a) To express an opinion, based on our audit, on:

* Or other term that is appropriate in the circumstances.

³⁵ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction, or the grant agreement.

- (i) The financial statement; and
 - (ii) ABC Company's compliance, in all material respects, with the terms of the grant agreement; and
- (b) To conclude, based on our review procedures, on the statement of employee numbers and labour costs.

We conducted our audit of the financial statement in accordance with Australian Auditing Standards; our audit of compliance in accordance with ASAE 3100; and our review of the statement of employee numbers and labour costs in accordance with ASRE 2400. The applicable Standards require that we comply with relevant ethical requirements and plan and perform our work to:

- (a) Obtain reasonable assurance:
 - (i) about whether the financial statement is free from material misstatement; and
 - (ii) that ABC Company has complied, in all material respects, with the terms of the grant agreement; and
- (b) Obtain limited assurance as to whether anything has come to our attention that causes us to believe that the statement of employee numbers and labour costs is materially misstated.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement and about the company's compliance with the grant agreement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statement, and to the company's compliance with the grant agreement, 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. An audit also includes evaluating the appropriateness of accounting policies used by management, as well as evaluating the overall presentation of the financial statement.

A review consists of making enquiries and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the statement of employee numbers.

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

Inherent Limitations (include where appropriate under paragraph 80(f) of ASAE 3100)

Because of the inherent limitations of any [details provided as appropriate by the auditor, refer to limitations in evidence gathering procedures and limitations in the responsible party's internal control framework], it is possible that fraud, error or non-compliance may occur and not be detected. An audit is not designed to detect all instances of non-compliance with the terms of the grant agreement [requirements], as an audit is not performed continuously throughout the [period] and the audit procedures performed in respect of compliance with the terms of the grant agreement [requirements] are undertaken on a test basis. The audit conclusion expressed in this report has been formed on the above basis.

Opinion

In our opinion,

- (a) the financial statement presents fairly, in all material respects, the grant income and expenditure of ABC Company for the year ended 30 June 20XX in accordance with the cash

basis of accounting described in Note X and the terms of the grant agreement, dated dd mm yy, with Government Department X; and

- (b) ABC Company has complied, in all material respects, with the requirements of the grant agreement between the company and Government Department X dated dd mm yy, for the year ended 30 June 20XX.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to Government Department X in accordance with a grant agreement, dated dd mm yy. As a result, the financial statement may not be suitable for another purpose. [If applicable: Our report is intended solely for ABC Entity and Government Department X and should not be distributed to or used by parties other than ABC Entity and Government Department X.]

Use of Report

This compliance audit report has been prepared for ABC Entity and Government Department X in accordance with the requirements of the grant agreement between the entity and Government Department X, dated dd mm yy. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than ABC Entity and Government Department X, or for any purpose other than that for which it was prepared.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the statement of employee numbers and labour costs as at 30 June 20XX is not, in all material respects, fairly presented in accordance with the grant agreement dated dd mm yy with Government Department X.

[Auditor's signature][#]

[Date of the auditor's report][†]

[Auditor's address]

[#] The auditor's report is signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

[†] The date of the auditor's report is the date the auditor signs the report.

Appendix 7

(Ref: Para.71)

CONSIDERATIONS - PRESCRIBED AUDITOR'S REPORTS**Introduction**

The appendix should be read in conjunction with section E of this GS (paragraph 66 onwards).

Section E advocates communication with preparers and users as likely to be the most effective strategy for resolution of issues. When considered appropriate by the auditor, reference to the Department of Finance and Deregulation paper: *Clarification of the terms Audit and Assurance* (Finance Circular 2011/08), may be very helpful in explaining the auditor's position. See Department of Finance website: <http://www.finance.gov.au/>

Prescribed auditor's reports vary significantly in both form and content. These differences arise from a number of reasons, including: the circumstances of the engagement, the specific requirements of the party prescribing the auditor's reports and continued use of historical forms.

In some cases, prescribed reports do not present problems for auditors. However, it is not uncommon for auditor's to be faced with significant difficulties when required to report in a prescribed way. These difficulties include:

- (a) Inconsistencies with the requirements of the AUASB Standards and the underlying frameworks, terminologies and concepts upon which those Standards are based.
- (b) Requirements that contravene an auditor's professional obligations and compliance with applicable ethical standards, especially those relating to "independence".
- (c) Single-form reports that inadequately combine differing subject matters and differing frameworks/criteria.
- (d) Wording that would result in misleading information.
- (e) Wording that does not provide the user with the assurance they seek.

The following Table 8 provides some suggestions that an auditor may consider as well as the matters described in section E of this GS, particularly regarding communications with preparers and/or users.

Table 8: Suggestions to address issues with prescribed auditor's reports.

Issues	Auditor considerations
The form of the financial report referred to in the prescribed auditor's report, such as a single income and expenditure statement, is not presented in accordance with Accounting Standards.	Ordinarily, this would not be an issue if the financial report referred to in the auditor's report: - Complies with the requirements governing the preparation of the financial report; and - Is not misleading.
Management or those charged with governance are not required to sign an attestation, or declaration, about the entity's report(s).	- Request management to do so, thereby explicitly demonstrating responsibility for the entity's report(s) to users. - If necessary, determine the available evidence, including the contents of the engagement letter in relation to management's acceptance of responsibility for the report(s).

Issues	Auditor considerations
The financial report, referred to in the prescribed auditor's report, does not include a statement of significant accounting policies.	• Ask the preparer to include such policies. • If necessary, encourage the preparer to include the basis of accounting (accruals, cash) as a minimum as it is fundamental to users understanding of the financial report. • When necessary, include the basis of accounting in an "Other Matter" paragraph in the auditor's report.
No reference to materiality.	• Add relevant wording to the auditor's report. • Consider whether reference to the audit having been conducted in accordance with the AUASB Standards is sufficient <i>implicit</i> indication to address the lack of <i>explicit</i> reference to materiality.
Vague, or no, inclusion of: • Reference to the subject matter. • The responsibilities of management and the auditor.	• Add relevant wording to the auditor's report. • When necessary, include relevant wording in an "Other Matter" paragraph in the auditor's report.
Inability to include, where appropriate, modifications to the opinion and/or an "Emphasis of Matter" paragraph or an "Other Matter" paragraph.	See section E.
Statement of auditor's credentials, including independence.	• Ordinarily, there should be no issues as such statements are factual and merely serve to confirm the auditor's qualifications to perform the engagement.
Use of terms like "certify" and "correct" which denote <i>certainty</i> .	• When possible, amend the prescribed report • Inform the preparer and/or user that <i>certainty</i> is not possible in an assurance engagement where "testing" procedures are adopted. If nevertheless <i>certainty</i> is required, then the engagement should be classified, and understood, as an agreed-upon procedure engagement which will necessitate additional work effort (checking <i>entire</i> populations to achieve <i>certainty</i>) which in turn will attract additional fees.
Opinions, or statements, on an entity's solvency.	• Where such opinions or statements relate to, and clearly communicate, a past point in time (as at...), there would ordinarily be no issue so long as the prescribed wording does not imply solvency will continue into the future. • See section B on subject matters unable to be assured.

Appendix 8

(Ref: Para. 101 and 127)

EXAMPLE AUDITOR'S REVIEW REPORT - MSE (OTHER REPORTING RESPONSIBILITIES)

INTRODUCTION

The following example auditor's *review* report illustrates how other reporting responsibilities can be included in the auditor's report.

The example is to be used as a guide only and will need to be modified according to the engagement requirements and the circumstances.

The entity is a small not-for-profit entity that is required to meet the financial reporting requirements of the applicable Act and Regulations. The entity is required to prepare, and lodge with the Regulator, an annual financial report together with the related independent auditor's *review* report. The Regulator accepts general purpose or special purpose financial reports – the entity chooses the latter.

The example is a single-form multi-scope auditor's *review* report that addresses two subject matters:

1. Review of an annual special purpose financial report in accordance with the applicable Act and Regulations.
 - (a) Although *not* required to review and conclude on the entity's compliance with the regulations, the auditor is required, by the regulations, to report any, and all, non-compliance with particular specified regulations.
 - (b) This reporting requirement does not mean the auditor needs to set materiality for the review of the financial report at zero in order to check 100% compliance with the specified regulations. The requirement means the auditor is to report any and all non-compliance with regulations *that came to the auditor's attention during the course of the review* (or audit as the case may be). [See further discussion at paragraphs 99-100 of this GS]

In this example, the entity did not comply with 2 separate specified regulations, the effects of which on the auditor's review report are:

Non-compliance with specified regulations	Non-compliance with specified regulations	Non-compliance with specified regulations
Failing to provide the auditor with all information, explanation and assistance necessary for the conduct of the review. This failure relates to a material component of inventories.	As the auditor has been unable to obtain the information that the auditor required, a limitation on scope exists and accordingly results in a qualification of the auditor's conclusion.	The auditor discharges the requirement in the regulations to report the non-compliance by way of appropriate information in the "Basis for Qualified Conclusion" paragraph.
Failing to maintain a particular record required by the regulations. This failure relates to a	This non-compliance with regulations does not affect the auditor's conclusion on the annual financial report.	The auditor discharges the requirement in the regulations to report the non-compliance by way of appropriate information in the "Report on Other Legal

Non-compliance with specified regulations	Non-compliance with specified regulations	Non-compliance with specified regulations
record that is not associated with the financial report, was inadvertent, was detected by the entity after only 2 days, was properly and immediately corrected and was reported to the regulator by the entity.		and Regulatory Requirements” paragraph

2. A grant acquittal – statement of income and expenditure (only).

The illustrative auditor’s report has been developed using the principles illustrated in Appendix 6 and the requirements of ASRE 2400.

EXAMPLE AUDITOR’S REVIEW REPORT
[SINGLE-FORM MULTI-SCOPE]

[Special Purpose Financial Report – Qualified Conclusion (insufficient evidence)
Grant Acquittal (income and expenditure statement), and Other Reporting
Responsibilities]
(Fair Presentation Framework)

[Appropriate Addressee]

Report on the Financial Report and the Statement of Grant Income and Expenditure³⁶

We [I] have reviewed:

- (a) The accompanying financial report, being a special purpose financial report of [name of entity], which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year [period] ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and management’s declaration; and
- (b) The accompanying statement of grant income and expenditure of ABC Entity for the year ended 30 June 20XX, a summary of significant accounting policies and other explanatory information, and management’s attestation statement* thereon (together “the financial statement”). The financial statement has been prepared by management in accordance with a cash basis of accounting described in Note X to the financial statement.

Management’s Responsibility

Management is responsible for:

- (a) The preparation and fair presentation of the financial report and has determined that the basis of preparation described in Note X to the financial report is appropriate to meet the

³⁶ The sub-title “Report on the Financial Report and the Statement of Grant Income and Expenditure” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements”, or other appropriate sub-title, is not applicable.
* Or other appropriate term.

requirements of [identify legislative requirement], [and the needs of the members (or other appropriate terms)];

- (b) The preparation and fair presentation of the financial statement in accordance with basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in accordance with the grant agreement; and
- (c) Such internal control as management determines is necessary to enable the preparation and fair presentation of the financial report and the financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibilities are to conclude, based on our review procedures, on the financial report and the statement of grant income and expenditure. We [I] conducted our review in accordance with applicable Standards on Review Engagements which require us to conclude whether anything has come to our attention that causes us to believe that the financial report, taken as a whole, or the financial statement, are not prepared in all material respects in accordance with the applicable financial reporting framework. The Standards also require us to comply with relevant ethical requirements.

A review of a financial report and a financial statement in accordance with the Standards on Review Engagements is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us [me] to obtain assurance that we [I] would become aware of all significant matters that might be identified in an audit. Accordingly, we [I] do not express an audit opinion.

Basis for Qualified Conclusion

We [I] were [was] not given all information, explanation and assistance necessary by [name of entity] for the conduct of the review of the financial report in relation to a material component of inventories. This is a deficiency under section XX of the XX Act/Regulations. We [I] are [am] unable to adopt alternative procedures regarding [identify the component of inventories] included in the statement of financial position at a total amount of xxx as at 30 June 20XX. Accordingly, we [I] were [was] unable to conclude on this inventory balance or determine whether any adjustments might have been necessary.

Qualified Conclusion

Based on our [my] review, which is not an audit, with the exception of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our [my] attention that causes us [me] to believe that:

- (a) The financial report of [name of entity] does not satisfy the requirements of section XX of the XX Act/Regulations, including:
 - (i) presenting fairly the entity's financial position as at 30 June 20XX and of its financial performance and cash flows for the year [period] ended on that date; and
 - (ii) complying with Australian Accounting Standards to the extent described in Note X, and section XX of the XX Act/Regulations.
- (b) The financial statement does not present fairly the grant income and expenditure for the period ended 30 June XX in accordance with the basis of accounting described in Note X and the terms of the grant agreement dated -- -- with Government Department X

Basis of Accounting

Without further modifying our [my] conclusion, we [I] draw attention to:

- (a) Note X to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the responsible entities' financial reporting responsibilities under the Act. As a result, the financial report may not be suitable for another purpose.
- (b) Note X to the financial statement, which describes the basis of accounting. The financial statement has been prepared for the purpose of fulfilling the entity's reporting responsibilities under the grant agreement with Government Department X, dated -- --, for the year ended 30 June 20XX. As a result, the financial statement may not be suitable for another purpose.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section XX of the Act, we [I] are required to describe any deficiency, failure or shortcoming in respect of the matters referred to in paragraph XX of the Act/Regulation that came to our attention during the course of our review of the financial report.

In addition to the matter relating to inventory referred to in the Basis for Qualified Conclusion paragraph, our review on the financial report is not modified in respect of the following matter(s) because, in our [my] conclusion, it [they] has [have] been appropriately addressed by [name of registered entity] and is [are] not considered material in the context of the review of the financial report as a whole:

- (a) Name of entity] failed to keep [name of other record] as required by section XX of the Act/Regulation for the period 1 July 2013 to 2 July 2013 inclusive.]
- (b) [Details of other non-compliance, as applicable].

[Auditor's signature]

[Date of the auditor's review report]

[Auditor's address]

Appendix 9

(Ref: Para. 28)

UNDERSTANDING THE SECTIONS OF A MSE

Mandate or Requirement	Level of Assurance	Subject Matter	Criteria	Subject Matter Information (Outcome)	AUASB Standards
Assurance on a financial report or financial statement	Reasonable (R) [audits] Limited (L) [reviews]	Financial performance and financial position	Applicable financial reporting framework (e.g. Accounting Standards)	A financial report or financial statement	All relevant Auditing and Review Standards. Audit reporting under relevant ASA 700 series or ASA 800 series. Review reporting under relevant ASRE series.
Compliance with laws, regulations or contracts	R + L	Entity's activities	Requirements stipulated in laws, regulations or contractual arrangements	Attestation or declaration as to compliance; or the auditor's opinion or conclusion in a direct engagement	ASAE 3000 and ASAE 3100
Design and operation of internal controls	R + L	Controls within an entity or a service organisation or a shared services centre	A documented controls framework or specified control objectives	Attestation or declaration as to the suitability, design and operating effectiveness of controls; or the auditor's opinion or conclusion in a direct engagement	ASAE 3000, ASAE 3150 and ASAE 3402
Prospective financial information	R + L	Assumptions and methodology used as basis for prospective financial information (forecasts)	Reasonableness of assumptions and calculation methodology used. Reasonableness of reporting disclosures	Forecasts, projections	ASAE 3000 and ASAE 3450
Contractual arrangement	No assurance, only agreed procedures	According to the agreement	n/a	Report of factual findings	ASRS 4400

Appendix 10

(Ref: Para.)

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To be removed prior to issuance of GS 022 if not used

Draft

Appendix 11

(Ref: Appendix 3)

CHARITIES AND NOT-FOR-PROFIT

ACNC requirements may relate to a SSGA and/or differing reporting frameworks that therefore constitute a MSE. When considering an engagement relating to an ACNC registered entity, auditors clarify the ACNC's reporting requirements.

1. In December 2012, the Australian Government established the Australian Charities and Not-for-Profit Commission (ACNC) as an independent regulator. The ACNC has been set up to achieve the following objectives:
 - (a) Maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency.
 - (b) Support and sustain a robust, vibrant, independent and innovative not-for-profit sector.
 - (c) Promote the reduction of unnecessary regulatory obligations on the sector.
2. Entities in this sector, including companies limited by guarantee, commonly receive grants. Accountability for such grants are ordinarily subject to grant agreements which should be considered in context with other reporting requirements under the ACNC legislation.
3. It is important to note the CGG requirement that unless agency staff has assessed a granting activity as higher risk, a financial acquittal should *not* be sought from an entity regulated by the ACNC. Agency staff may, however, seek certification that grant funds were spent for the purpose of the grant and identification of any unspent amounts. See Commonwealth Grant Guidelines at Appendix 3, for further information.
4. ACNC website: www.acnc.gov.au

Starting point is the clean version
of Agenda 6 –
25 February 2015 AUASB meeting

Agenda Item 4.2
AUASB Meeting 9 June 2015
Marked Up Version
[electronic only]

GS 022
(June 2015)

Guidance Statement GS 022

Grant Acquittals and Multi-Scope Engagements

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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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 or non-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, or non-assurance engagement. Further, Guidance Statements do not establish or extend the requirements under ~~an~~ existing AUASB Standard(s).

Guidance Statement GS 022 *Grant Acquittals and Multi-Scope Engagements* 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 or non-assurance engagement.

CONTENTS

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	1-2
Issuance Date	3
Introduction	4-6
Introduction	7-22
Definitions	23-24
Summary of the Auditor's Approach to a SSGA or and a MSE	1-26
Addressing Common Practical Application Issues	27-32
A. Unclear Engagement Mandates	33-42
B. Subject Matter(s) Not Able to be Assured, or Difficult to be Assured	43-48
C. Obtaining Evidence from Third Parties	49-50
D. Determining Reporting Responsibilities	51-65
E. Prescribed Reporting	66-71
F. Prescribed Scopes and/or Procedures	72-77
G. Performing SSGA and MSE concurrently with the Statutory Audit	78-83
H. SSGA or MSE Reporting Periods Differing from the Entity's Financial Reporting Period	84-88
I. Performing SSGA or MSE when not the Auditor of the Entity's Annual Financial Report	89-91
J. Setting Materiality	92-1
K. Cost Allocations	106-110
L. Substantive Procedures (Assurance Engagements)	111
M. Concluding and Reporting	112-127
Appendix 1: Summary	
Appendix 2: Elements of Assurance and Non-Assurance Engagements	
Appendix 3: Example of Multi-Scope Engagements	
Appendix 4: Example of an Engagement Letter for a MSE	
Appendix 5: Example of a Representation Letter for a MSE	
Appendix 6: Example Auditor's Reports – MSE (Not Prescribed)	
Appendix 7: Considerations - Prescribed Auditor's Reports	
Appendix 8: Example Auditor's Review Report – MSE (Other Reporting Responsibilities)	
Appendix 9: Intentionally blank for the time being	
Appendix 10: Intentionally blank for the time being	
Appendix 11: Charities and Not-For-Profit	

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 022 *Grant Acquittals and Multi-Scope Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters: [and related services engagements](#).

This Guidance Statement provides guidance to assist the auditor/assurance practitioner to fulfil the objectives of the audit, ~~or~~ assurance engagement [or non-assurance engagement](#). It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor/assurance practitioner exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 022

Grant Acquittals and Multi-Scope Engagements

Application

1. This Guidance Statement (GS) applies to auditors and other independent assurance practitioners¹, referred to as the “auditor” in this GS, when the engagement comprises:
 - (a) A single subject² grant acquittal³ (SSGA) achieved through a single level of assurance (reasonable or limited) relating to a single subject matter; or
 - (b) A multi-scope engagement (MSE), which may include a grant acquittal, when the terms of an engagement require the auditor to address one or more of the following sections of the engagement:
 - (i) More than one subject matter.
 - (ii) More than one level of assurance.
 - (iii) An engagement comprising both assurance and agreed-upon procedures (where no assurance is provided).
2. Engagements described in paragraph 1(b) necessitate compliance with the requirements of different reporting frameworks and different AUASB Standards; and may therefore involve:
 - (a) Evaluation against different criteria, including reporting frameworks;
 - (b) The auditor developing a tailored single-form multi-scope auditor’s report; and/or
 - (c) Reporting requirements prescribed by regulators or other relevant parties.

Issuance Date

3. This Guidance Statement is issued by the Auditing and Assurance Standards Board (AUASB) on 30 June 2015.

Aim Introduction

Objective

4. The aim purpose of this GS is to assist auditors in exercising professional judgement illustrate in application applying of the AUASB Standards to a selection of common practical application issues (see Table 1). The issues dealt with in this GS which may arise in either single subject grant acquittals a SSGA or a MSE multi-scope engagements.

¹ This Guidance Statement is not intended for use by internal auditors, whether employed or engaged by an entity.

² Historical financial performance and financial position information, or a statement of compliance with requirements, are each an example of a single subject matter.

³ See definitions at paragraph 23(a).

5. **Table 1:** Common Practical Application Issues [Addressed in this GS](#)

	Issues	Paragraphs
A	Clarifying engagement mandates that are unclear and/or defined in out-dated terms.	33-42
B	Addressing engagements where the required scope includes a subject matter(s) that ~~is cannot~~ able to be assured, or is difficult to be assured.	43-48
C	Obtaining evidence when an entity delegates tasks to a third party.	49-50
D	Determining the auditor's reporting responsibilities and identifying users of the auditor's report	51- ~~65~~ 56
E	Addressing prescribed reporting, including where requirements may differ from AUASB Standards.	~~66~~ 7 - ~~71~~ 12
F	Addressing prescribed scopes and/or procedures.	~~72~~ 3 - ~~77~~ 78
G	Performing a ~~single subject grant acquittal~~ SSGA or a MSE concurrently with the audit of a general purpose financial report (GPFR) or a special purpose financial report (SPFR).	~~78~~ 9 - ~~83~~ 84
H	Determining the extent of statutory work, if any, that can be used in the performance of a ~~single subject grant acquittal~~ SSGA or a MSE, when the ~~single subject grant acquittal~~ SSGA or MSE reporting periods differ from the statutory audit.	~~84~~ 5 - ~~88~~ 89
I	Planning, performing and reporting on a ~~single subject grant acquittal~~ SSGA or a MSE when <i>not</i> the auditor of the entity's annual financial report.	~~89~~ 9 - ~~91~~ 12
J	Setting materiality levels.	~~92~~ 3 - ~~10~~ 5 ~~7~~
K	Auditing or reviewing overhead, labour cost and other expense allocations in a grant acquittal, including the sufficiency and appropriateness of audit/review evidence.	~~106~~ 8 - ~~110~~ 102
L	Determining the nature and extent of substantive procedures, including the use of sampling.	11 ~~1~~ 3
M	Concluding and reporting appropriately.	11 ~~24~~ - ~~127~~ 6

6. Detailed guidance on these issues is provided at [the](#) paragraphs ~~shown~~ [references](#) above and in the [A](#)ppendices.

Introduction

The Nature of Engagements – Grant Acquittals

7. A “grant acquittal” [is the term used where there](#) is a requirement, generally arising pursuant to a grant agreement, to conduct an audit, a review or ~~an~~ agreed-upon procedures [engagement](#) and can relate to a single-subject matter or multiple subject matters.

8. A grant acquittal as described in paragraph 1(a), is where the auditor is required to report a single level of assurance on *only* one subject matter. Examples of “subject matter information” that relate to single-subject matters include:
 - (a) A statement of grant income and expenditure ~~relating to the grant~~made by the grant recipient~~;~~~~or~~
 - (b) A statement of compliance with the terms of the grant agreement~~;~~ made by the grant recipient~~;~~~~or~~
 - (c) A statement with respect to the design and operating effectiveness of internal controls relating to grant monies, made by the grant recipient.
9. Ordinarily, the applicable AUASB Standard for such single subject engagements is easily identified. For example, the relevant AUASB Standards for the examples listed at paragraph 8 are:
 - (a) A statement of grant income and expenditure would be audited and reported on in accordance with ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.
 - (b) A compliance statement would be audited and reported on in accordance with ASAE 3100 *Compliance Engagements*.
 - (c) A statement on controls would be audited and reported on in accordance with the requirements of ~~(proposed)~~ ASAE 31504XX *Assurance Engagements to Conclude on Controls*.
10. A grant acquittal can also be a MSE as described in paragraphs 1(b) and 2.

The Nature of Engagements - Multi-scope Engagements

11. For purposes of this GS, where *any* engagement, including a grant acquittal, comprises the elements described in paragraphs 1(b) and 2, it is a “multi-scope engagement”.
12. Appendix 2 and the AUASB Framework for Assurance Engagements provide information on the elements~~nature~~ of assurance and non-assurance engagements.
13. Examples of a MSE include:
 - (a) A common grant acquittal where the grant agreement might call for independent assurance over historical financial information, such as a statement of income and expenditure statement, *as well as* assurance over compliance with the terms of the grant agreement.
 - (b) A special purpose audit where management requests the auditor to audit the cash statement of the company’s social club and the related internal controls, agree employee leave taken to employee records (an agreed-upon procedure) and provide limited assurance (a review) as to whether leave balances are calculated in accordance with corporate policy.
 - (c) The requirements of the Australian Taxation Office in relation to self-managed superannuation funds – where reasonable assurance is given over historical financial information and over ~~(continual)~~ compliance with legislation over a period of time. [See AUASB Guidance Statement, GS 009 *Auditing Self-Managed Superannuation Funds*]
 - (d) An Annual Prudential Reporting Engagement undertaken pursuant to APRA Prudential Standard LPS 310 *Audit and Related Matters* - where the Regulator requires reasonable assurance over the annual return and limited assurance over the

existence ~~of~~ and compliance with internal controls.⁴ ~~[See AUASB Guidance Statement, GS 017 *Prudential Reporting Requirements for Auditors of a Life Company*]~~

- (e) A financial licensee's obligations to lodge an annual report with ASIC – where the Regulator requires, inter alia, reasonable assurance over financial information and the operation of internal controls; limited assurance over statements made by the licensee; and a mixture of reasonable and limited assurance over ~~(*continual*)~~ compliance ~~(*over a period of time*)~~ with the requirements of the relevant Class Orders. In addition, the Regulator prescribes the form and content of the auditor's report (Form FS71). [See AUASB Guidance Statement, GS 003 *Audit and Review Requirements for Australian Financial Services Licensees under the Corporations Act 2001*]

14. Appendix 3 provides further information about these examples.

Specific Issues

- 15. The AUASB recognises that ~~grant acquittals~~SSGA and MSE may give rise to specific issues, including:
 - (a) Determining which AUASB Standards and requirements are relevant, and how to apply them.
 - (b) Planning and performing the engagement effectively and efficiently to address ~~differing~~multiple objectives.
 - (c) Reporting appropriately in compliance with:
 - (i) Relevant AUASB Standards; ~~and~~
 - (ii) Engagement mandates;~~;~~ ~~and~~
 - (d) ~~Demands for the use of prescribed auditor's reports that are not in accordance with the AUASB frameworks~~Prescribed form and content requirements (if applicable).
 - ~~(d)~~(e) ~~Difficulties in conducting a MSE that comprises assurance, where professional judgement is exercised, and agreed-upon procedures, where no professional judgement is exercised.~~
- 16. Reporting appropriately may cause particular difficulties when the auditor seeks to combine statements, opinions, conclusions and sometimes factual findings in a single tailored auditor's report. ~~[See paragraph 51 onwards.]~~

AUASB Standards

- 17. This GS does not summarise the requirements and approaches contained in the AUASB Standards - it focusses on common practical application issues – see Table 1.
- 18. In conducting a ~~SSGA~~single subject grant or a MSE, the auditor is required to comply with the relevant requirements in (all) the relevant AUASB Standards. The auditor's understanding of the composition of, and user requirements, in the engagement is necessary in determining the relevant AUASB Standards.
- 19. ~~This GS is intended to assist the auditor in exercising professional judgement in the application of AUASB Standards.~~ Although largely focussed on “reasonable assurance” engagements, the auditor exercises professional judgement in appropriately applying the

⁴ See AUASB Guidance Statement, GS 017 *Prudential Reporting Requirements for Auditors of a Life Company*.

- [relevant AUASB Standards and the](#) principles described in this GS, where the engagement mandate is to:
- (a) Provide “limited assurance”; and/or
 - (b) Perform agreed-upon procedures.
20. The *relevant* requirements of the AUASB’s Standards are to be applied, regardless of the entity’s size, legal form, activities or the nature of the engagement, when:
- (a) The terms of the engagement require the auditor to comply with, and report in accordance with, AUASB Standards;
 - (b) A prescribed auditor’s report requires the auditor to state that the engagement has been conducted in compliance with AUASB Standards; [and/or](#)
 - (c) A member of an Australian professional accounting body is required to comply with APES 210 *Conformity with Auditing and Assurance Standards*.
21. The AUASB’s assurance Standards are to be applied in the context of the AUASB [Framework for Assurance Engagements](#).
22. Where the MSE comprises both assurance and non-assurance requirements, the relevant AUASB [assurance Auditing Standards](#), [Standards on Reviews](#) and [Standards on Assurance](#) are applied to the assurance ~~elements~~[sections](#) of the MSE, ~~the~~ [and the](#) AUASB Standard on related services (ASRS 4400 *Agreed-upon Procedures Engagements to Report Factual Findings*) is applied ~~where applicable; and to the non-assurance section(s) of the MSE~~. [So too](#) are any other applicable requirements that may exist in other Standards, legislation, regulation or contract.

Definitions

23. For the purposes of this GS the following words and phrases have the meanings attributed below:
- (a) [A “grant acquittal” means a requirement of a funding agreement and is performed by the recipient of the funding \(the responsible party\). An acquittal can take a number of forms such as financial reports/statements, written reports, documentation of activities performed and attestations/declarations by the funding recipient. Some funding agreements require independent assurance in relation to the acquittal, or parts thereof. In this GS, “grant acquittal” denotes the auditor’s engagement under the funding agreement.](#)
 - ~~(a)~~(b) [“Engagement Mandate” means the requirement, documented or otherwise, for an independent auditor to conduct an audit, other assurance engagement, agreed-upon procedure or combination thereof. Engagement Mandates may be prescribed in legislation or regulation; or may be specified by contract or agreement.](#)
 - (c) [“Criteria” means the benchmarks used to measure or evaluate the underlying subject matter. An applicable financial reporting framework is an example of “criteria”.](#)
 - ~~(b)~~(d) [A “Prescribed report” means the form and/or content of the auditor’s report is prescribed by a statutory authority, by the terms of a contract or by other applicable mandate.](#)
 - ~~(c)~~(e) [“Prescribed procedures” means procedures that are to be performed by the auditor in accordance with the prescribed requirements of a statutory authority, a contract or other applicable mandate.](#)

- (f) The term “subject matter information” is used to mean the outcome of the measurement or evaluation of an underlying subject matter against the relevant criteria. Examples include financial reports, compliance plans and attestations/declarations by responsible parties
- ~~(d)~~(g) Engagement risk is the risk of expressing inappropriate opinions and/or conclusions when the subject matter is materially misstated, including when the subject matter has material deficiencies or deviations or is materially non-compliant.

24. The meanings of other words and phrases used in this GS are those included in the AUASB pronouncements and which are also reproduced in the *AUASB Glossary*.

Summary of the Auditor’s Approach to a SSGA ~~Single-subject Grant Acquittal or~~ and a MSE

- ~~25. The approach to be adopted with a single subject grant acquittal or a MSE is logical and evolves as the engagement progresses. It reflects the approach taken with any audit or other engagement conducted in accordance with the relevant AUASB Standards.~~
- ~~26.~~25. The fundamental principles and concepts employed in all audits and other engagements are to be applied equally to a ~~single subject grant acquittal~~ SSGA or and a MSE. For example:
- (a) The exercise of professional judgement and professional scepticism;
- ~~(b)~~ Compliance with quality control and ethical requirements; and
- ~~(b)~~(c) Appropriateness of subject matter and the existence of suitable criteria; and
- ~~(c)~~(d) The concepts of auditability, materiality, risk, assertions, evidence, assurance, documentation etc.
- ~~27.~~26. To illustrate the ~~logical and~~ progressive approach to be adopted in conducting a ~~single subject grant acquittal~~ SSGA or and a MSE, Table 2 broadly summarises the main phases and steps in an assurance engagement under the AUASB Standards.

Table 2: Broad Summary of tThe Main Phases and Steps in a ~~Single Subject Grant Acquittal~~ SSGA and a MSE in an Assurance Engagement

Main Phases	Steps <u>in an Assurance Engagement</u>	Documentation and Quality Control ⁵
Accepting	- Firm capabilities <u>and ethical requirements, including independence</u> - Determining the acceptability of the engagement and the client relationship - Determining preconditions for the assurance engagement and agreeing the terms - Establishing engagement objectives [subject matter(s); level(s) of assurance; and reporting]	↑ ↓ All phases of the Engagement are: <i>Documented in accordance with the requirements of</i>

⁵ Quality control and documentation requirements are found in the AUASB Standards comprising: the Australian Auditing Standards, Standards on Review Engagements, Standards on Assurance Engagements and Standards on Related Services. They include, but are not limited to, ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*; ASA 230 *Audit Documentation*; ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*; ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

Planning	- Understanding the entity to: - identify and assess risks of material misstatement/non-compliance; - set materiality; and - develop the overall strategy and plan the detailed work	<i>the relevant AUASB Standards;</i> <i>and</i> <i>Subject to quality control policies and procedures that comply with the requirements of the relevant AUASB Standards</i> 
Performing	- Implementing the planned approach to obtain sufficient appropriate evidence - Evaluating evidence obtained	
Reporting	- Forming conclusions - Reporting [expressing the overall conclusion(s)]	

[For specific details of the approach and steps involved in an assurance engagement, refer to the relevant AUASB Standards - Australian Auditing Standards, Standards on Review Engagements and Standards on Assurance Engagements.](#)

Addressing Common Practical Application Issues

Introduction

~~28.~~[27.](#) This section of ~~the~~ GS [022](#) provides guidance to auditors on addressing the common practical application issues [that commonly arise in SSGA and MSE - see listed at Table 1.](#)

Overall Strategy for Responding to Issues

~~29.~~[28.](#) The most effective approach auditors can adopt to address practical application issues regarding ~~single subject grant acquittals~~ [a SSGA](#) and ~~a~~ MSE, is comprehensive planning through;

- Considering separately the engagement mandates, user needs and objectives for each of the different ~~elements~~[sections](#) of the engagement in order to [clearly identify the distinct scoping requirements and relevant AUASB Standards \[see Appendix 9\]](#)~~clear and distinct imperatives~~;
- Communicating with relevant parties to clarify uncertainties and resolve issues; and
- Establishing detailed strategies, plans and efficiencies *only* when there is clarity about each ~~element~~[section](#) of the engagement(s).

Preconditions

[29.](#) [Under the AUASB Standards, the preconditions for each assurance aspect of the MSE engagement are established. In order to determine whether the preconditions for an assurance engagement are present, the auditor:](#)

- [Determines whether the criteria are suitable and the financial reporting framework\(s\) acceptable; and](#)
- [Obtains agreement from management that it accepts responsibility for: the preparation of the entity's reports \(subject matter information\), internal control and providing the auditor with information and access to personnel.](#)

Terms of Engagement

30. The practical issues discussed below are considered and resolved by the auditor in the context of the auditor's obligations, under the AUASB Standards and relevant ethical standards⁶ the Standards of the Accounting Professional and Ethical Standards Board (APESB), to confirm the terms of the engagement in writing. Each single subject grant acquittalSSGA and/or separate elementsection of a MSE is included in the engagement letter. ~~Under the AUASB Standards, the preconditions for each assurance aspect of the MSE engagement are established.~~

Preconditions

~~In order to determine whether the preconditions for an assurance engagement are present, the auditor:~~

- ~~(a) — Determines whether the financial reporting framework(s) is acceptable; and~~
- ~~(b) — Obtain agreement from management that it accepts responsibility for the preparation of the entity's reports, internal control and to provide the auditor with information and access to personnel.~~

31. The engagement letter is a contract which is required on all engagements conducted by an auditor. The requirement for an eEngagement letters are is not conditional on the timing of appointment; clarity of mandates and reporting requirements; or the level of fees and costs. However, where law or regulation prescribes the terms of engagement in sufficient detail; and management acknowledges and understands its responsibilities, the auditor need not record the terms in a written agreement.
32. Appendix 4 provides an examples of a MSE engagement letters.

Practical Issues and Guidance

A. Unclear Engagement Mandates [Ref: Table 1]

33. The key to an effective and efficient approach is for the auditor to think of each single subject grant acquittalSSGA and/or element section of the MSE as a separate engagement in its own right and therefore requiring its own planning, performance and discrete file, or section of a file, containing supporting evidence.
34. It is not uncommon for an entity to require request a single subject grant acquittalSSGA or a MSE without proper articulation of the engagement requirements. Auditors should seek exhaust all avenues to clarify the requirements, purpose and other relevant preliminary details, for each SSGAsingle subject grant acquittal or discrete elementsection of the MSE prior to accepting the engagement. The auditor's engagement objectives and responsibilities can only be apparent when the engagement mandates are properly understood.
35. The auditor obtains a thorough understanding of all mandates, establishes whether the preconditions are present, management's (the responsible party's) responsibilities and broad engagement scope/objectives before accepting the engagement and agreeing to the terms in writing and before proceeding with the engagement.

⁶ See ASA 102, *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

⁷ Requirements to agree the terms of engagements are found in:

- The AUASB Standards comprising: the Australian Auditing Standards, Standards on Review Engagements, Standards on Assurance Engagements and Standards on Related Services, ASA 210 *Agreeing the Terms of Audit Engagements*, ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity*, ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*; and
- ~~The APESB Standard~~, APES 305 *Terms of Engagement*, issued by the Accounting Professional and Ethical Standards Board.

36. Of particular importance for the auditor, is clarity about the suitability of criteria and the acceptability of the reporting framework, the auditor's assessment of the acceptability of that framework and management's acceptance of its responsibility to report under that framework. As auditors ~~should do~~ not introduce new information about the entity in the auditor's report, it is important for management to disclose the applicable reporting framework, particularly when it is a special purpose framework.

Example:

For example: Management ~~should ensure is responsible for~~ an accounting policies note to accompany ~~ies~~ a grant income and expenditure statement (e.g. whether a cash or accruals basis of accounting has been used). Such disclosure may be additional to a prescribed or recommended subject matter report.

37. It is not uncommon for an entity to approach the auditor of the entity's financial report at the completion of that audit with a request to conduct a ~~separate single subject grant~~ SSGA or MSE. ~~The late~~ Regardless of the timing of such a request, ~~does not excuse~~ the auditor ~~from needs to~~ obtaining a clear understanding of the mandate(s) and objectives of the ~~single subject grant acquittal~~ SSGA or MSE ~~or from and to~~ ensuring the terms of the engagement are agreed to in writing.

38. In obtaining that understanding, a Auditors ~~should be aware mindful~~ of the significant threats risks to effectiveness and efficiency in conducting the engagement as well as potential non-compliance with AUASB Standards; ~~when Planning and~~ performing assurance procedures, and agreed-upon procedures if applicable, are undertaken with an ~~without an~~ appropriate understanding of the various mandates directing the engagement and ~~before~~ establishing that the relevant preconditions required by the AUASB Standards are present.

39. The expected reporting ~~stage requirements or available reporting options~~ of the ~~single subject grant acquittal~~ SSGA or MSE ~~is are~~ an important part of understanding the engagement mandates, ~~however, it does not cloud the notion of distinct elements of a MSE.~~ See paragraphs 51-78² for further discussion on reporting.

40. Where engagement mandates are defined in out-dated terms, such as is the case in some legislation, regulation or long-standing contracts, the auditor may communicate with the relevant regulator or parties to the contract (the users). The auditor's ~~prime~~ objective is to clarify user expectations regarding the current engagement scope and reporting requirements ~~that are "expected" by the users.~~ Such clarification reconciles out-dated terms with current AUASB frameworks. The auditor may:

- (a) Determine that an "Other Matter" paragraph in the auditor's report would be an appropriate way to communicate changes in terminology from that used in the engagement mandate to that used in the AUASB Standards.
- (b) Seek legal advice and when appropriate, and it may be possible seek amendment to ~~for~~ the terms of the engagement ~~to be amended.~~

41. The auditor reconciles user expectations with the auditor's capabilities under the legislative environment and AUASB Standards prevailing at the time. In some circumstances, it may be necessary for the auditor to inform users of any relevant restrictions imposed on the auditor so as to reach agreement on the auditor's responsibilities regarding the engagement. In such cases, it may be appropriate for the auditor to include in the auditor's report, additional explanatory detail regarding the restriction(s). An "Other Matter" paragraph may be used for such additional material.⁸

42. When an auditor is not confident of meeting user expectations or delivering appropriately against the engagement mandate; or is unable to resolve the issue through other means,

⁸ See ASA 706, paragraph 8 for information on "Other Matter" paragraphs.

including additional explanation in the auditor's report, the auditor declines the engagement unless prevented from doing so by law or regulation. Refer paragraphs 48 and 70 for options when the auditor is not able to decline the engagement.

B. Subject Matter(s) Not Unable to be Assured, or Difficult to be Assured [Ref: Table 1]

43. In certain circumstances, an ~~assurance engagement~~ mandate may ~~include seek~~ assurance on a subject matter that ~~cannot be assured, or very difficult to be assured~~, such as an entity's future ability to generate a specified level of unencumbered cash or its ability to fund a future project in part or whole. The auditor's inability to provide assurance ordinarily arises because there is no appropriate subject matter or suitable criteria against which to measure or evaluate (see valid framework, criteria or other element of an assurance engagement as described in the AUASB's Framework for Assurance Engagements). Furthermore, the responsible party may not be required to provide subject information, such as an attestation statement (e.g. solvency declaration), to the auditor.

44. The auditor may consider:

- (a) Identifying the specific reasons why some or all of the engagement requirements are unable to be achieved.
- (b) Communicating with the relevant regulator or parties to the contract (the users) to determine the precise expectations of the users.
- ~~(b)~~(c) Communicating with the responsible party to confirm their responsibilities regarding the engagement and to understand their expectations and the subject matter information they intend to provide to the auditor.
- ~~(c)~~(d) Determining whether users would accept an alternative ~~arrangement~~ engagement. Such as This may include, for example:
 - (i) An agreed-upon procedure; or
 - (ii) Assurance over an alternative subject matter.

For example: Although an auditor ~~cannot~~ may be unable to assure an entity's future ability to generate a specified level of unencumbered cash or fund a future project, the auditor could ~~provide~~ undertake a reasonable, or limited, assurance engagement over the *historical levels* of unencumbered cash and/or the *reasonableness* of the underlying assumptions used to determine the entity's business plans, budgets and forecasts. This may be sufficient for the users to form their own conclusion as to the entity's future abilities. Ordinarily, such assurance work would not necessitate a full audit of the entity's previous or current financial report and would not constitute the provision of limited assurance over prospective information.

- ~~(d)~~(e) Exploring effective alternative solutions, including legal and legitimate options that may resolve the impasse issue of dealing with matters that ~~cannot~~ may be unable to be assured.

- (f) Evaluating whether:

- (i) A disclaimer of opinion over certain subject matter is an appropriate option; or

- ~~(e)~~(ii) Additional explanation in the auditor's report can mitigate possible misunderstanding as to what has not been assured and the reasons for the auditor's inability to assure the particular subject matter. [Additional explanation may be located in an "Other Matter" paragraph in the auditor's report.]

- (g) When alternative arrangements ~~cannot be made~~ are unable to be made, determining whether the auditor is able to decline the engagement under relevant laws/regulations.
45. In communicating with users, it would be necessary for the auditor to inform the users-relevant parties of the reasons why the auditor is unable to assure a particular subject matter. When a mutual understanding is achieved, the auditor may be able to reach agreement on the auditor's responsibilities regarding the ~~single subject grant acquittal~~ SSGA or MSE and the ~~consequential~~ effect on the auditor's report. Any such agreement ~~should be~~ is committed to writing so as to comply with standards and to avoid any misunderstanding.
46. If the auditor concludes that a disclaimer over specific subject matter or additional explanation in the auditor's report ~~is necessary to comply with the requirements of relevant AUASB Standards, but is prohibited from doing so~~ (say because of an inflexible prescribed reporting regime); or if permitted, ~~cannot be made~~ adequately mitigate possible misunderstanding, the auditor does not include ~~reference~~ within the auditor's report ~~to that~~ the audit has ~~been~~ conducted in accordance with (the relevant) AUASB Standards. [See paragraph 67]
47. When an auditor determines that the subject matter is not appropriate, the criteria is not suitable or the engagement does not have a rational purpose, assurance expected by the users cannot be provided, the auditor declines the engagement, unless required by law or regulation to accept the engagement.
48. When in rare and exceptional circumstances, the auditor is prevented from any of the ~~above~~ alternatives described in paragraph 44, and therefore effectively faces an inappropriate engagement, the auditor consults with appropriate-relevant parties and when necessary seeks legal advice. When considered appropriate by the auditor, the auditor may:
- (a) Issue a disclaimer of opinion on the basis of a limitation in the scope of the engagement.⁹
 - (b) Issue concurrently, a separate auditor's report to the user(s) that complies with the auditor's obligations under the AUASB Standards and refers to the prescribed report.
 - (c) ~~Decide to~~ write separately to the users, referring to the ~~specific~~ auditor's report and setting out:
 - (i) The auditor's concerns, including the misleading nature of the prescribed auditor's report, the use of which is mandated;
 - (ii) The reasons for the auditor's predicament, particularly the reporting inconsistency with the auditor's responsibilities under the AUASB Standards and the relevant ethical requirements ~~Accounting and Professional and Ethical Standards~~; and
 - (iii) If applicable, the auditor's inability to obtain evidence to the level of sufficiency and appropriateness considered necessary by the auditor to support the auditor's conclusion as required by the prescribed reporting format ~~The auditor's inability to obtain sufficient appropriate evidence to support the auditor's conclusion as required by the (inflexible) engagement mandate.~~

C. Obtaining Evidence from Third Parties [Ref: Table 1]

49. ~~While retaining responsibility, a~~ An entity may, in some cases, delegate to a third party some, or all, of the tasks relating which would be subject to the ~~to a SSGA~~ single subject grant or a MSE. For example, a portion of grant monies received may be used to engage a third party to perform procedures required under the grant agreement. Any such arrangements do not affect

⁹ See ASA 705, paragraphs 9 and 10.

the requirements of the AUASB Standards or the [underlying responsibilities of the auditor principles promoted in this GS](#).

50. In the circumstances described in paragraph 49, the overriding issue for the auditor, is the ability to obtain sufficient appropriate evidence in [order to conclude on each of the matters in the scope of the engagement relation to those matters considered to be material and relevant to the auditor's objective\(s\)](#). Table 3 outlines options that may be available to the auditor in different circumstances:

Table 3: Obtaining Evidence from a Third Party

Situation	Auditor's Response
The auditor is given access to the relevant records of the third party and provided with adequate explanations in relation to the work performed by the third party.	The auditor performs the procedures, and obtains adequate explanations, considered necessary by the auditor in order to obtain sufficient appropriate evidence to conclude.
The auditor is given access to the relevant working papers of the third party's auditor and provided with adequate explanations in relation to the work performed by the third party's auditor.	The auditor uses AUASB Guidance Statement, GS 011 <i>Third Party Access to Audit Working Papers</i> to obtain sufficient appropriate evidence with which to conclude.
Where applicable, the auditor is permitted to request the third party's auditor to perform the procedures considered necessary by the auditor; and to report thereon accordingly.	The auditor instructs the third party's auditor in accordance with the relevant AUASB Standard(s). For example, in the case of an audit of historical financial information, in accordance with paragraph 2 of ASA 600 <i>Special Consideration—Audits of a Group Financial Report (Including the Work of Component Auditors)</i> , ~~the auditor is~~ applieds the Standard , as appropriate, to obtain sufficient appropriate evidence with which to conclude. ~~Where the entity uses a service organisation, the auditor complies with the requirements of ASA 402 Audit Considerations Relating to an Entity Using a Service Organisation.~~
The entity uses a service organisation and a report on controls under ASAE 3402 is available from the service organisation	The auditor complies with the requirements of ASA 402 Audit Considerations Relating to an Entity Using a Service Organisation in using the report issued by the service organisation's auditor
Sufficient appropriate audit evidence is not available.	The auditor considers the effect on the auditor's report.

D. Determining Reporting Responsibilities [Ref: Table 1]

51. An auditor's responsibilities, and associated procedures, to obtain a clear understanding of reporting responsibilities for a ~~single-subject grant acquittal SSGA~~ or a MSE are no different from those in any other engagement. The auditor obtains an understanding of the auditor's reporting responsibilities [at the accepting and planning stages of the engagement](#), including whether the auditor's report is prescribed or not prescribed, ~~at the early stages of the engagement.—accepting and planning.~~

52. The following guidance aims to illustrate the *principles* of reporting particularly when the auditor determines that issuance of a single-form auditor's report, incorporating the different elements of the single-subject grant acquittal or MSE, is most effective and efficient in the circumstances of the specific engagement.

Overview

53. When reporting on a single-subject grant acquittal or a MSE, the auditor's objectives are the same as when reporting on other assurance engagements, namely to:
- (a) Form overall opinions and/or conclusions based on evaluation of conclusions drawn from evidence obtained.
 - (b) Express overall opinions and/or conclusions clearly in a report that also describes the basis for the opinions and/or conclusions.
 - (c) Reduce engagement risk to an appropriate level. ~~—engagement risk being the risk of expressing inappropriate opinions and/or conclusions when the subject matter is materially misstated.~~
 - (d) Ensure the auditor's report complies with relevant AUASB Standards and other applicable reporting requirements, including when the auditor's report:
 - (i) Is modified (qualified opinion, adverse opinion, disclaimer of opinion or includes an emphasis of matter paragraph or other matter paragraph); and
 - (ii) Contains supplementary reporting information such as a detailed list of minor instances of the entity's non-compliance with specified regulation that have been identified by the auditor.
 - (e) Ensure that the auditor's report is not misleading in the context of the specific engagement circumstances.
54. In expressing opinions and conclusions, the auditor uses the appropriate form of expression in the context of the applicable reporting framework and the relevant AUASB Standards.
- For example: Where a single-subject grant acquittal or a MSE report comprises a special purpose financial report (SPFR) and an entity's assertion on compliance with certain legislation, regulation or the terms of a contract, the auditor conforms with the reporting requirements in ASA 700 and ASA 800 regarding the SPFR; and ASAE 3000 and ASAE 3100 regarding the compliance element.

Users

55. Concurrently with procedures to understand the engagement mandates, the auditor performs procedures to identify users of the entity's report(s) and the auditor's report(s). Identification of users assists the auditor to determine the nature (form) of the auditor's report(s), including:
- (a) Whether there is a requirement to alert users of the special purpose of the entity's report; and/or
 - (b) Whether to restrict distribution of the auditor's report.
56. In the case of a grant acquittal or other contractual arrangement, the users are ordinarily the parties to the grant agreement or other contract. The signatories to the agreement(s) and the parties they represent, should provide a clear indication of the users.

For example: Where a grant is given to a company by a government department, the signature of the CEO, or other authorised staff, on the grant agreement, indicates that one group of users are the board of directors acting on behalf of the company that receives the grant. The

signature of a government Department Head, authorised officer/delegate or notices within the funding agreement, indicate that the other user group is the government department providing the funds.

57. Where identification of users is not straightforward, the auditor discusses the matter with the party engaging the auditor ~~and who pay for the auditor's services~~. When such communication does not yield sufficient detail on identifying users, the auditor contacts the other party to the contractual arrangement or the regulator(s) responsible for each separate engagement mandate.
58. ~~When communicating with users, the auditor~~ When communicating with users, the auditor ~~considers whether it is appropriate to inform~~ considers whether ~~users understand that they do not "own" or "direct" the audit and that auditor independence is a fundamental concept of audit and assurance.~~

Reporting when the Auditor's Report(s) is not Prescribed

59. When the form and content of the auditor's report is *not* prescribed by the engagement mandate, the auditor complies with the reporting requirements of the relevant AUASB Standards. The auditor may choose to:
- (a) ~~Provide multiple reports, separately~~ Report separately—i.e. issue several different reports that each address a distinct for each subject matter and/or level of assurance;¹⁰
 - (b) Issue a single-form multi-scope report—i.e. a single-form report that identifies each different subject matter and level of assurance ~~combines all the different elements of~~ the MSE; or
 - (c) A combination of (a) and (b). Table 4 illustrates this option where the auditor decides to issue 2-a single-subject report addressing one subject matter and a single-form multi-scope auditor's reports covering the remaining subject matters:

Table 4: Example of auditor reporting (see paragraph 59(c) above)

Subject Matters	Reporting under AUASB Standard
First Auditor's Report – single subject	
Audit of an historical financial report	Auditor's report in accordance with ASA 700 <i>Forming an Opinion and Reporting on a Financial Report</i> or ASA 800 <i>Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i> , <u>as applicable</u>
Second Auditor's Report – multi-scope	
Part A, audit of a single statement of grant income and expenditure	Report in accordance with ASA 805 <i>Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>
Part B, reasonable assurance on the entity's compliance with the terms of a grant agreement	Report in accordance with ASAE 3100 <i>Compliance Engagements</i>
Part C, limited assurance on a statement of	Report in accordance with ASAE 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial</i>

¹⁰ This GS does *not* address multiple auditor's reports that individually address different subject matters and/or levels of assurance—the auditor simply complies with the reporting requirements of each applicable AUASB Standard.

Subject Matters	Reporting under AUASB Standard
employee numbers required under a grant agreement	<i>Information</i>

Examples of how the 2 auditor's reports described above might be presented are demonstrated in Appendix 6, Illustrations 2(a) and 2(b).

60. In choosing whether to issue multiple reports separately or in a single-form report, the auditor considers:
- (a) any relevant requirements of the engagement mandate;
 - (b) user needs;
 - (c) the requirements of any other relevant standards; and
 - (d) reporting effectiveness and efficiency.
61. Where the auditor intends to issue a single-form MSE report, the auditor designs a unique report developed according to the circumstances, and which incorporates the reporting requirements of the relevant AUASB Standards as well as any reporting mandates, such as relevant requirements of a grant funding agreement.
62. In developing a unique single-form MSE report, the auditor seeks efficiency by avoiding repetition through and blending similar reporting requirements when appropriate, and but without blurring clouding the different elements sections of the MSE.
- For example: A single paragraph could be used to describe management's responsibilities for the various subject matters, rather than several, and in parts repetitive, paragraphs describing management's responsibilities for each subject matter.

Appendix 6 provides examples of auditor's reports that are not prescribed, for the circumstances described in paragraphs 59(b) and (c).

Other Reporting Responsibilities

63. Auditors should be satisfied as to whether there are any mindful of other reporting obligations which may exist under legal and regulatory requirements.
64. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the entity's relevant financial, or other, reports subject matter information that, in the auditor's judgement, is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor considers use of an "Other Matter" paragraph in the auditor's report.¹¹
65. If the auditor addresses other reporting responsibilities that are in addition to the auditor's responsibilities under the AUASB Standards to report on the subject matter information, the auditor considers use of a separate section of the report titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate.¹²

E. Prescribed Reporting [Ref: Table 1]

66. In some circumstances, the form and/or content of the auditor's report is prescribed and in some cases, may include a prohibition on modified opinions. In such cases, the auditor

¹¹ See ASA 706, paragraph 8.

¹² See ASA 700, paragraph 38.

compares the prescribed report with the reporting requirements of the relevant AUASB Standards. This comparison, taken together with the auditor's [powerability](#), if any, to remedy any reporting issues, is an [critical-important](#) part of the engagement acceptance procedures.

68:67. Although applicable to audits under the Australian Auditing Standards, the following extracts [are consistent with requirements under ASAE 3000 and](#) provide helpful guidance on the considerations to be applied regardless of which AUASB Standards apply:

(a) Extract from ASA 210 *Agreeing the Terms of Audit Engagements*:¹³

In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of the Australian Auditing Standards. In these circumstances, the auditor shall evaluate:

- (a) *Whether users might misunderstand the assurance obtained from the audit of the financial report and, if so,*
- (b) *Whether additional explanation in the auditor's report can mitigate possible misunderstanding.*

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in accordance with such law or regulation does not comply with Australian Auditing Standards. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with Australian Auditing Standards.

(b) Extract from ASA 700 *Forming an Opinion and Reporting on a Financial Report*:¹⁴

If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout or wording of the auditor's report, the auditor's report shall refer to Australian Auditing Standards only if the auditor's report includes, at a minimum, each of the following elements:

- (a) *A title;*
- (b) *An addressee, as required by the circumstances of the engagement;*
- (c) *An introductory paragraph that identifies the financial report audited;*
- (d) *A description of the responsibility of management (or other appropriate term, see paragraph 24 of this Auditing Standard) for the preparation of the financial report;*
- (e) *A description of the auditor's responsibility to express an opinion on the financial report and the scope of the audit, that includes:*
 - *A reference to Australian Auditing Standards and the law or regulation; and*
 - *A description of an audit in accordance with those Standards;*
- (f) *An opinion paragraph containing an expression of opinion on the financial report and a reference to the applicable financial reporting framework used to prepare the financial report (including identifying the jurisdiction of origin of*

¹³ See ASA 210, paragraph 21.

¹⁴ See ASA 700, paragraph 43.

the financial reporting framework that is not Australian Accounting Standards and, where applicable, Australian law or regulation);

- (g) *The auditor's signature;*
- (h) *The date of the auditor's report; and*
- (i) *The auditor's address.*

~~69.~~68. When an auditor determines that the prescribed reporting requirements do not align with, or conform to, the requirements of the [relevant](#) AUASB Standards, the auditor, as appropriate:

- (a) Communicates with the relevant authority, individual or group, seeking [agreement permission](#) to amend the prescribed auditor's report such that it conforms to AUASB Standards.
- (b) Issues an alternative report that complies with the requirements of the AUASB Standards. This option is considered especially when the auditor has experience with the relevant party having accepted such alternative auditor's reports in the past.
- (c) Communicates ~~the any~~ matters described in paragraph ~~678~~ above [that may be deficient in the prescribed auditor's report](#), through an "Other Matter" paragraph ~~in the auditor's report~~.

~~For example:~~

~~70.~~69. Prescribed financial reporting formats may, [for example](#), not include reference to management's responsibilities for the preparation of the entity's reports (financial, non-financial). In such cases, an "Other Matter" paragraph can be used to describe management's responsibilities. When the auditor is unable to redress issues with prescribed reporting requirements by appropriate application of the principles or procedures conveyed above, the auditor declines the engagement, unless required by law or regulation to accept the engagement.

~~71.~~70. When the auditor is not able to decline the engagement and is prevented from amending or adding to a prescribed auditor's report, the auditor has been prevented from exercising professional judgement as required by the AUASB Standards. Accordingly, the auditor consults with appropriate parties and when necessary seeks legal advice. When considered appropriate by the auditor, the auditor may, in the circumstances, be able to:

- (a) Issue a modified auditor's opinion or conclusion statement [in accordance with the relevant AUASB Standards](#).
- (b) Issue *concurrently* and preferably accompanying the prescribed auditor's report, a separate auditor's report to the user(s) that complies with the auditor's obligations under the AUASB Standards.
- (c) Write separately to the user(s,) referring to the specific prescribed auditor's report and setting out:
 - (i) The auditor's concerns, including the misleading nature of the prescribed report;
 - (ii) The form and content of a report under the relevant AUASB Standards;
 - (iii) The reasons for the auditor's predicament, particularly the reporting inconsistency with the auditor's responsibilities under the AUASB Standards and ~~the Accounting and Professional and Ethical Standards~~ [relevant ethical requirements](#); and

- (iv) If applicable, the auditor's inability to obtain ~~sufficient appropriate~~ evidence to the level of sufficiency and appropriateness considered necessary by the auditor to support the auditor's conclusion as required by the prescribed reporting format.

~~72:~~71. Appendix 7 provides further considerations relating to prescribed auditor's reports.

F. Prescribed Scopes and/or Procedures [Ref: Table 1]

~~73:~~72. In some ~~single subject grant acquittal~~SSGA or MSE, certain procedures and/or scopes may be prescribed by a relevant party, such as a regulator or the provider of grants.

Assurance

~~74:~~73. Prescribed procedures may be considered by the relevant party to be necessary to meet a specified assurance objective.

For example: In the audit guidance material¹⁵ issued by the Department of Health and Ageing, the Regulator sets out its expectations of the auditor and the information that auditors are expected to consider in the conduct of their audit.

~~75:~~74. When prescribed scopes and/or procedures are a prerequisite to a ~~single subject grant acquittal~~SSGA or MSE, the auditor:

- (a) Preserves the auditor's independence and professional judgement in determining the extent, timing and scope of audit procedures—a fundamental principle underpinning the value of independent assurance. This is achieved by the auditor determining whether the prescribed scopes and/or procedures:
 - (i) Will ~~provide enable the auditor to obtain~~ sufficient appropriate evidence to meet the *auditor's* objectives; or
 - (ii) Will need to be incorporated into procedures determined by the auditor as necessary to meet the *auditor's* objectives; or
 - (iii) Are additional to the procedures determined by the auditor to be necessary to meet the *auditor's* objectives.
- (b) Determines the auditor's reporting responsibilities, if any, in regard to the prescribed scopes and/or procedures.
- (c) Assesses whether the auditor is reasonably confident that the auditor will be able to discharge their responsibilities regarding the prescribed scopes and/or procedures.

~~76:~~75. The auditor does not accept the engagement, unless required to by law or regulation, if the auditor is unable to meet the prescribed scopes and/or procedures. This situation may arise, for example, where the auditor's independence will be compromised, the prescribed scope is not able to be assured, or the prescribed procedures ~~cannot are unable to~~ be performed.

Agreed-upon Procedures (no assurance)

~~77:~~76. Prescribed procedures, on the other hand, may not be considered by the relevant party as necessary to meet a specified *assurance* objective. Consequently, prescribed procedures are treated as agreed-upon procedures with factual findings reported accordingly. The auditor communicates ensures that this to the relevant party ~~understands this~~ and ensures that the engagement letter correctly reflects how the prescribed procedures will be addressed by the

¹⁵ See [Guide to Audit of the Approved Provider's Compliance with the Prudential Requirements for 2012-13](#)

auditor. In these circumstances, where the auditor intends to restructure a prescribed report, the auditor communicates this intention to the relevant party(ies).

Acceptance

~~78.~~77. Where the auditor is required by law or regulation to accept an engagement that the auditor would otherwise not accept, the auditor considers the guiding principles described at paragraphs 48 and ~~70~~4.

G. Performing SSGA and MSE concurrently with the Statutory Audit [Ref: Table 1]

~~79.~~78. Auditors commonly receive a late request from the entity to perform a ~~single subject grant acquittal~~SSGA or a MSE, ~~at the completion stage of when they are conducting~~ the statutory audit. The auditor then considers whether, and if so to what extent, audit work completed on the statutory audit can be applied to the ~~single subject grant acquittal~~SSGA or MSE.

~~80.~~79. When considering how ~~best to deal with late~~to address the additional engagement requests, the auditor follows the requirements in the relevant AUASB Standards:

- (a) Acceptance – including preconditions, agreeing terms, additional fees and an engagement letter;
- (b) Planning – including potential use of work completed for other purposes, such as the statutory audit;
- (c) Performance – including a separate representation letter;¹⁶ and
- (d) Reporting – including the form and content of the auditor’s report(s).

~~81.~~80. Where any such engagements are identified at the acceptance stage of the financial report audit, the auditor considers the potential for concurrent work and plans accordingly.

~~82.~~81. As the mandates, objectives, users, reporting frameworks etc., differ for each distinct subject matter, so the detailed work plans will differ. It is only at the engagement planning stage where the auditor finalises the engagement strategy and detailed plans, that ~~leveraging benefits using from~~ work performed on one ~~element~~section of the engagement for use on another, can be *planned*.

~~83.~~82. ~~Leveraging benefits~~Using assurance procedures for multiple purposes can be achieved ~~concurrently~~ by appropriate planning, such as:

- (a) Arranging the scope of procedures in areas that are common to the overall engagement generally and using the evidence for multiple purposes.

For example: When the auditor undertakes procedures to “understand the business” and to “assess risk”, the auditor ~~can may~~ design procedures, performed concurrently, that appropriately address the SSAGA and/or each of the distinct ~~elements~~sections of the ~~single subject grant acquittal or~~ MSE. This approach enables the auditor to avoid returning unnecessarily to these planning stages.

- (b) Utilising the common practice of “dual-purpose” testing such as, substantive tests of detail that can also be used as evidence of the operating effectiveness of internal control.
- (c) Avoiding the double-handling of the entity’s records.

For example: The auditor may choose to:

¹⁶ See Appendix 5 for an example of a management representation letter for a MSE.

- (i) Using the same records to concurrently obtain *different* sample selections to perform different procedures to achieve different objectives for different elements/sections of the engagement.
- (ii) Combining into one work programme, several procedures that:
 - ◆ Utilise the *same* sample selections from the entity's records.
 - ◆ Are designed to meet different substantive test objectives for different elements/sections of the single-subject grant acquittalSSGA or MSE;
and
 - ◆ Are to be performed concurrently.

84.83. Where the auditor decides to adopt a concurrent approach to meet differing engagement objectives, care is taken with, in particular:

- (a) Utilising materiality levels that are appropriate for each objective where work is performed simultaneously.

For example: To utilise a materiality level based on an entity's annual financial statements as a whole would be inappropriate for performing tests of a specific type of expenditure in accordance with a grant contract. [See discussion on materiality at paragraph 923-1057]

- (b) The nature of testing procedures that relate to the auditor's specific objectives.

For example: The results of a substantive (representative) sample from a financial population that uses a statistical method driven by the cumulative monetary amount could not be a substitute for attribute sampling seeking pre-determined confidence rates regarding the performance of internal control.

- (c) Appropriate audit documentation supporting the different audit objectives, procedures, results and assessments. [See also paragraphs 878 - 889]

H. Single-subject Grant AcquittalSSGA or MSE Reporting Periods Differing from the Entity's Financial Year-End Reporting Period

[Ref: Table 1]

85.84. The date of the annual financial report may differ from the relevant date for the other assurance requirements. This scenario does not prevent leveraging use, at least in part, of some evidence for the overlapping period; however, additional work would be necessary to achieve the planned approach for the other assurance requirements.

For example: Assuming the nature of the tests are appropriate to meet differing objectives, substantive tests performed in the annual statutory audit to (say) 30 June may be used in a single-subject grant acquittalSSGA or a MSE to (say) 30 September. The auditor extends the tests for the period 1 July to 30 September; however, the tests already performed in the statutory audit are efficiently used for two or more purposes.

86.85. When deciding on additional work to cover a period that extends beyond the work already performed, the auditor ordinarily considers matters such as:

- (a) Whether the objectives and procedures already performed are appropriate for the additional work;
- (b) Any significant changes that have occurred in the subject matter since the previous work was completed;

- (c) The need to update the auditor's risk assessment for the additional period, including any potential cut-off issues;
- (d) The possibility and practicality of testing internal control in order to reduce substantive procedures for the extended period;
- (e) Choosing the most appropriate substantive procedures – substantive analytical procedures versus tests of detail; and
- (f) Other core considerations such as materiality levels and the availability of evidence.

~~87.~~86. Whenever the auditor seeks efficiencies through ~~leveraging using~~ work effort from other engagements, it is essential that the auditor ~~ensures-determines~~ that the work performed and the evaluation of that work is sufficient and appropriate to meet the objectives of ~~the SSAG and/or~~ each separate ~~element~~section of the ~~single-subject grant acquittal or~~ MSE. ~~Without such verification~~Otherwise there will be, a significant risk ~~exists~~ that the auditor will not obtain sufficient appropriate evidence to support each objective.

Documentation

~~88.~~87. Whenever ~~cross-engagement efficiencies are~~leveraging work effort is achieved, the auditor ~~ensures-determines~~ that the engagement file(s) contains appropriate documentation to support the conclusions on ~~the SSAG and/or~~ each distinct ~~element~~section of the ~~single-subject grant acquittal or~~ MSE. It is not appropriate to assume that because evidence is documented in one file, or ~~section-part~~ of a file, that documentation requirements have been met for ~~the SSAG and/or~~ all ~~elements~~sections of the ~~single-subject grant acquittal or~~ MSE.

~~89.~~88. Cross referencing between files, ~~or within the same file,~~ may ~~suffice-be appropriate~~ but each file, or ~~section-part~~ of a file, should provide the requisite documentation ~~to support the relevant conclusion~~. ~~Cross-referencing or c~~Copying working papers contained in one file, or section of a file, for inclusion in another file, or ~~section-part~~ of a file, is an efficient ~~documentation~~ technique ~~to that ensure-enables~~ each file, or section of a file, ~~is-to-be~~ complete. ~~However,~~ ~~e~~Copied working papers should be properly labelled to ~~clearly show apply-to~~each relevant ~~element~~section of the engagement, or engagement objective ~~to which they apply~~. The working papers in each file, or ~~section-part~~ of a file, include evidence of review by a more senior person and, where applicable, evidence of quality assurance procedures having been performed.

I. Performing ~~Single-subject Grant Acquittals~~SSGA or MSE when not the Auditor of the Entity's Annual Financial Report [Ref: Table 1]

~~90.~~89. In the context of the approach outlined in Table 2, an auditor who is *not* the auditor of the entity's annual financial report pays particular attention to the "accepting" phase of the engagement.

~~91.~~90. This particular focus is because the auditor may have little or no knowledge of the entity or its environment, nor will the auditor have undertaken a (recent) risk assessment, all of which are required in an audit undertaken in accordance with the ~~Australian Auditing Standards~~AUASB Standards.

~~92.~~91. The following points are intended as a prompt of some of the more important considerations that an auditor, who is not the auditor of the entity's annual financial ~~statement~~report, may consider:

(a) Firm Capabilities

- (i) The partner's and team members' knowledge and experience relating to the proposed ~~SSGA and~~ MSE. In assessing this, the engagement mandates ~~are~~ need to be thoroughly understood.

- (ii) The firm's ability to comply with relevant laws, professional, ethical and technical Standards as well as any other requirements stipulated in the engagement mandates.

- (iii) The firm's quality control policies and procedures at both firm and engagement levels.

(b) Engagement Acceptability and Client Relationship

- (i) The ~~acceptability of the~~ rationale/purpose for the engagement.

- (ii) Appropriate subject matter and suitable criteria.

- (iii) ~~The Appropriateness of the engagement type~~ (level of assurance) in the circumstances.

- (iv) The availability of information necessary to perform the ~~engagement~~ engagement(auditability).

- (v) The integrity of management and/or those charged with governance (TCWG).

- (vi) Any restrictions or limitations in the scope of the engagement.

- (vii) Any risks/threats to the auditor's reputation or compliance with relevant laws and ~~s~~Standards. Particular attention is paid to "independence" and any prescribed reporting and/or prescribed scope/procedures.

(c) Objectives

- (i) The auditor separates the engagement into its ~~constituent different~~ sections/parts for each level of assurance and each subject matter so as to ~~obtain a clearly establish understanding of~~ the specific assurance and reporting objectives for each ~~element~~section.

- (ii) Of particular importance is ~~setting~~ developing preliminary ~~clear~~ objectives and strategies on how to perform procedures to gain an understanding of the entity and its environment; and how to perform appropriate risk assessment procedures.

(d) Preconditions for the Assurance Engagement

- (i) Determining whether the ~~criteria, such as the~~ financial reporting framework, ~~and/or other, reporting framework(s)~~ to be applied by management, or ~~those charged with governance~~ (TCWG), is/are acceptable/suitable (in relation to the mandate(s) and the intended users).

- (ii) Obtaining agreement from management/TCWG, that they acknowledge their responsibilities for:

⇒ The preparation of reports in accordance with the relevant mandate(s);

⇒ For such internal control as management/TCWG determine is necessary to enable the preparation of the report(s) that are free from material misstatement; and

⇒ Providing the auditor with:

- Access to all relevant information;

- Additional information as requested; and

- Unrestricted access to personnel.

(e) Agreeing the Terms of the Engagement

- (i) The auditor agrees the terms of engagement with management, or TCWG, as appropriate.
- (ii) The terms of engagement ~~should be~~are in writing, tailored to the circumstances, and ~~should~~comply with the requirements of the relevant AUASB Standards. The engagement letter ~~should~~clearly identifies the SSGA and the different elementssections of the MSE.
- (iii) Without clarity about the SSGA and the exact elementssections of the MSE, including the related reporting, there is a significant risk of:
 - ⇒ Misunderstanding between the auditor and management/TCWG; and
 - ⇒ The engagement team performing the engagement either ineffectively (by not fulfilling the appropriate requirements); or inefficiently (by performing unnecessary procedures).
- (iv) The various users of the entity's reports (other than general purpose financial reports) ~~should be~~are identified in the engagement letter and consequently, the related auditor's report. This is particularly important where reporting is for a "special purpose", such as an application for a licence.
- (v) An example of an MSE-engagement letter for a MSE is set out in Appendix 4.

J. Setting Materiality [Ref: Table 1]

93.92. The requirements and the underlying concepts relating to materiality are found in the relevant AUASB Standards¹⁷ and they apply equally to single subject grant acquittal SSGA or a MSE.

94.93. In determining materiality levels, auditors exercise professional judgement by considering qualitative and quantitative factors, including reasonable expectations of issues that would likely influence the decisions of users.

95.94. For assurance purposes, materiality is determined in order to establish:

- (a) A tolerable level of misstatement, deficiency, deviation or non-compliance of the subject matter (which may be in the entity's reports);
- (b) The scope of assurance work to be performed; and
- (c) A reasonable basis for evaluating identified misstatements, deficiency, deviation or non-compliance.

96.95. Given the objectives of setting materiality levels described in paragraph 945, the auditor of a single subject grant acquittal SSGA or MSE develops separate materiality levels for each of the elementssections of the engagement.

Example 1: Developing Separate Materiality Levels

The entity is required to report the following to a regulator:

- Its annual financial performance and position (a financial report/statement);

¹⁷ See ASA 320 *Materiality in Planning and Performing an Audit*; ASRE 2400; ASAE 3000; and ASAE 3100.

- Specified non-financial information in a prescribed format (a statistical return); and
- Its compliance with prudential [standards](#) (a compliance statement).

The **engagement team** may, for example, set materiality levels for this MSE, by adopting the following approach:

- For *the financial report*, materiality would be set under ASA 320 in the same manner as any other audit of a financial report.
- For *the statistical return*, the auditor may use multiple materiality levels by using each recorded information on the statistical return as the basis for setting materiality for that particular information, for example:

To obtain sufficient appropriate evidence concerning:

- The number of employees recorded in the return, materiality might be set at an appropriate percentage of the recorded number of employees.
- The number of insurance policies written in the year, materiality might be set at an appropriate percentage of the recorded number of policies written.

In setting these differing materiality levels, the engagement partner takes into consideration qualitative and quantitative factors; and the risk of issuing an inappropriate report. The engagement partner is satisfied with the level of work done when opining that “...the statistical return (i.e. *all* its component parts) has been prepared, *in all material respects*, in accordance with...”

[\[See ASA 805 paragraphs 10 and A10-A14; and ASA 200 paragraph 2 \(the auditor applies Australian Auditing Standards relevant to the audit as necessary in the circumstances of the engagement.\)\]](#)

- For *the entity’s compliance statement*, the auditor may judge that every item, and its component parts, reported by the entity in the statistical return, are material. Compliance ~~is commonly~~ [may be](#) a simple “yes” or “no” with *all* instances of non-compliance to be reported to the regulator by the auditor. [See paragraph 100 for further discussion [and ASAE 3000 paragraphs 44 and A92-A100.](#)]

~~97.~~ [96.](#) A variation on the above example is where the *statistical return* includes financial information as well as non-financial information.

Example 1.1: Developing Separate Materiality Levels (cont’d)

The **entity** is required to report as described in Example 1 above. However, the *statistical return* comprises both financial and non-financial information.

The **engagement team** may place emphasis on qualitative factors and set multiple materiality levels for the *statistical return* element of the MSE, by adopting a combination of methods, for example:

Non-Financial Information:

~~(d)~~(a) As described in Example 1 (see above and ASAE 3000).

Historical Financial Information:

~~(e)~~(b) For historical financial information extracted from audited financial information (such as a SPFR), the engagement partner may:

- (i) Determine that the materiality levels used in the audit of the SPFR are acceptable/suitable for the purposes of the statistical return; or
- (ii) Establish new materiality levels:
 - ◇ In accordance with the principles espoused in ASA 320; or
 - ◇ Based on the amounts recorded in the statistical return.

Prospective Financial Information:

~~(f)~~(c) For prospective financial information, materiality may be set with reference to the principles and guidance provided in ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

In setting these differing materiality levels, the engagement partner takes into consideration the risk of issuing an inappropriate report. The engagement partner is satisfied with the level of work done when opining that "...the statistical return (i.e. *all* its component parts) has been prepared, *in all material respects*, in accordance with..."

98.97. Whatever approach is taken in setting materiality levels, the engagement partner is required under the AUASB Standards to adopt the principle consider that misstatements, deficiencies, deviations or non-compliance, and including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the information.

99.98. In setting materiality levels, regardless of the subject matter or level of assurance, the engagement partner reduces engagement risk to an acceptable level in the circumstances of the assurance engagement. Assurance engagement risk comprises inherent risk, control risk and detection risk.

Exception Reporting

~~100.~~99. As indicated in Example 1 above, the engagement requirements may ask for a very high level of exception reporting of all exceptions identified in the course of the engagement. The criteria for any such reporting are established during the engagement planning stage. For example, if every instance of non-compliance is to be reported to the Regulator. In such cases, the auditor:

- (a) Clarifies the exact requirements—to report all instances of non-compliance *identified* during the assurance engagement is not the same as designing an assurance engagement *to identify all* instances of non-compliance.
- ~~(b)~~ Once the exact requirements are clear, determines whether the engagement is an assurance engagement or an agreed-upon procedure that should be conducted under AUASB Standards on Related Services.⁴⁸ The Framework for Assurance Engagements and ASA 200 describe reasonable assurance as providing a high but not absolute level of assurance.

⁴⁸—See ASRE 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

- (b) Clarifies the auditor's reporting requirements, including any prescribed reports—where the phrase: "...in all material respects..." is included in the auditor's opinion (or conclusion).
- (c) Clarifies whether the auditor is expected to include in the auditor's report, all instances of non-compliance (already) reported by the entity, or whether the auditor's report should include only those instances of non-compliance that the auditor has identified and that the entity has yet to report to the Regulator.
- (d) Where the auditor's responsibilities are unable to be clarified in terms of the matters set out in (a) to (c) above, the auditor communicates with the appropriate user of the auditor's report to obtain clarification.
- (e) Considers the principles in ASA 700 which provides for the auditor's report to include a separate section for "Other Reporting Responsibilities".¹⁹

101.100. Commonly, an auditor is expected to report all instances of non-compliance *identified* during the assurance engagement. Where this is the case, the concepts of setting materiality in accordance with the relevant AUASB Standards for the purposes of performing the audit or review, remain unchanged – that is, to determine the scope of the assurance work to be performed. However, materiality is *not* used to determine the scope of reporting non-compliance because *all identified* instances of non-compliance must be reported.

102.101. Appendix 8 provides an example of reporting instances of non-compliance identified during the audit.

Materiality and Reporting

103.102. In certain circumstances, the audit mandate, or a prescribed auditor's report, may require reporting that uses precise terms such as "...is correct". This suggests that "materiality" is not to be applied by the auditor and that the subject matter is audited in its entirety (i.e. the auditor's objective is *absolute* assurance). Such exacting terms are not used in the context of audit and other assurance engagements are not in accordance with AUASB Standards and if used in this context, are in fact misleading.

104.103. The AUASB *Framework for Assurance Engagements* provides a structure supporting only "reasonable assurance" and "limited assurance", not *absolute* assurance. This is due to factors such as:²⁰

- (a) The use of selective testing.
- (b) The inherent limitations of internal control.
- (c) The fact that much of the evidence available to the auditor/assurance practitioner is persuasive rather than conclusive.
- (d) The use of professional judgement in gathering and evaluating evidence and forming conclusions based on that evidence.
- (e) In some cases, the characteristics of the underlying subject matter when measured or evaluated against the criteria

105.104. As described in earlier sections of this GS, the auditor communicates with the entity and the user to clarify expectations. Such communication will serve to inform all parties concerned and enable clarification of the auditor's responsibilities under the AUASB

¹⁹ See ASA 700, paragraphs 38 and 39.

²⁰ See *Framework for Assurance Engagements* paragraph 723 (and also paragraphs 9267-onwards70 on "Materiality")

Standards and the auditor's objectives which in turn will drive the auditor's procedures and ultimately the auditor's report.

~~106.~~ 105. In these cases, communications among the relevant parties would be expected to lead to:

- (a) An amendment to the scope of the engagement, such as the addition of agreed upon procedures which enable the auditor to report factual findings and where, if insisted upon by the user, terms like "...are correct" may not be misleading. Any such arrangement would need to be reflected in the terms of the engagement documentation and would ordinarily attract additional fees.

The auditor considers the matters discussed in paragraphs ~~723-778~~ (Section ~~FVI~~).

- (b) Clarification of the issues described in paragraphs ~~99100-1001~~.

~~107. Appendix X provides an example of MSE reporting that combines assurance and non-assurance reporting.~~

K. Cost Allocations [Ref: Table 1]

~~108.~~ 106. Commonly in grant acquittals, it is necessary for the auditor to obtain sufficient appropriate evidence in relation to the entity's allocation of costs, such as overheads and labour, to the specific project(s) covered by the grant.

Ordinarily, the auditor establishes, among other things:

- (a) What constitutes "eligible expenditure" specific to the particular grant;
- (b) How to determine what is acceptable eligible expenditure; and
- (c) ~~How The criteria that the entity controls-uses to the allocation of~~ expenditure to the specific project to which the grant applies.

The grant agreement may provide some of the information and definitions required, however, if this is not the case, the auditor may find relevant details in the documentation that supports the entity's grant application.

~~109.~~ 107. It must be remembered that the entity receiving the grant is responsible for proper accounting under the terms of the grant agreement, not the auditor. The auditor's responsibilities are to be objective, exercise professional judgement, maintain professional scepticism and obtain sufficient appropriate evidence with which to conclude (on cost allocations).

~~110.~~ 108. The auditor considers the auditor's understanding of the engagement mandate and its requirements, and the entity's approach, procedures and internal control for allocating costs to the specific project/subject matter concerned. As with all aspects of ~~a SSGA single subject grant acquittal~~ or ~~a~~ MSE, it is ~~best-preferable~~ to consider each ~~element-section~~ separately.

~~111.~~ 109. The auditor may adopt a full substantive approach by testing the elements and computations of the entity's calculations. Alternatively, the auditor may choose a combination of procedures by auditing the entity's internal control that is designed to ensure proper allocation of costs to specific projects together with supporting substantive procedures. In deciding the approach, the auditor refers to any relevant requirements that may be included in the engagement mandate.

~~112.~~ 110. However, the entity may not have ~~consistently applied suitable criteria, or~~ adopted a structured, or formal, approach to cost allocation. It is not uncommon for an entity to use ~~an somewhat~~ arbitrary approach. In such cases, the auditor:

- (a) Assesses the suitability of the criteria used for cost allocations.
- ~~(a)~~(b) Obtains an understanding of the entity's approach-methods of to cost allocation.
- ~~(b)~~(c) Assesses the efficacy of the approach used by, for example, comparison with a reasonable model developed by the auditor.
- ~~(c)~~(d) Asks the entity to provide the base information and calculations of a reasonable model.
- ~~(d)~~(e) Failing the entity's ability or co-operation to support their cost allocation, attempts to obtain the basic information and develop a reasonable model that can be used to assess the reasonableness of the entity's method(s).
- ~~(e)~~(f) Where the auditor is unable to obtain sufficient appropriate evidence to support the entity's allocation, the auditor:
 - (i) Communicates with those charged with governance; and
 - (ii) Considers the effect on the auditor's report.

L. Substantive Procedures (Assurance Engagements) [Ref: Table 1]

~~113.~~ 111. Due to the nature of a single subject grant acquittal SSGA or a MSE, determining the appropriate substantive procedures, including the use of sampling, and the extent of work to be performed, may present difficulties. In such cases, the auditor returns to basic principles, namely:

- (a) Confirming any relevant requirements in the engagement mandate, such as:
 - (i) Procedures that may be necessary to assess and report on compliance with a grant funding agreement.
 - (ii) Requirements to perform and report on (unspecified) tests of detail on specified categories of expenditure.
 - (iii) The existence of prescribed procedures that an auditor is required to perform and report on. [See paragraphs 72-75]
 - (iv) Procedures considered necessary to detect and report weaknesses in internal control, or breaches/non-compliance with laws, regulations or the terms of a contract/agreement.
 - (v) Procedures considered necessary to support communications with management and those charged with governance.
- (b) The MSE is considered in terms of each distinct element-section. This facilitates clear understanding of:
 - (i) The relationship and relativity-relevance of the each section element and its parts to other elements-sections in the overall MSE; and
 - (ii) Specific objectives, strategies and work programs to address each specific objective in the context of materiality and reliance on (tested) internal control.
- (c) Once this clarity of (specific) purpose is established, selecting the appropriate timing, nature and scope of substantive procedures is no different from any other type of engagement.

- (d) Uppermost is the requirement for sufficient appropriate evidence with which to conclude. The extent of substantive procedures to obtain evidence can be reduced where reliance can be placed on the results of testing the design and operating effectiveness of relevant internal controls. Care ~~should be~~^{is} taken ~~to ensure that~~ control reliance is ~~taken obtained~~ only in respect of assertions addressed by controls that have been tested. Where a relevant assertion has not been addressed by a control, or a control test has failed, the extent of the auditor's substantive procedures ~~are~~^{is} increased.
- (e) Ordinarily, substantive analytical procedures²¹ (SAPs) are considered first because of the potential for efficiencies and effectiveness. SAPs are most useful in dealing with large populations and where reliable data can be used to develop sufficiently precise predictions/expectations. Analytical procedures include techniques to prove a population in total, and the use of computer-assisted techniques, such as data analytics.
- (f) Where SAPs are not likely to be efficient or effective, the alternative~~s~~ tests of detail~~s~~ is required. Again, the auditor considers efficiency and effectiveness in determining the nature, timing and extent of procedures.
- (g) Where sampling is chosen to obtain substantive evidence²² from which to draw reasonable conclusions, the auditor clarifies the sampling objectives in order to choose the appropriate sampling approach/technique, namely:
- (i) Representative sampling is used when the size of the population is large and the characteristics of the population are reasonably homogeneous – samples can be used appropriately to draw conclusions about the entire population.
 Samples can be selected by
 - ◇ Statistical methods, which provide a structured approach to evaluating results; or
 - ◇ Non-statistical methods, including judgemental selection, the results of which may, however, be difficult to evaluate in terms of drawing a conclusion on the entire population sampled.
 - (ii) Stratification sampling is used when the auditor divides a population into items with different characteristics, such as those with (high) values over a particular amount and those falling below the amount.
 The auditor tests *all* the items with a particular characteristic (such as those with high values). This type of sampling is commonly used in populations where the auditor can easily select and test a small number of items which account for a majority of the entire population from which they were selected.
 The remaining items in the target population, having different characteristics, such as those with low values, may be subjected to representative sampling (see (i) above).
- (h) Care must be exercised when the auditor intends to use substantive tests for more than one purpose.
 For example: Payroll testing designed, in combination with tests of internal control, to obtain sufficient appropriate evidence for one ~~element~~^{section} of a MSE, say, the audit of a financial ~~statement~~^{report} may not be appropriate to conclude on another

²¹ See ASA 520 *Analytical Procedures*.

²² See ASA 530 *Audit Sampling* and where relevant, the applicable ASAEs.

~~element~~section of the MSE, say, ~~continuous~~ compliance with laws over a period of time.

- (i) Regardless of the procedures adopted by the auditor, the auditor obtains sufficient appropriate evidence from which to draw conclusions in relation to each section of the engagement subject matter information irrespective of the level of disaggregation of that information.

Controls

- (j) For information on testing controls, see ASAE 3150 Assurance Engagements on Controls.

M. Concluding and Reporting [Ref: Table 1]

Forming Conclusions

~~114.~~112. The first step is for the auditor to reach an overall conclusion on the subject matter—regardless of the type of subject matter (financial, non-financial) or the level of assurance (reasonable and/or limited). This is achieved by:

- (a) Determining whether the auditor has obtained reasonable or limited assurance, as the case may be. The auditor evaluates the conclusions drawn from the evidence obtained throughout the engagement. This evaluation is conducted by reference to the auditor's objectives and procedures at each stage of the engagement.
- (b) The auditor's ~~prime~~ objective, at this stage, is to determine the overall sufficiency and appropriateness of the evidence obtained.
- (c) The auditor considers the qualitative aspects of the entity's reporting practices in forming an overall conclusion by taking into account:
 - (i) The persuasiveness of evidence obtained through the planned response to assessed risks of material misstatement, deviation, deficiency or non-compliance.
 - (ii) Whether uncorrected misstatements, deviations, deficiencies or non-compliances are material (either individually or in aggregate).
 - (iii) Whether the entity's financial or other report(s) is presented or prepared, in all material respects, in accordance with ~~the~~ requirements of the applicable criteria/reporting framework.
- (d) In view of the requirements of the criteria/applicable reporting frameworks, the auditor considers whether the entity's report(s):
 - (i) Identifies the criteria/applicable reporting framework(s).
 - (ii) Adequately discloses what is required to be disclosed;
 - (iii) Reflects appropriate reporting policies applied in accordance with the applicable reporting frameworks;
 - (iv) Reflects reasonable management estimates, where applicable;
 - (v) Is relevant, reliable, comparable and understandable;
 - (vi) Is appropriate in presentation, structure, content and contains terminology that is appropriate; and

(vii) Represents the underlying transactions, events and records.

~~115.~~113. The criteria/applicable reporting framework(s) may not require management, or those charged with governance, to evidence their responsibility for the entity's reports by signing an assertion attestation or declaration that accompanies the entity's reports. In such circumstances, the auditor encourages management to do so on the basis that such omission renders the entity's reports incomplete and therefore potentially ambiguous to users.

114. In circumstances where a written management assertion attestation does not accompany the entity's reports, such as is often the case in prescribed reporting formats, the auditor reflects on management's acceptance of the terms of the engagement as evidenced by the engagement letter. In such cases, the auditor may utilise an "Other Matter" paragraph in the auditor's report, to address the issue any lack of clarity regarding responsibilities. [See also paragraph 6~~8~~9]

Expressing Opinions/Conclusions

~~116.~~115. Reporting responsibilities and prescribed auditor's reports are included in the discussions on practical issues - see sections IV-D and VE.

~~117.~~116. In developing the auditor's report, the auditor starts by reconfirming their understanding of the following:

Table 5: ReCconfirming Reporting Requirements

		Paragraph/Ref
a	Whether the form and content of the auditor's report is prescribed in part or whole	6 ~~6~~ 7-71
b	The reporting requirements set out in the engagement mandates	51-6 ~~5~~ 6
c	User needs	55-58
d	Other reporting responsibilities	6 ~~3~~ 4-6 ~~5~~ 6
e	Reporting requirements set out in the relevant AUASB Standards	ASAs; ASREs; ASAEs; and ASRSs

~~118.~~117. Ordinarily, the auditor has a level of discretion in determining the form and content of the auditor's report within the context of the above requirements. In such cases, the auditor pays particular attention to user needs and the purpose of the engagement.

Report Content

~~119.~~118. The reporting requirements contained included in all AUASB Standards, in particular ASA 700 and ASAE 3000, contain; in one form or another, the the following basic elements of an auditor's report in common, namely:

- The addressee/intended user.
- Identification of the subject matter information—such as a financial report, an attestation or statement of compliance or a schedule of non-financial information;
- The criteria used in the preparation of the subject matter information or with which the subject matter will be evaluated—such as the Australian Accounting Standards, the terms of a contract or regulatory requirements;
- The responsibilities of those whose duty it is to prepare the subject matter information;

- (e) The auditor's responsibilities; and
- (f) The opinion or conclusion statement.

~~120.~~ **119.** Overall, the auditor determines that the auditor's report is not misleading – see paragraphs ~~678-704~~.

Modifications

~~121.~~ **120.** Modifications to an auditor's report on a ~~single subject grant acquittal~~ [SSGA](#) or a MSE are premised on the auditor's obligation to communicate with users. This premise is no different to reporting on any other assurance or non-assurance engagement.

~~122.~~ **121.** Modifications to an auditor's report fall into 2 broad categories:

- (a) Modifications to the auditor's opinion or conclusion statements, (qualifications, adverse opinions and disclaimers of opinion). The auditor draws attention to an issue relating to the subject matter that, in the auditor's opinion, would render the subject matter information misleading but for the auditor's communication; and
- (b) Drawing attention to important information contained within the subject matter information, ([using an](#) emphasis of matter paragraph) or in relation to the audit, [the](#) auditor's responsibilities or [the auditor's](#) report, (other matter paragraph), so as to focus users' ~~awareness~~ [attention of on](#) the significance of certain information in understanding the subject matter [information report or statement](#) and the auditor's report thereon.

~~123.~~ **122.** Auditors of ~~grant acquittals~~ [SSGA](#) and MSE who modify their reports apply the principles expounded in ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*; and ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

Other Reporting Responsibilities

~~124.~~ **123.** When the auditor has reporting responsibilities in addition to the auditor's responsibilities to report on the subject matter, the auditor communicates the relevant information using one or more paragraphs that appear after the auditor's opinion or conclusion statement. This facilitates the auditor presenting information that does *not* affect the auditor's opinion or conclusion statement.

124. The auditor determines what is required to be reported. For example, in some circumstances only "significant" compliance breaches are required to be reported – if this is the case, the auditor obtains an understanding of what constitutes "significance [to users](#)" and the relationship with matters considered "material".

125. An example of other reporting responsibilities in a MSE is where an auditor is required to report *all* instances of an entity's non-compliance with regulations. The auditor [may use](#) a "Report on Other Legal and Regulatory Requirements" paragraph for this purpose [and an attached schedule or detailed report where necessary](#).- Ordinarily, the auditor includes those matters of non-compliance already identified and reported by the entity, together with any additional instances of non-compliance, if any, that the auditor has identified during the audit.

126. In such circumstances, auditors, preparers and users alike may commonly misinterpret the additional reporting requirements as meaning the auditor is required to perform a 100% check of the subject matter (in this example, continual compliance with regulations). It is the auditor's responsibility to clarify such thinking as, in this case, the intention is for the auditor to report all instances of non-compliance *that came to the auditor's attention during the course of the audit – i.e. that is*, there is no ~~continuous~~ compliance object [per se](#), and the auditor plans the engagement accordingly ~~(i.e. no continuous compliance objectives are established)~~.

~~126.~~[127.](#)_____An illustrative example report is provided in Appendix 8.

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Appendix 1

(Ref: Para.33 onwards)

REMINDERS SUMMARY

The following tables are intended as reminders only of some of the matters included in this GS that an auditor considers in addressing practical application issues associated with a single-subject grant acquittalSSGA and a MSE (see Table 1, paragraph 5). It is not intended that all the considerations in the tables apply to every single-subject grant acquittalSSGA or MSE; or that the listings serve as a program or checklist in the conduct of such engagements. Paragraph numbers refer to more extensive commentary in the body of this Guidance Statement.

Table 1.16: Considerations in all single-subject grant acquittalSSGA and MSE

Topic	Para Ref:	Considerations
Overall Strategy	<u>28</u> ~~9~~	The most effective approach auditors can adopt to address practical application issues regarding <u>single-subject grant acquittalSSGA</u> or <u>a MSE</u> , is comprehensive planning through: (a) Considering separately the engagement mandates, user needs and objectives for each of the different <u>elementssections</u> of the engagement in order to identify clear and distinct imperatives; (c) Communicating with relevant parties to clarify uncertainties and resolve issues; and (b) Establishing detailed strategies, plans and efficiencies <i>only</i> when there is clarity about each <u>elementsection</u> of the engagement(s).
<u>Preconditions</u>	<u>29</u>	<u>Under the AUASB Standards, the preconditions for each assurance aspect of the MSE engagement are established.</u>
Terms of Engagement	30	Each <u>single-subject grant acquittalSSGA</u> or separate <u>elementsection</u> of a MSE is included in an engagement letter. ~~The preconditions for each assurance aspect of the engagement are established.~~

Table 71.2: Considerations in Addressing Specific Issues

<u>Issue Ref.</u>	Topic	Para Ref:	Considerations
<u>A</u>	Unclear mandates	34	Auditors ~~exhaust all avenues~~ <u>seek</u> to clarify the <u>single-subject grant acquittalSSGA</u> or MSE requirements. The auditor's <u>engagement</u> objectives <u>and responsibilities</u> can only be apparent when the engagement mandates are properly understood.
<u>A</u>	Unclear mandates	36	Of particular importance for the auditor, is clarity about, <u>and assessment of</u> , the <u>suitability of criteria, the acceptability of the reporting framework, the auditor's assessment of the acceptability of that framework</u> and management's acceptance of its responsibility to report under that framework.
<u>A</u>	Unclear mandates	40	Where <u>engagement</u> mandates are defined in out-dated terms, such as is the case in some legislation, regulation or long-standing contracts, the auditor <u>may</u> communicates with the relevant regulator or parties to the contract (the users) to clarify their current expectations.

<u>Issue Ref.</u>	Topic	Para Ref:	Considerations
<u>B</u>	Subject Matters unable to be assured	44	<u>Engagement m</u> Mandates may require assurance on a subject matter that ~~cannot be assured~~ <u>is unable to be assured or very difficult to assure</u> . The auditor communicates with the users to determine if alternative arrangements are acceptable.
<u>B</u>	Subject Matters unable to be assured	48	When an auditor is prevented from declining an engagement that the auditor would otherwise not accept, the auditor consults and may issue a disclaimer of opinion; or write or report separately to the user(s).
<u>C</u>	Obtaining Evidence from a third partiesy	50	The overriding issue for the auditor is the ability to obtain sufficient appropriate evidence in relation to those matters considered to be material and relevant to the auditor's objective(s) <u>where evidence is located with a third party</u> . Depending on the circumstances, the auditor may be able to achieve this by: (a) access to the third party's records; or (b) access to the working papers of the third party's auditor; or (c) requesting the third party's auditor to perform procedures; or (d) complying with ASA 402, if applicable, <u>when an ASAE 3402 report on controls at the third party is available</u> . When sufficient appropriate evidence is not obtained, the auditor considers the effect on the auditor's report.
<u>D</u>	Reporting	51	The auditor obtains an understanding of the auditor's reporting responsibilities, including whether the auditor's report is prescribed or not prescribed, <u>at the early stages of the engagement</u> ~~accepting and planning~~ .
<u>D</u>	Reporting	59	When reporting is <i>not</i> prescribed, the auditor may choose to issue a single-form report that comprises several different <u>elements</u> ~~sections~~ .
<u>E</u>	Prescribed reporting	~~67~~ 8	In assessing prescribed reporting requirements, the auditor looks to ASA 210 and ASA 700, <u>and where applicable ASAE 3000</u> , which provide the principles to be considered regardless of which AUASB Standards apply.
<u>E</u>	Prescribed reporting	~~68~~ 9	When an auditor determines that the prescribed reporting requirements do not conform with the requirements of the AUASB Standards, including a prohibition on modifying the auditor's opinion, and the auditor is unable to redress the situation appropriately, the auditor considers use of an "Other Matter" paragraph to provide additional explanation in the auditor's report
<u>E</u>	Prescribed reporting	~~70~~ 1	When the auditor is unable to decline an engagement <u>that requires a report that does not comply with AUASB Standards</u> , the auditor consults widely. When considered appropriate, the auditor may: (a) Modify the opinion or conclusion statement. (b) Issue concurrently, a separate auditor's report that complies with the AUASB Standards. (c) <u>W</u> ~~w~~ rite separately to the user(s), referring to the specific

Issue Ref.	Topic	Para Ref:	Considerations
			prescribed auditor's report and setting out the auditor's concerns.
F	Prescribed scopes and/or procedures	745	The auditor preserves the auditor's independence and professional judgement in determining the extent, timing and scope of audit procedures—a fundamental principle underpinning the value of independent assurance. The auditor meets the auditor's objectives and in so doing, may: (a) Incorporate prescribed scopes/procedures into the auditor's plan; or (b) Perform the prescribed procedures in addition to the auditor's plan.
G	Performing MSE concurrently with the statutory audit	812	It is only at the engagement planning stage where the auditor finalises the engagement strategy and detailed plans, that ~~leveraging~~ efficiencies (from work performed on one ~~element~~ section of the engagement for use on another) can be <i>planned</i> .
H	~~Single subject grant acquittal~~ SSGAs or MSE reporting periods differ from the entity's annual financial year.	878	Whenever ~~cross engagement efficiencies are~~ leveraging work effort is achieved, the auditor ~~ensures~~ determines that the engagement file(s) contains appropriate documentation to support the conclusions on ~~the SSGA and/or~~ each distinct ~~element~~ section of the ~~single subject grant acquittal or~~ MSE.
I	Performing MSE when <i>not</i> the auditor of the entity	890	An auditor who is <i>not</i> the auditor of the entity's annual financial report, pays particular attention to the "accepting" phase of the engagement.
I	Performing MSE when <i>not</i> the auditor of the entity	912	The more important considerations that an auditor, who is <i>not</i> the auditor of the entity's annual financial statement, considers: (a) Firm capabilities (b) Engagement acceptability and client relationship (c) Objectives (d) Preconditions for the assurance engagement (e) Agreeing the terms of the ~~single subject grant acquittal~~ SSGA and/or MSE
J	Setting Materiality	934	Auditors exercise professional judgement by considering <i>qualitative</i> and <i>quantitative</i> factors in setting materiality , including reasonable ~~expectations~~ understanding of issues that would likely influence the decisions of users.
J	Setting Materiality	956	The auditor of a ~~SSGA~~ single subject grant acquittal or ~~a~~ MSE develops <i>separate</i> materiality levels for each of the ~~elements~~ sections of the engagement.
K	Cost Allocations	10840	The auditor obtains an understanding of the entity's approach, procedures and internal control for allocating costs to the specific project/subject matter concerned. As with all aspects of a ~~SSGA~~ single subject grant acquittal or ~~a~~ MSE, it is best to consider ~~each section~~ the element parts separately.

<u>Issue Ref.</u>	Topic	Para Ref:	Considerations
<u>L</u>	Substantive Procedures	11 ~~23~~	In determining the nature, timing and extent of substantive procedures in a ~~single-subject grant acquittal~~ <u>SSGA</u> or MSE, the auditor applies the same principles as with any assurance engagement. Uppermost is sufficient appropriate evidence and in this context, the auditor selects the most effective and efficient procedures in the circumstances.
<u>M</u>	Concluding and Reporting	11 ~~24~~	The auditor reaches an overall conclusion through assessing: the sufficiency and appropriateness of the evidence obtained; and ~~whether the entity's report(s) or attestation are materiality misstated or there is a material non-compliance, deviation or deficiency in the subject matter is prepared and presented in accordance with the applicable reporting framework.~~
<u>M</u>	Concluding and Reporting	1 ~~19~~ <u>20</u>	Overall, the auditor determines that the auditor's report is not misleading.

Appendix 2

(Ref: Para.12)

NATURE ELEMENTS OF ASSURANCE AND NON-ASSURANCE ENGAGEMENTS

Introduction

Some engaging parties require engagements which combine levels of assurance and no assurance, different subject matters, different criteria and both attestation and direct engagements. Multiple AUASB Standards will apply to such engagements and consequently the acceptance, planning, conduct and reporting of those engagements can be complex and confusing.

All assurance engagements involve the evaluation or measurement of a subject matter (financial information, controls, and compliance activities) against criteria (financial frameworks, control objectives, legislation/regulation/contractual requirements) to reach a reasonable or limited assurance conclusion. In attestation engagements, the responsible party (the entity), conducts that evaluation or measurement and presents the results in a statement (financial statement, attestation on operating effectiveness of controls or attestation on compliance with requirements). In direct engagements, no evaluation or measurement is undertaken by the responsible party.

Agreed-upon procedures engagements are engagements to conduct procedures that have been agreed to by the auditor and the engaging party; where the auditor reports factual findings; and the auditor does not provide assurance.

Subject Matters

Subject matters are the focus of specific (assurance) engagement objectives and can take many forms, such as:

- (a) Financial performance or conditions (for example, historical or prospective financial position, financial performance and cash flows) the measurement of which is presented in the subject matter information may be represented in such as a financial report, a summary or extract from a financial report or a single financial statement.
- (b) Non-financial performance or conditions (for example, performance of an entity) for which the subject matter information may be key performance indicators of efficiency and or effectiveness.
- (c) Physical characteristics (for example, capacity of a facility) for which the subject matter information may be a specifications document.
- (d) Systems and processes (for example, an entity's internal control or IT system) for which the subject matter information may be an assertion attestation about effectiveness of that system to meet control objectives.
- (e) Behaviour (for example, corporate governance, compliance with regulation and human resource practices) for which the subject matter information may be a statement of compliance or a statement of effectiveness.

Compliance engagements may cover short periods of time or may relate to continual compliance over the reporting period, such as is expected with legislation and regulation.

An appropriate subject matter is:

- (a) Identifiable, and capable of evaluation or measurement against the identified criteria; and
- (b) Such that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a conclusion.

Suitable Criteria

Criteria are the benchmarks used to measure or evaluate the underlying subject matter. Suitable criteria are those which exhibit the characteristics of: relevance, completeness, reliability, neutrality and understandability [ASAE 300, paragraph 24(b)(ii)].

Subject Matter Information

~~In an attestation engagement (assurance), the measurer or evaluator, who is not the auditor, measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information.~~

~~In a direct engagement (assurance), the auditor measures or evaluates the underlying subject matter against the criteria and presents the resulting subject matter information as part of, or accompanying, the assurance report.~~

Levels of Assurance

Assurance is where an auditor expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.

A reasonable assurance engagement means an assurance engagement where the auditor's objective, directed by the engagement mandate, is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for a *positive form* of expression of the auditor's conclusion – an opinion. A reasonable assurance engagement is commonly referred to as an audit.

A limited assurance engagement means an assurance engagement where the auditor's objective, directed by the engagement mandate, is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a *negative form* of expression of the auditor's conclusion – a conclusion. A limited assurance engagement is commonly referred to as a review.

Agreed-upon procedures

Agreed-upon procedures engagements, performed by an auditor, are where factual findings are reported but no conclusion or opinion is expressed and no assurance is provided by the auditor (or assurance practitioner). The intended users draw their own conclusions based on the factual findings reported combined with any other information they may have obtained.

Reporting Frameworks

The form and content of the auditor's ~~engagement~~ report are directed by the reporting frameworks, or other criteria, used to produce the subject matter information. Subject matter reporting frameworks may be:

- (a) Prescribed by law or regulation, such as the Australian Accounting Standards; or
- (b) Established conventions that are generally recognised, such as cash accounting; or
- (c) Established by users to meet their special needs, such as reports on internal controls.

AUASB Standards

The AUASB Standards are set out to address:

- (a) Historical financial information²³:
 - (i) Fair presentation frameworks; and
 - (ii) Compliance frameworks; and
- (b) Other than historical financial reporting²⁴ - which include compliance, [controls and performance](#) engagements.

Under AUASB [assurance and agreed-upon procedures](#) Standards, and ethical and professional Standards, an auditor is required to determine that the subject matter reporting framework is acceptable/[suitable](#) in the circumstances of the engagement. A clear understanding of the framework used to present the subject matter information is fundamental to the auditor establishing the form and content of the auditor's report.

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²³ See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 13.

²⁴ See the AUASB's Standards on Assurance Engagements (ASAEs).

Appendix 3

(Ref: Para.14)

EXAMPLES OF MULTIPLE-SCOPE ENGAGEMENTS

The following examples are provided in the context of reporting a MSE using a single-form auditor's report format. [References to other AUASB Guidance Statements are included to demonstrate the principles of single-form reporting when addressing more than one subject matter.](#)

A Grant Acquittals

1. Grant acquittal assurance engagements generally arise from requirements stated in a grant agreement issued by Government—Federal, State, Local; or others including Not-for-Profit and Philanthropic organisations.
2. Commonly, the grant agreement details matters such as:
 - (a) The parties to the agreement and their responsibilities;
 - [\(b\)](#) The purpose of the grant;
 - ~~(b)~~[\(c\)](#) The amount of funding;
 - ~~(c)~~[\(d\)](#) Guidelines and conditions for the grant;
 - ~~(d)~~[\(e\)](#) Expected milestones; and
 - ~~(e)~~[\(f\)](#) Reporting and assurance requirements. In some cases, the form and content of the auditor's report may be prescribed by the grant provider.
3. The assurance aspect of the grant agreement generally relates to matters such as:

Financial

 - (a) The recipient's financial report relating to the grant monies – often an income and expenditure statement drawn up on a cash basis of accounting.
 - (b) The total amount of expenditure on the project.
 - (c) Expenditure per accountability period.
 - (d) Contributions made by the recipient organisation.

Non-Financial

 - (e) Whether the grant monies have been utilised for the purpose(s) stated in the grant agreement.
 - (f) Whether milestones stated in the agreement have been achieved.
 - (g) Whether the project has been completed.
 - (h) Number of hours spent on the project.
 - (i) Whether project assets have been properly insured.

Assurance

 - [\(j\)](#) The level of assurance required—[“reasonable”](#) or [“limited”](#) or combination of both.

- (k) Qualification of the auditor, including independence.

Commonwealth Grant Guidelines (CGG) - Outline of a Selection of Points

In June 2013, the Department of Finance and Deregulation issued Financial Management Guidance no. 3 [Commonwealth Grant Guidelines](#) which came into effect from 1 June 2013. The CGG establish the Government's overarching grants policy framework, under which agencies can then determine their own specific grants administration practices.

The Department of Finance and Deregulation has developed a range of information products including Finance Circular 2013/01: Grants, Procurement and Other Financial Arrangements and Finance Circular 2013/02: Australian Government Grants Briefing and Reporting. They provide practical examples of how to determine if an activity is a grant and how to meet the requirements in the CGG.

The CGG apply to a broader range of financial activities, such as gifts and ex-gratia payments. The updated CGG introduce important changes which seek to reduce red-tape and improve collaboration between agencies and stakeholders, particularly in the not-for-profit (NFP) sector.

The CGG suggest agencies should simplify and improve grant processes by: streamlining reporting; adopting better practice tools and templates, such as the Low-Risk Grant Agreement Template; and using longer-term grant agreements where appropriate.

The updated CGG emphasise that grant administration processes should be proportional to the scale and risk profile of the granting activity. In particular, they require that reporting and acquittal requirements must be commensurate with the assessed risks. For example, there is no mandatory requirement to acquit a grant, instead the CGG encourage a stronger focus on evaluating whether outcomes have been achieved.

The CGG require that unless agency staff has assessed a granting activity as higher risk, a financial acquittal should not be sought from an entity regulated by the Australian Charities and Not-for-profits Commission (ACNC).²⁵ That said, agency staff may seek certification that grant funds were spent for the purpose of the grant and identification of any unspent amounts.

Under the principle of "report once, use often", agency staff should no longer seek information from grant applicants and recipients that is already collected by government. Agency staff must not request information provided to the ACNC by organisations regulated by them.

B Requests from Management/TCWG

An example of a MSE requested by management, or those charged with governance (TCWG), is where management requests the auditor of the company to audit the cash receipts and disbursements of the company's social club and the related internal controls; agree leave taken during a specified period by a specified employee category to employee records; and review the leave balances calculations of all categories of employee at year-end for compliance with corporate policy.

This MSE comprises:

a	An audit (reasonable assurance) on a special purpose financial report (cash basis of accounting – historical financial information).	Auditor's opinion (positive form)	ASA 800
b	An engagement to provide reasonable assurance on the design and operating effectiveness of internal controls.	Auditor's opinion (positive form)	ASAE 3150

²⁵ See Appendix 11 for further details about the ACNC.

c	An agreed-upon procedures engagement where a factual findings report is provided but no assurance is given.	Factual findings	ASRS 4400
d	A limited assurance engagement to review the calculations of a list of leave balances at year-end in compliance with corporate policy.	Auditor's conclusion (negative form)	ASAE 3100

Requests from management may take the form of a written request or may be verbal. Regardless of how the request is communicated, the auditor complies with AUASB Standards that require agreement on the terms of engagement to be in writing. This requirement enables the auditor to clarify and confirm the various elements and user needs that comprise the MSE.

In these types of engagement, the auditor designs the auditor's report.

C Self-Managed Superannuation Funds

Self-managed superannuation funds (SMSFs) are specific types of superannuation funds which are enabled and governed by the *Superannuation Industry (Supervision) Act 1993* (SISA) and the *Superannuation Industry (Supervision) Regulations 1994* (SISR). This legislation is regulated by the Australian Taxation Office (ATO). The Australian Securities and Investments Commission (ASIC) is given responsibility for the registration of approved SMSF auditors and setting competency Standards.

The auditor reports to the trustees in the "approved form" which includes opinions under on two sections:

Part A: Financial Report; and

Part B: Compliance.

In conducting the audits, an auditor complies with the requirements of the Auditing Standards when addressing the financial report (Part A); and the requirements of ASAE 3100 *Compliance Engagements* when addressing the SMSF's legislative compliance (Part B).

In this case, the auditor's report is a single-form prescribed report (see [AUASB Guidance Statement GS 009](#)).

D Annual Reporting to a Regulator

Another more elaborate example of prescribed reporting to a regulator is where a *life company* is required to prepare and present an *Annual APRA Return*. Under legislation and APRA requirements, the entity is responsible for various matters, described in the table below, which demonstrate differing subject matters and different levels of required assurance:

Subject Matter	Level of Assurance
Section A: Annual APRA Return:	
- Prepared in accordance with legislation and APRA Reporting Standards - Accounting for statutory funds - Financial position at year-end in accordance with APRA Reporting	Reasonable [ASA 800]

Standards.	
• Apportionments made in accordance with acceptable accounting principles.	
Section B: Controls to Ensure Compliance with APRA Requirements:	
Parts A, B and C: • Systems, procedures and internal controls to comply with legislation, regulation and APRA requirements	Limited [ASAE 3150]
Part D: <i>Evaluation of ~~issues~~ the results of the auditor's other procedures identified by the auditor in the context of the entity's compliance with Prudential Requirements:</i> • The review of controls • The audit of the Annual APRA Return • The audit of the financial report conducted under the Corporations Act 2001.	Limited [ASAE 3100]

AUASB Guidance Statement GS 017 *Prudential Reporting Requirements For Auditors of a Life Company* provides comprehensive guidance on the APRA requirements under its Prudential Standards, including an example auditor's report that illustrates the reporting principles adopted in a MSE report.

E Applications for Licences

An example of a MSE relating to licence applications is in relation to Australian Financial Services (AFS) licences under the *Corporations Act 2001*, [where requirements](#)

~~The extract below is taken from the example audit engagement letter, sub-heading: "Audit Scope and Approach" contained in Appendix 2 of proposed AUASB Guidance Statement GS 003 Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001. The extract illustrates a MSE that comprises several elements~~[sections](#), namely:

- A (traditional) audit of historical financial statements;
- Reasonable assurance on compliance with certain requirements;
- Limited assurance on compliance with other requirements;
- A statement by the auditor (no matters not previously reported); and
- A prescribed auditor's report (Form 71).

[\[Extract\]](#)

~~Our reporting will be in a form consistent with the requirements of ASIC Form FS 71 which requires:~~

- ~~Reasonable assurance that the profit and loss statement (Statement of Financial Performance) and balance sheet (Statement of Financial Position) and the notes thereto (financial statements) give a true and fair view of the financial performance~~

~~and financial position of the AFS licensee for the year ended [date] and comply with all Australian Accounting Standards (covered by a separate engagement letter);~~

- ~~• Reasonable assurance on compliance with specified provisions of Part 7.8 of the Corporations Act (being Divisions 2 to 7, except for section 991A);~~
- ~~• Reasonable assurance on compliance with sections 981B and 982B of the Corporations Act (relating to the control and operation of trust accounts);~~
- ~~• Reasonable assurance that all necessary records, information and explanations for the purpose of the audit report were received;~~
- ~~• A combination of reasonable and limited assurance on compliance with AFSL conditions relating to financial requirements as prescribed by ASIC in regulations and class orders;~~
- ~~• Limited assurance over statements made by the AFS licensee at paragraphs 7, 8 and 9 of ASIC form 70 in relation to receipt of client money, property or loans to which Part 7.8 of the Corporations Act applies; and~~
- ~~• A statement that during the performance of our duties as auditors of the AFS licensee, we have not become aware of any matters referred to in section 990K(2) of the Corporations Act during or since the financial year, that we have not previously reported to ASIC.~~

Appendix 4

(Ref: Para.32)

EXAMPLE OF AN ENGAGEMENT LETTER FOR A MSE

Illustration 1

The following is an example of an engagement letter for:

- (a) The audit of a general purpose financial report prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*; and
- (b) A [MSE \(Grant Acquittal\)](#) comprising:
 - (i) Reasonable assurance for one subject matter; and
 - (ii) Limited assurance for a different subject matter.

This letter illustrates (certain) requirements and principles promoted in the AUASB Standards and can be used appropriately for MSE. It will need to be varied according to individual requirements and circumstances. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the requirements of the relevant AUASB Standards and [MSE-engagement](#) mandates.

To the appropriate representative of management or those charged with governance of ~~the~~ ABC Company Ltd.²⁶

[The objective and scope of the audit and grant acquittal (or other assurance engagement)]

You²⁷ have requested that we audit the financial report of ABC Company Ltd., which comprises the statement of financial position as at 30 June 20X1 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

You have also requested that we provide assurance in accordance with the terms of the grant agreement, titled xyz and dated -- -- that you have entered into with Government Department X. The assurance required comprises an audit of the income and expenditure statement for the period to 30 June 20X1 and limited assurance in relation to the company's compliance with the terms of the grant agreement for the period to 30 June 20X1.

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit and other assurance work will be conducted with the objectives of our expressing an opinion on the financial report and the statement of grant income and expenditure; and concluding on compliance with the terms of the grant agreement.

[The responsibilities of the auditor]

We will conduct our audit in accordance with Australian Auditing Standards and other relevant Standards issued by the Auditing and Assurance Standards Board (AUASB). Those Standards require that we comply with ethical requirements and plan and perform the audit and other assurance work to:

²⁶ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see paragraph A21. For an audit under the *Corporations Act 2001*, the appropriate persons are the Directors.

²⁷ Throughout this [example](#) letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

- (a) Obtain reasonable assurance about whether the financial report and the statement of grant income and expenditure relating to the xyz grant, are free from material misstatement.; and
- (b) Obtain limited assurance about whether anything has come to our attention to cause us to believe that the company has not complied with the requirements of the grant agreement dated -- -- with Government Department X.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and income and expenditure statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and statement of income and expenditure, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report and the income and expenditure statement.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial report and statement of grant income and expenditure in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial report and the statement of grant income and expenditure that we have identified during the audit.

[The responsibilities of management and identification of the applicable financial reporting frameworks (for purposes of this example, it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms).]

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance]²⁸ acknowledge and understand that they have responsibility for:

- (a) The preparation of the financial report that gives a true and fair view in accordance with the *Corporations Act 2001* and Australian Accounting Standards;²⁹
- (b) The preparation of the statement of grant income and expenditure in accordance with a cash basis of accounting;
- (c) Compliance with the terms of the grant agreement with Government Department X; and
- (d) Such internal control as [management] determines is necessary to enable the preparation of the financial report and the statement of grant income and expenditure that is free from material misstatement, whether due to fraud or error; and

To provide us with:

- (a) Access to all information of which the directors and management are aware that is relevant to the preparation of the financial report and the statement of grant income and expenditure such as records, documentation and other matters;
- (b) Additional information that we may request from the directors and management for the purpose of the audit and other assurance work; and
- (c) Unrestricted access to persons within the company from whom we determine it necessary to obtain audit and other assurance evidence.

²⁸ Use terminology as appropriate in the circumstances. For an audit under the *Corporations Act 2001*, the appropriate terminology is "the Directors".

²⁹ Or for financial reports not prepared under the *Corporations Act 2001* - "For the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards."

As part of our audit and other assurance processes, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit and other assurance work.

We look forward to full cooperation from you and your staff during our audit and other assurance work.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

Our intention is to issue:

- (a) A single auditor's report in relation to the company's general purpose financial report for the year ending XX XX 20XX; and
- (b) A separate single-form auditor's report comprising:
 - (i) Our opinion on the statement of grant income and expenditure; and
 - (ii) Our conclusion on the company's compliance with the terms of the grant agreement with Government Department X.

[Insert appropriate reference to the expected form and content of the auditor's reports.]

The form and content of our reports may need to be amended in the light of our audit and other assurance findings.

Other Matters under the Corporations Act 2001

Independence

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements of the *Corporations Act 2001* in relation to the audit of the financial report. In conducting our audit of the financial report, should we become aware that we have contravened the independence requirements of the *Corporations Act 2001*, we shall notify you on a timely basis. As part of our audit process, we shall also provide you with a written independence declaration as required by the *Corporations Act 2001*.

The *Corporations Act 2001* includes specific restrictions on the employment relationships that can exist between the audited entity and its auditors. To assist us in meeting the independence requirements of the *Corporations Act 2001*, and to the extent permitted by law and regulation, we request you discuss with us:

- (a) the provision of services offered to you by [insert firm name] prior to engaging or accepting the service; and
- (b) the prospective employment opportunities of any current or former partner or professional employee of [insert firm name] prior to the commencement of formal employment discussions with the current or former partner or professional employee.

Annual General Meetings

The *Corporations Act 2001* provides that shareholders can submit written questions to the auditor before an Annual General Meeting provided that they relate to the auditor's report or the conduct of the audit. To assist us in meeting this requirement in the *Corporations Act 2001* relating to Annual General Meetings, we request you provide to us written questions submitted to you by shareholders as soon as practicable after the question(s) is received and no later than five business days before the Annual General Meeting, regardless of whether you believe them to be irrelevant.

Presentation of Audited Financial Report on the Internet

It is our understanding that ABC Company Ltd. intends to publish a hard copy of the audited financial report and auditor's report for members, and to electronically present the audited financial report and auditor's report on its internet web site. When information is presented electronically on a web site, the security and controls over information on the web site should be addressed by the entity to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of audited financial information on the entity's web site is beyond the scope of the audit of the financial report. Responsibility for the electronic presentation of the financial report on the entity's web site is that of the governing body of the entity.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial report and other assurance work including our respective responsibilities.

Yours faithfully

.....

Partner

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company Ltd. by

(signed)

.....

Name and Title

Illustration 2

The following is an example of an engagement letter for a Grant Acquittal comprising:

- (i) Reasonable assurance for one subject matter; and
- (ii) Limited assurance for a different subject matter.

This letter illustrates (certain) requirements and principles promoted in the AUASB Standards and can be used appropriately for MSE. It will need to be varied according to individual requirements and circumstances. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the requirements of the relevant AUASB Standards and MSE the engagement mandates.

To the appropriate representative of management or those charged with governance of the ABC Entity/Company Ltd.³⁰

[The objectives and scopes of the audit and grant acquittal (or other audit and other assurance engagement)]

You have requested that we audit the financial report of ABC Company Ltd., which comprises the statement of financial position as at 30 June 20X1 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

You³¹ have also requested that we provide assurance in accordance with the terms of the grant agreement, titled xyz and dated -- -- that you have entered into with Government Department X. The assurance required comprises an audit of the income and expenditure statement for the period to 30 June 20X1 and limited assurance in relation to the company's entity's compliance with the terms of the grant agreement for the period to 30 June 20X1.

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit and other assurance work will be conducted with the objectives of our expressing an opinion on the financial report and the statement of grant income and expenditure; and concluding on compliance with the terms of the grant agreement.

[The responsibilities of the auditor]

We will conduct our audit and other assurance work in accordance with Australian Auditing Standards and other relevant Standards issued by the Auditing and Assurance Standards Board (AUASB). Those Standards require that we comply with ethical requirements and plan and perform the audit and other assurance work to:

- (a) Obtain reasonable assurance about whether the financial report and the statement of grant income and expenditure relating to the xyz grant, is free from material misstatement.; and
- (b) Obtain limited assurance about whether anything has come to our attention to cause us to believe that the company has not complied with the requirements of the grant agreement dated -- -- with Government Department X.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and income and expenditure statement. The procedures selected depend on the

³⁰ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see paragraph A21. For an audit under the *Corporations Act 2001*, the appropriate persons are the Directors.

³¹ Throughout this example letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

auditor's judgement, including the assessment of the risks of material misstatement of the financial report and statement of income and expenditure, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report and the income and expenditure statement.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial report and statement of grant income and expenditure in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial report and the statement of grant income and expenditure that we have identified during the audit.

[The responsibilities of management and identification of the applicable financial reporting frameworks (for purposes of this example, it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms).]

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance]³² acknowledge and understand that they have responsibility for:

- (a) The preparation of the financial report that gives a true and fair view in accordance with the Corporations Act 2001 and Australian Accounting Standards;³³
- (b) The preparation of the statement of grant income and expenditure in accordance with [a cash basis of accounting];
- (c) Compliance with the terms of the grant agreement with Government Department X; and
- (d) Such internal control as [management] determines is necessary to enable the preparation of the financial report and the statement of grant income and expenditure that is free from material misstatement, whether due to fraud or error; and

To provide us with:

- (a) Access to all information of which the directors and management are aware that is relevant to the preparation of the financial report and the statement of grant income and expenditure such as records, documentation and other matters;
- (b) Additional information that we may request from the directors and management for the purpose of the audit and other assurance work; and
- (c) Unrestricted access to persons within the entity/company from whom we determine it necessary to obtain audit and other assurance evidence.

As part of our audit and other assurance processes, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit and other assurance work.

We look forward to full cooperation from you and your staff during our audit and other assurance work.

[Other relevant information]

³² Use terminology as appropriate in the circumstances. For an audit under the *Corporations Act 2001*, the appropriate terminology is "the Directors".

³³ Or for financial reports not prepared under the *Corporations Act 2001* – "For the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards."

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

A single auditor's report in relation to the company's general purpose financial report for the year ending XX XX 20XX; and Our intention is to issue a separate single-form auditor's report comprising:

- (i) Our opinion on the statement of grant income and expenditure; and
- (ii) Our conclusion on the entity's/company's compliance with the terms of the grant agreement with Government Department X.

[Insert appropriate reference to the expected form and content of the auditor's reports.]

The form and content of our reports may need to be amended in the light of our audit and other assurance findings.

Other Matters under the Corporations Act 2001

Independence

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements of the Corporations Act 2001 in relation to the audit of the financial report. In conducting our audit of the financial report, should we become aware that we have contravened the independence requirements of the Corporations Act 2001, we shall notify you on a timely basis. As part of our audit process, we shall also provide you with a written independence declaration as required by the Corporations Act 2001.

The Corporations Act 2001 includes specific restrictions on the employment relationships that can exist between the audited entity and its auditors. To assist us in meeting the independence requirements of the Corporations Act 2001, and to the extent permitted by law and regulation, we request you discuss with us:

- (c) the provision of services offered to you by [insert firm name] prior to engaging or accepting the service; and
- (d) the prospective employment opportunities of any current or former partner or professional employee of [insert firm name] prior to the commencement of formal employment discussions with the current or former partner or professional employee.

Annual General Meetings

The Corporations Act 2001 provides that shareholders can submit written questions to the auditor before an Annual General Meeting provided that they relate to the auditor's report or the conduct of the audit. To assist us in meeting this requirement in the Corporations Act 2001 relating to Annual General Meetings, we request you provide to us written questions submitted to you by shareholders as soon as practicable after the question(s) is received and no later than five business days before the Annual General Meeting, regardless of whether you believe them to be irrelevant.

Presentation of Audited Financial Report on the Internet

It is our understanding that ABC Company Ltd. intends to publish a hard copy of the audited financial report and auditor's report for members, and to electronically present the audited financial report and auditor's report on its internet web site. When information is presented electronically on a web site, the security and controls over information on the web site should be addressed by the entity to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of audited financial information on the entity's web site is beyond the scope of the audit of the financial report. Responsibility for the electronic presentation of the financial report on the entity's web site is that of the governing body of the entity.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the ~~financial report~~ statement of grant income and expenditure and other assurance work including our respective responsibilities.

Yours faithfully

.....

Partner

XYZ & Co.

Acknowledged and agreed on behalf of ABC Entity/Company Ltd. by

(signed)

.....

Name and Title

Draft

Appendix 5

(Ref: Para. 79)

EXAMPLE OF A REPRESENTATION LETTER FOR A MSE

The following is an example of a representation letter for [a Grant Acquittal comprising](#):

- ~~(a) The audit of a general purpose financial report prepared in accordance with Australian Accounting Standards and the Corporations Act 2001; and~~
- ~~(b) A Grant Acquittal comprising:~~
 - (i) Reasonable assurance for one subject matter; and
 - (ii) Limited assurance for a different subject matter.

This letter illustrates (certain) requirements and principles promoted in the AUASB Standards and can be used appropriately for MSE. The letter is based on (certain) requirements of the Auditing Standards and will need to be varied according to individual requirements and circumstances. [In some cases, a MSE representation letter may include representations relating to the statutory audit of the entity's annual financial report.](#) This [example](#) letter is not authoritative but is intended only to be a guide that may be used in conjunction with the requirements of the relevant AUASB Standards and MSE mandates.

(Entity Letterhead)

(To Auditor) (Date)

This representation letter is provided in connection with:

- ~~(a) Your audit of the ABC Entity's statement of grant income and expenditure financial report of ABC Entity for the year ended 30 June 20XX [or period covered by the auditor's report] for the purpose of expressing an opinion as to whether the statement of grant income and expenditure is presented fairly, in all material respects, (or gives a true and fair view) in accordance with the grant agreement with Government Department X dated -- -, and Australian Accounting Standards and the Corporations Act 2001.~~
- ~~(b) Your review of ABC Entity's compliance with the terms of the grant agreement identified above.~~

We confirm that *(to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves)*:

Financial Report

- ~~• We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001; in particular the financial report is fairly presented (or gives a true and fair view) in accordance therewith.~~
- ~~• Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (ASA 540)~~
- ~~• Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Australian Accounting Standards. (ASA 550)~~
- ~~• All events subsequent to the date of the financial report and for which Australian Accounting Standards require adjustment or disclosure have been adjusted or disclosed. (ASA 560)~~

- ~~The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial report as a whole. A list of the uncorrected misstatements is attached to the representation letter. (ASA 450)~~

- ~~[Any other matters that the auditor may consider appropriate.]~~

Statement of Grant Income and Expenditure

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the statement of grant income and expenditure in accordance with the cash basis of accounting and the terms of the grant agreement with Government Department X dated -- --; in particular the statement of grant income and expenditure presents fairly in accordance therewith.
- All events subsequent to the date of the statement of grant income and expenditure which require adjustment or disclosure so as to present fairly the statement of grant income and expenditure, have been adjusted or disclosed. (ASA 560)
- [Where applicable] The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the statement of grant income and expenditure as a whole. A list of the uncorrected misstatements is attached to this representation letter. (ASA 450)
- [Any other matters that the auditor may consider appropriate.]

Compliance with Grant Agreement

- We have fulfilled our responsibilities, as set out in the terms of the grant agreement with Government Department X, dated -- --.
- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of ~~the financial report and~~ the statement of grant income and expenditure; and the ~~entity's/company's~~ compliance with the grant agreement with Government Department X such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit and other assurance work; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit and other assurance evidence.
- All transactions relating to the grant, referred to above, have been recorded in the accounting records and are reflected in the ~~financial report and~~ statement of grant income and expenditure.
- We have disclosed to you the results of our assessment of the risk that the ~~financial report and~~ statement of grant income and expenditure may be materially misstated as a result of fraud. (ASA 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or

- Others where the fraud could have a material effect on the ~~financial report and~~ statement of grant income and expenditure or compliance with the terms of the grant, referred to above. (ASA240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's ~~financial report and~~ statement of grant income and expenditure and compliance with the terms of the grant referred to above, communicated by employees, former employees, analysts, regulators or others. (ASA 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the ~~financial report and~~ statement of grant income and expenditure and complying with the terms of the grant, referred to above. (ASA 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (ASA 550)
- [Any other matters that the auditor may consider necessary.]
- We have provided you with all requested information, explanations and assistance for the purposes of the audit and other assurance work.*
- We have provided you with all information required by the grant agreement with Government Department X ~~and the Corporations Act 2001 [where applicable].~~[#]

Management

Management

* There may be a regulatory requirement for particular information to be provided. For example, see section 312 of the *Corporations Act 2001*.

[#] ~~See, for example, sections 300A and 295A of the *Corporations Act 2001*.~~

Appendix 6

(Ref: Para. [5963](#))

EXAMPLE AUDITOR'S REPORTS - MSE (NOT PRESCRIBED)

INTRODUCTION

The following examples of auditor's reports show how the various [elements/sections](#) of a MSE can be reported when the form and content of the auditor's report is *not* prescribed.

The auditor is the auditor of the annual financial report and is also the auditor of [the requirements of](#) the grant acquittal.

The examples are to be used as a guide only and will need to be modified according to the engagement requirements and the circumstances. As explained in paragraphs 59 and 60 of this GS, the auditor considers several factors in determining how best to report on the different [elements/sections](#) of the MSE while complying with the engagement mandate(s) and the relevant AUASB Standards.

For example: The following Illustrations 1 and 2(b) could be set out in the auditor's report in a Part A, Part B, Part C format. The elements of the auditor's report – subject matter, responsibilities, conclusions etc., that are required by each relevant AUASB Standard(s) are set out in distinct and self-contained sections of the auditor's report - Part A, Part B etc. [GS 017 Prudential Reporting Requirements For Auditors of a Life Company provides an example of such layout]

Important Principles Illustrated

The principles illustrated by the example auditor's reports [**Illustrations 1, 2(a) and 2(b)**] are:

- (a) Using a single-form document to discharge different reporting requirements.
- (b) Using a combination of auditor's reports.
- (c) Using identifiable sections in the auditor's report to assist user understanding.
- (d) Clear identification of various subject matters.
- (e) Clear identification of different levels of assurance provided.
- (f) Clear descriptions of the responsibilities of both management and the auditor, in respect of the different subject matters.
- (g) Discrete descriptions of the auditor's procedures depending on the particular subject matter.
- (h) Although not specifically illustrated, the ability to include other information, such as:
 - (i) A declaration of independence.
 - (ii) A basis for modification.
 - (iii) A restriction on distribution of the auditor's report.
 - (iv) An alert as to the inherent limitations in any internal control structure.
- (i) Conclusions expressed differently to reflect the individual [elements/sections](#) of the engagement and the different levels of assurance (reasonable and limited).

Illustration 1

The first example is a single-form ~~multi-scope~~MSE auditor's report that comprises *all* subject matters and *all* levels of assurance that comprise the MSE.

The entity is a not-for-profit incorporated association that is required to meet the financial reporting requirements of the applicable State Act or Regulation – that is to prepare and lodge an audited annual financial report with the Regulator. The Regulator:

- (j) does not prescribe the financial reporting framework or the form and content of the auditor's report; and
- (k) accepts a single-form multi-scope auditor's report that includes opinions and conclusions that are in addition to the opinion on the annual financial report. The Regulator accepts that the auditor's report is addressed to the members of the entity and therefore may include other auditor reporting such as a grant acquittal.

This illustrative multi-scope auditor's report has been developed using the requirements and examples provided in the following AUASB Standards:

MSE ~~Element~~ Section	AUASB Standard	AUASB Standard Reference
<i>Reasonable Assurance</i>		
Annual Financial Report (special purpose)	ASA 800	[Aus] Illustration 5
Statement of Grant Income and Expenditure	ASA 805	Illustration 2
Compliance with the grant agreement	ASAE 3000	Section titled "Preparing the Assurance Report"
	ASAE 3100	Example 1
<i>Limited Assurance</i>		
Statement of employee numbers and labour costs.	ASRE 2405	Example 1

Illustration 1

**EXAMPLE AUDITOR'S REPORT
[SINGLE-FORM MULTI-SCOPE]**

**[Reporting in accordance with ASA 800, ASA 805, ASAE 3000, ASAE 3100
and ASRE 2405]**

[Appropriate addressee]

We have audited:

- (a) The accompanying financial report of ABC Entity, which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration;
- (b) The accompanying statement of grant income and expenditure of ABC Entity for the year ended 30 June 20XX, a summary of significant accounting policies and other explanatory information, and management's [assertion](#)³⁴ statement³⁴ thereon (together "the financial statement"). The financial statement has been prepared by management using the cash basis of accounting described in Note X; and
- (c) ABC Entity's compliance with the terms of the grant agreement between ABC Entity and Government Department X, dated -- --, for the year ended 30 June 20XX (the Grant Agreement).

We have reviewed:

- (a) ABC Entity's statement of employee numbers and labour costs required under the Grant Agreement.

*Management's*³⁵ *Responsibility*

Management is responsible for:

- (a) The preparation and fair presentation of the financial report and has determined that the basis of preparation described in Note X to the financial report is appropriate to meet the requirements of [identify legislative requirement if any] and is appropriate to meet the needs of the members;
- (b) The preparation and fair presentation of the financial statement in accordance with basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in accordance with the grant agreement;
- (c) The preparation of the statement of employee numbers and labour costs required under the grant agreement;
- (d) Compliance with the terms of the grant agreement; and
- (e) Such internal control as management determines is necessary to:

³⁴ Or other appropriate term.

³⁵ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

- (i) Enable the preparation and fair presentation of the financial report, the financial statement and the statement of employee numbers and labour costs that are free from material misstatement, whether due to fraud or error; and
- (ii) Enable compliance with the terms of the grant agreement.

Auditor's Responsibility

Our responsibilities are:

- (a) To express an opinion, based on our audit, on:
 - (i) The financial report;
 - (ii) The financial statement; and
 - (iii) ABC Entity's compliance, in all material respects, with the terms of the grant agreement; and
- (b) To conclude, based on our review procedures, on the statement of employee numbers and labour costs.

We conducted our audits and review in accordance with Australian Auditing Standards; and applicable Standards on Review Engagements and Standards on Assurance Engagements. Those Standards require that we comply with relevant ethical requirements and plan and perform our work to:

- (a) Obtain reasonable assurance about whether the financial report and the financial statement are free from material misstatement and that ABC Entity has complied with the terms of the grant agreement; and
- (b) Obtain limited assurance as to whether anything has come to our attention that causes us to believe that the statement of employee numbers and labour costs is materially misstated.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the financial statement and about the company's compliance with the grant agreement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the financial statement, and to the company's compliance with the grant agreement, 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. An audit also includes evaluating the appropriateness of accounting policies used by management, as well as evaluating the overall presentation of the financial report and the financial statement.

A review consists of making enquiries and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the statement of employee numbers and labour costs.

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

Inherent Limitations (include where appropriate under paragraph 80(f) of ASAE 3100)

Because of the inherent limitations of any [details provided as appropriate by the auditor, refer to limitations in evidence gathering procedures and limitations in the responsible party's internal control framework], it is possible that fraud, error or non-compliance may occur and not be detected. An audit is not designed to detect all instances of non-compliance with the terms of the grant agreement [requirements], as an audit is not performed continuously throughout the [period] and the audit

procedures performed in respect of compliance with the terms of the grant agreement [requirements] are undertaken on a test basis. The audit conclusion expressed in this report has been formed on the above basis.

Opinion

In our opinion,

- (a) the financial report presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of ABC Entity as at 30 June 20XX, and (*of*) its financial performance and its cash flows for the year then ended in accordance with [the financial reporting requirements of [identify legislative requirement if any];
- (b) the financial statement presents fairly, in all material respects, the grant income and expenditure of ABC Entity for the year ended 30 June 20XX in accordance with the cash basis of accounting described in Note X and the terms of the grant agreement, dated -- --, with Government Department X; and
- (c) ABC Entity has complied, in all material respects, with the requirements of the grant agreement between the entity and Government Department X, dated -- --, for the year ended 30 June 20XX.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the financial report and Note X to the financial statement, which describe the basis of accounting. The financial report has been prepared for the purpose of fulfilling management's financial reporting responsibilities under [identify legislative requirement, if any]. The financial statement is prepared to provide information to Government Department X in accordance with a grant agreement, dated -- --. As a result, the financial report and the financial statement may not be suitable for other purposes. [If applicable: Our report is intended solely for ABC Entity and Government Department X and should not be distributed to or used by parties other than ABC Entity and Government Department X.]

Use of Report

This compliance audit report has been prepared for ABC Entity and Government Department X in accordance with the requirements of the grant agreement between the entity and Government Department X, dated -- --. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than ABC Entity and Government Department X, or for any purpose other than that for which it was prepared.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the statement of employee numbers and labour costs as at 30 June 20XX is not, in all material respects, fairly presented in accordance with the grant agreement dated -- -- with Government Department X.

[Auditor's signature][#]

[Date of the auditor's report][†]

[Auditor's address]

[#] The auditor's report is signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

[†] The date of the auditor's report is the date the auditor signs the report.

Illustration 2(a) and 2(b)

The second and third examples demonstrate how the MSE engagement can be reported upon using two *separate auditor's reports*. An example of why an auditor might choose this option could be that the entity may be required, or wish, to use its annual financial report and the related auditor's report for more than one purpose and accordingly, a single-form multi-scope auditor's report (such as shown in illustration 1 above) may be confusing or an unnecessary distraction for users; or simply may not be permitted.

The entity is a small proprietary company controlled by a foreign company and is required to prepare and lodge an audited financial report with ASIC under the *Corporations Act 2001*. The entity is a non-reporting entity.

The Regulator does not prescribe the form and content of the auditor's report; however, requires conformity with the Act which prescribes compliance with the Auditing Standards issued by the AUASB under section 336 of the Act. Accordingly, the Regulator would be unlikely to accept a multi-scope auditor's report that includes reporting other than that required by the Act. Consequently, the company agrees that the auditor will issue 2 separate reports – one for statutory purposes and one for the grant acquittal.

The illustrative multi-scope auditor's reports have been developed using the requirements and examples provided in the following AUASB Standards:

MSE Element/Section	AUASB Standard	AUASB Standard Reference
Illustrative Report 2(a)		
<i>Reasonable Assurance</i>		
Statutory Annual Financial Report (special purpose)	ASA 800	[Aus] Illustration 4
Illustrative Report 2(b)		
<i>Reasonable Assurance</i>		
Statement of Grant Income and Expenditure	ASA 805	Illustration 2
Compliance with the grant agreement	ASAE 3000	Section titled "Preparing the Assurance Report"
	ASAE 3100	Example 1
<i>Limited Assurance</i>		
Statement of employee numbers and labour costs.	ASRE 2405	Example 1

Illustration 2(a)

AUDITOR'S REPORT
[SINGLE SUBJECT SPECIAL PURPOSE FINANCIAL REPORT]
[Fair Presentation Reporting Framework]
[Reporting in accordance with ASA 800 – Corporations Act 2001]

[Appropriate addressee]

Report on the Financial Report[†]

We have audited the accompanying financial report of ABC Company, which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility 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 and have determined that the basis of preparation described in Note X to the financial report is appropriate to meet the requirements of [identify legislative requirement if any] and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company, would be in the same terms if given to the directors as at the time of the auditor's report.

[†] The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

Opinion

In our opinion the financial report of ABC Company 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 20XX and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note X, and the *Corporations Regulations 2001*.

*Basis of Accounting*³⁶

Without modifying our opinion, we draw attention to Note X to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature][#]

[Date of the auditor's report][†]

[Auditor's address]

³⁶ The auditor may also restrict distribution and use – see ASA 800 paragraphs 14 and A15.

[#] The auditor's report is signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

[†] The date of the auditor's report is the date the auditor signs the report.

Illustration 2(b)

AUDITOR'S REPORT

[SINGLE-FORM MULTI-SCOPE]

[Reporting in accordance with ASA 805, ASAE 3000, ASAE 3100 and ASRE 2405]

[Appropriate addressee]

We have audited:

- (a) The accompanying statement of grant income and expenditure of ABC Company for the year ended 30 June 20XX, a summary of significant accounting policies and other explanatory information, and ~~Management's~~ [assertion attestation](#) statement* thereon (together "the financial statement"). The financial statement has been prepared by management using the cash basis of accounting described in Note X to the financial statement; and
- (b) ABC Company's compliance with the terms of the grant agreement between ABC Company and Government Department X, dated dd mm yy, for the period ended 30 June 20XX (the Grant Agreement).

We have reviewed:

- (c) ABC Company's statement of employee numbers and labour costs required under the Grant Agreement.

Management's³⁷ Responsibility

Management is responsible for:

- (a) The preparation and fair presentation of the financial statement in accordance with basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in accordance with the grant agreement;
- (b) Compliance with the terms of the grant agreement;
- (c) The preparation of the statement of employee numbers and labour costs required under the grant agreement; and
- (d) Such internal control as management determines is necessary to:
 - (i) Enable the preparation of the financial statement and the statement of employee numbers and labour costs that are free from material misstatement, whether due to fraud or error; and
 - (ii) Enable compliance with the terms of the grant agreement.

Auditor's Responsibility

Our responsibilities are:

- (a) To express an opinion, based on our audit, on:

* Or other term that is appropriate in the circumstances.

³⁷ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction, [or the grant agreement](#).

- (i) The financial statement; and
 - (ii) ABC Company's compliance, in all material respects, with the terms of the grant agreement; and
- (b) To conclude, based on our review procedures, on the statement of employee numbers and labour costs.

We conducted our audit of the financial statement and review in accordance with Australian Auditing Standards; our audit of compliance in accordance with ASAE 3100; and our review of the statement of employee numbers and labour costs in accordance with ASRE 2400~~applicable Standards on Review Engagements and Standards on Assurance Engagements~~. The applicable Standards require that we comply with relevant ethical requirements and plan and perform our work to:

(a) Obtain reasonable assurance:

- ~~(a)~~(i) about whether the financial statement is free from material misstatement; and
 - ~~(b)~~(ii) that ABC Company has complied, in all material respects, with the terms of the grant agreement; and
- (b) Obtain limited assurance as to whether anything has come to our attention that causes us to believe that the statement of employee numbers and labour costs is materially misstated.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement and about the company's compliance with the grant agreement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statement, and to the company's compliance with the grant agreement, 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. An audit also includes evaluating the appropriateness of accounting policies used by management, as well as evaluating the overall presentation of the financial statement.

A review consists of making enquiries and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the statement of employee numbers.

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

Inherent Limitations (include where appropriate under paragraph 80(f) of ASAE 3100)

Because of the inherent limitations of any [details provided as appropriate by the auditor, refer to limitations in evidence gathering procedures and limitations in the responsible party's internal control framework], it is possible that fraud, error or non-compliance may occur and not be detected. An audit is not designed to detect all instances of non-compliance with the terms of the grant agreement [requirements], as an audit is not performed continuously throughout the [period] and the audit procedures performed in respect of compliance with the terms of the grant agreement [requirements] are undertaken on a test basis. The audit conclusion expressed in this report has been formed on the above basis.

Opinion

In our opinion,

- (a) the financial statement presents fairly, in all material respects, the grant income and expenditure of ABC Company for the year ended 30 June 20XX in accordance with the cash

basis of accounting described in Note X and the terms of the grant agreement, dated dd mm yy, with Government Department X; and

- (b) ABC Company has complied, in all material respects, with the requirements of the grant agreement between the company and Government Department X dated dd mm yy, for the year ended 30 June 20XX.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to Government Department X in accordance with a grant agreement, dated dd mm yy. As a result, the financial statement may not be suitable for another purpose. [If applicable: Our report is intended solely for ABC Entity and Government Department X and should not be distributed to or used by parties other than ABC Entity and Government Department X.]

Use of Report

This compliance audit report has been prepared for ABC Entity and Government Department X in accordance with the requirements of the grant agreement between the entity and Government Department X, dated dd mm yy. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than ABC Entity and Government Department X, or for any purpose other than that for which it was prepared.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the statement of employee numbers and labour costs as at 30 June 20XX is not, in all material respects, fairly presented in accordance with the grant agreement dated dd mm yy with Government Department X.

[Auditor's signature][#]

[Date of the auditor's report][†]

[Auditor's address]

[#] The auditor's report is signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

[†] The date of the auditor's report is the date the auditor signs the report.

Appendix 7

(Ref: Para.7¹²)**CONSIDERATIONS - PRESCRIBED AUDITOR'S REPORTS****Introduction**

The appendix should be read in conjunction with section [V-E](#) of this GS (paragraph 66⁷ onwards).

Section [V-E](#) advocates communication with preparers and users as likely to be the most effective strategy for resolution of issues. When considered appropriate by the auditor, reference to the Department of Finance and Deregulation paper: *Clarification of the terms Audit and Assurance* (Finance Circular 2011/08), may be very helpful in explaining the auditor's position. See [Department of Finance website](http://www.finance.gov.au/Department of Finance website): <http://www.finance.gov.au/>

Prescribed auditor's reports vary significantly in both form and content. These differences arise from a number of reasons, including: the circumstances of the engagement, the specific requirements of the party prescribing the auditor's reports and continued use of historical forms.

In some cases, prescribed reports do not present problems for auditors. However, it is not uncommon for auditor's to be faced with significant difficulties when required to report in a prescribed way.

[T](#)These difficulties include:

- (a) Inconsistencies with the requirements of the AUASB Standards and the underlying frameworks, terminologies and concepts upon which those Standards are based, ~~and which are commonly used and accepted in most legislation and the wider population generally.~~
- (b) Requirements that contravene an auditor's professional obligations and compliance with applicable ethical standards, especially those relating to "independence".
- (c) Single-form reports that inadequately combine differing subject matters and differing frameworks/[criteria](#).
- (d) Wording that would result in misleading information.
- (e) Wording that does not provide the user with the assurance they seek.

The following Table 8 provides some suggestions that an auditor may consider as well as the matters described in section [V-E](#) of this GS, particularly regarding communications with preparers and/or users.

Table 8: Suggestions to address issues with prescribed auditor's reports.

Issues	Auditor considerations
The form of the financial report referred to in the prescribed auditor's report, such as a single income and expenditure statement, is not presented in accordance with Accounting Standards.	Ordinarily, this would not be an issue if the financial report referred to in the auditor's report: • Complies with the requirements governing the preparation of the financial report; and • Is not misleading.
Management or those charged with governance are not required to sign an ~~assertion~~ attestation , or declaration, about the entity's report(s).	• Request management to do so, thereby explicitly demonstrating responsibility for the entity's report(s) to users. • If necessary, determine the available evidence, including the contents of the

Issues	Auditor considerations
	engagement letter in relation to management's acceptance of responsibility for the report(s).
The financial report, referred to in the prescribed auditor's report, does not include a statement of significant accounting policies.	- Ask the preparer to include such policies. - If necessary, encourage the preparer to include the basis of accounting (accruals, cash) as a minimum as it is fundamental to users understanding of the financial report. - When necessary, include the basis of accounting in an "Other Matter" paragraph in the auditor's report.
No reference to materiality.	- Add relevant wording to the auditor's report. - Consider whether reference to the audit having been conducted in accordance with the AUASB Standards is sufficient <i>implicit</i> indication to address the lack of <i>explicit</i> reference to materiality.
Vague, or no, inclusion of: - Reference to the subject matter. - The responsibilities of management and the auditor.	- Add relevant wording to the auditor's report. - When necessary, include relevant wording in an "Other Matter" paragraph in the auditor's report.
Inability to include, where appropriate, modifications to the opinion and/or an "Emphasis of Matter" paragraph or an "Other Matter" paragraph.	See section E.V .
Statement of auditor's credentials, including independence.	Ordinarily, there should be no issues as such statements are factual and merely serve to confirm the auditor's qualifications to perform the engagement.
Use of terms like "certify" and "correct" which denote <i>certainty</i> .	- When possible, amend the prescribed report ~~If necessary, agree with the preparer and/or user, that Inform the preparer and/or user that <i>certainty</i> is not possible in an assurance engagement where "testing" procedures are adopted.~~ <u>If nevertheless <i>certainty</i> is required, then the engagement should be classified, and understood, as an agreed-upon procedure engagement which will necessitate additional work effort (checking entire populations to achieve <i>certainty</i>) is necessary to achieve <i>certainty</i> and that such work will which in turn will attract additional fees.</u>
Opinions, or statements, on an entity's solvency.	Where such opinions or statements relate to, and clearly communicate, a past point in time (as at...), there would ordinarily be no issue

Issues	Auditor considerations
	so long as the prescribed wording does not imply solvency will continue into the future. • See section H-B on subject matters unable to be assured.

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Appendix 8

(Ref: Para. 10¹² and 12⁷⁶)

EXAMPLE AUDITOR'S REVIEW REPORT - MSE (OTHER REPORTING RESPONSIBILITIES)

INTRODUCTION

The following example auditor's *review* report illustrates how other reporting responsibilities can be included in the auditor's report.

The example is to be used as a guide only and will need to be modified according to the engagement requirements and the circumstances.

The entity is a small not-for-profit entity that is required to meet the financial reporting requirements of the applicable Act and Regulations. The entity is required to prepare, and lodge with the Regulator, an annual financial report together with the related independent auditor's *review* report. The Regulator accepts general purpose or special purpose financial reports – the entity chooses the latter.

The example is a single-form multi-scope auditor's *review* report that addresses two subject matters:

1. Review of an annual special purpose financial report in accordance with the applicable Act and Regulations.
 - (a) Although *not* required to review and conclude on the entity's compliance with the regulations, the auditor is required, by the regulations, to report any, and all, non-compliance with particular specified regulations.
 - (b) This reporting requirement does not mean the auditor needs to set materiality for the review of the financial report at zero in order to check 100% compliance with the specified regulations. The requirement means the auditor is to report any and all non-compliance with regulations *that came to the auditor's attention during the course of the review* (or audit as the case may be). [See further discussion at paragraphs ~~99100~~-100¹ of this GS]

In this example, the entity did not comply with 2 separate specified regulations, the effects of which on the auditor's review report are:

Non-compliance with specified regulations	Effect on auditor's review report	Discharge of regulation requirement to report non-compliance
Failing to provide the auditor with all information, explanation and assistance necessary for the conduct of the review. This failure relates to a material component of inventories.	As the auditor has been unable to obtain the information that the auditor required, a limitation on scope exists and accordingly results in a qualification of the auditor's conclusion.	The auditor discharges the requirement in the regulations to report the non-compliance by way of appropriate information in the "Basis for Qualified Conclusion" paragraph.
Failing to maintain a particular record required by the regulations. This failure relates to a record that is not associated	This non-compliance with regulations does not affect the auditor's conclusion on the annual financial report.	The auditor discharges the requirement in the regulations to report the non-compliance by way of appropriate information in

Non-compliance with specified regulations	Effect on auditor's review report	Discharge of regulation requirement to report non-compliance
with the financial report, was inadvertent, was detected by the entity after only 2 days, was properly and immediately corrected and was reported to the regulator by the entity.		the "Report on Other Legal and Regulatory Requirements" paragraph

2. A grant acquittal – statement of income and expenditure (only).

The illustrative auditor's report has been developed using the principles illustrated in Appendix 6 and the requirements of ASRE 2400.

EXAMPLE AUDITOR'S REVIEW REPORT

[SINGLE-FORM MULTI-SCOPE]

[Special Purpose Financial Report – Qualified Conclusion (insufficient evidence) Grant Acquittal (income and expenditure statement), and Other Reporting Responsibilities]

(Fair Presentation Framework)

[Appropriate Addressee]

Report on the Financial Report and the Statement of Grant Income and Expenditure³⁸

We [I] have reviewed:

- (a) The accompanying financial report, being a special purpose financial report of [name of entity], which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year [period] ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and management's declaration; and
- (b) The accompanying statement of grant income and expenditure of ABC Entity for the year ended 30 June 20XX, a summary of significant accounting policies and other explanatory information, and management's ~~assertion~~attestation statement* thereon (together "the financial statement"). The financial statement has been prepared by management using in accordance with a the cash basis of accounting described in Note X to the financial statement.

Management's Responsibility

Management is responsible for:

- (a) The preparation and fair presentation of the financial report and has determined that the basis of preparation described in Note X to the financial report is appropriate to meet the requirements of [identify legislative requirement], [and the needs of the members (or other appropriate terms)];

³⁸ The sub-title "Report on the Financial Report and the Statement of Grant Income and Expenditure" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.
* Or other appropriate term.

- (b) The preparation and fair presentation of the financial statement in accordance with basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in accordance with the grant agreement; and
- (c) Such internal control as management determines is necessary to enable the preparation and fair presentation of the financial report and the financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibilities are to conclude, based on our review procedures, on the financial report and the statement of grant income and expenditure. We [I] conducted our review in accordance with applicable Standards on Review Engagements which require us to conclude whether anything has come to our attention that causes us to believe that the financial report, taken as a whole, or the financial statement, are not prepared in all material respects in accordance with the applicable financial reporting framework. The Standards also require us to comply with relevant ethical requirements.

A review of a financial report and a financial statement in accordance with the Standards on Review Engagements is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us [me] to obtain assurance that we [I] would become aware of all significant matters that might be identified in an audit. Accordingly, we [I] do not express an audit opinion.

Basis for Qualified Conclusion

We [I] were [was] not given all information, explanation and assistance necessary by [name of entity] for the conduct of the review of the financial report in relation to a material component of inventories. This is a deficiency under section XX of the XX Act/Regulations. We [I] are [am] unable to adopt alternative procedures regarding [identify the component of inventories] included in the statement of financial position at a total amount of xxx as at 30 June 20XX. Accordingly, we [I] ~~we~~ were [was] unable to conclude on this inventory balance or determine whether any adjustments might have been necessary.

Qualified Conclusion

Based on our [my] review, which is not ~~an~~ audits, with the exception of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our [my] attention that causes us [me] to believe that:

- (a) The financial report of [name of entity] does not satisfy the requirements of section XX of the XX Act/Regulations, including:
 - (i) presenting fairly the entity's financial position as at 30 June 20XX and of its financial performance and cash flows for the year [period] ended on that date; and
 - (ii) complying with Australian Accounting Standards to the extent described in Note X, and section XX of the XX Act/Regulations.
- (b) The financial statement does not present fairly the grant income and expenditure for the period ended 30 June XX in accordance with the basis of accounting described in Note X and the terms of the grant agreement dated -- -- with Government Department X

Basis of Accounting

Without further modifying our [my] conclusion, we [I] draw attention to:

- (a) Note X to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the responsible entities' financial reporting responsibilities under the Act. As a result, the financial report may not be suitable for another purpose.
- (b) Note X to the financial statement, which describes the basis of accounting. The financial statement has been prepared for the purpose of fulfilling the entity's reporting responsibilities under the grant agreement with Government Department X, dated -- --, for the year ended 30 June 20XX. As a result, the financial statement may not be suitable for another purpose.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section XX of the Act, we [I] are required to describe any deficiency, failure or shortcoming in respect of the matters referred to in paragraph XX of the Act/Regulation that came to our attention during the course of our review of the financial report.

In addition to the matter relating to inventory referred to in the Basis for Qualified Conclusion paragraph, our review on the financial report is not modified in respect of the following matter(s) because, in our [my] conclusion, it [they] has [have] been appropriately addressed by [name of registered entity] and is [are] not considered material in the context of the review of the financial report as a whole:

- (a) Name of entity] failed to keep [name of other record] as required by section XX of the Act/Regulation for the period 1 July 2013 to 2 July 2013 inclusive.]
- (b) [Details of other non-compliance, as applicable].

[Auditor's signature]

[Date of the auditor's review report]

[Auditor's address]

Appendix 9(Ref: Para. [28](#))**UNDERSTANDING THE SECTIONS OF A MSE**

<u>Mandate or Requirement</u>	<u>Level of Assurance</u>	<u>Subject Matter</u>	<u>Criteria</u>	<u>Subject Matter Information (Outcome)</u>	<u>AUASB Standards</u>
Assurance on a financial report or financial statement	Reasonable (R) [audits] Limited (L) [reviews]	Financial performance and financial position	Applicable financial reporting framework (e.g. Accounting Standards)	A financial report or financial statement	All relevant Auditing and Review Standards. Audit reporting under relevant ASA 700 series or ASA 800 series. Review reporting under relevant ASRE series.
Compliance with laws, regulations or contracts	R + L	Entity's activities	Requirements stipulated in laws, regulations or contractual arrangements	Attestation or declaration as to compliance; or the auditor's opinion or conclusion in a direct engagement	ASAE 3000 and ASAE 3100
Design and operation of internal controls	R + L	Controls within an entity or a service organisation or a shared services centre	A documented controls framework or specified control objectives	Attestation or declaration as to the suitability, design and operating effectiveness of controls; or the auditor's opinion or conclusion in a direct engagement	ASAE 3000, ASAE 3150 and ASAE 3402
Prospective financial information	R + L	Assumptions and methodology used as basis for prospective financial information (forecasts)	Reasonableness of assumptions and calculation methodology used. Reasonableness of reporting disclosures	Forecasts, projections	ASAE 3000 and ASAE 3450
Contractual arrangement	No assurance, only agreed procedures	According to the agreement	n/a	Report of factual findings	ASRS 4400

Appendix 10

(Ref: Para.)

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To be removed prior to issuance of GS 022 if not used

Draft

Appendix 11

(Ref: [Appendix 3](#))

CHARITIES AND NOT-FOR-PROFIT

ACNC requirements may relate to a SSGA and/or differing reporting frameworks ~~and that~~ therefore constitute a MSE. When considering an engagement relating to an ACNC registered entity, auditors clarify the ACNC's reporting requirements.

1. In December 2012, the Australian Government established the Australian Charities and Not-for-Profit Commission (ACNC) as an independent regulator. The ACNC has been set up to achieve the following objectives:
 - (a) Maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency.
 - (b) Support and sustain a robust, vibrant, independent and innovative not-for-profit sector.
 - (c) Promote the reduction of unnecessary regulatory obligations on the sector.
2. Entities in this sector, including companies limited by guarantee, commonly receive grants. Accountability for such grants are ordinarily subject to grant agreements which should be considered in context with other reporting requirements under the ACNC legislation.
3. It is important to note the CGG requirement ~~(see Appendix 3)~~ that unless agency staff have assessed a granting activity as higher risk, a financial acquittal should *not* be sought from an entity regulated by the ACNC. Agency staff may, however, seek certification that grant funds were spent for the purpose of the grant and identification of any unspent amounts. See Commonwealth Grant Guidelines [at Appendix 3](#), for further information.
4. ACNC website: www.acnc.gov.au



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **6**

Meeting Date: 9 June 2015

Subject: GS 009 *Auditing Self-Managed Superannuation Funds*

Date: 25 May 2015

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To approve a Project Plan for the update of GS 009 *Auditing Self-Managed Superannuation Funds* (September 2013) to accommodate ATO changes, changes to SISA and SISR, and address the experience of practitioners in using the Guidance Statement since it was re-issued. Furthermore, the AUASB at the 2014 Consultative Meeting, made a commitment to stakeholders to revise GS 009 on a 18-24 month cycle (or earlier if required). This update is not expected to involve a major revision.

Matters to Consider

Attached for your consideration is the Project Plan for GS 009 and Project Timeline.

AUASB Technical Group Recommendations

The AUASB Technical Group recommends that the project plan and project timeline to update GS 009 is approved by the AUASB.

Material Presented

Agenda Item 6 Board Meeting Summary Paper

Agenda Item 6.1 Project Plan of GS 009

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.

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Approve Project Plan for revision of GS 009		AUASB	9 June 2015	O/S

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



Project Plan

Project Title:	Revision of GS 009 <i>Auditing Self-Managed Superannuation Funds</i>
Project ID:	2015
Project Objective(s):	To revise GS 009 <i>Auditing Self-Managed Superannuation Funds</i> (September 2013) that covers the financial and compliance audits of Self-Managed Superannuation Funds.
Priority:	Medium
Issue/Reason:	GS 009 requires updating to accommodate: • the Australian Taxation Office (ATO) requirements applicable in 2014/15; • changes to the <i>Superannuation Industry (Supervision) Act 1993</i> (SISA) and the <i>Superannuation Industry (Supervision) Regulations 1994</i> (SISR); • the experience of practitioners in using GS 009; and • the commitment made to stakeholders at the 2014 Consultative Meeting to revise GS 009 every 18-24 months (or earlier if required).
Date Prepared:	25 May 2015
Date To Be Approved:	9 June 2015
Date Updated: (if applicable)	

Project Objectives

To revise GS 009 *Auditing Self-Managed Superannuation Funds* (September 2013) to accommodate ATO changes, changes to SISA and SISR and address the experience of practitioners in using the Guidance Statement since it was re-issued. Furthermore, the AUASB at the 2014 Consultative Meeting, made a commitment to stakeholders to revise GS 009 on a 18-24 month cycle (or earlier if required). This update is not expected to involve a major revision.

Stakeholders

1. Self-Managed Superannuation Fund (SMSF) auditors
2. Relevant regulatory bodies (ie ATO and ASIC):
3. Professional Bodies (CPA Australia, CAANZ, IPA and SMSF Association)

Background

Guidance Statement GS 009 *Auditing Self-Managed Superannuation Funds* was reissued in September 2013. GS 009 provides guidance to auditors conducting the audit of a SMSF's special purpose financial report and the audit of a SMSF's compliance plan in accordance with the requirements of the SISA and the SISR. SMSFs are primarily governed by the requirements of the SISA, SISR, The Income Taxation Assessment Acts 1936 & 1997 (ITAA) and the fund's governing rules, which include the trust deed and applicable case law.

ATO requirements

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

Scope

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

Risks/Issues

1. To ensure that the changes to GS 009 are minimised so that no unnecessary costs are incurred by practitioners in modifying the engagement approach to address any amendments.
2. To ensure that the experience of auditors in using GS 009 is considered in revisions recommended for the revised guidance statement.

Action Plan

1. Develop a project plan and obtain AUASB approval.
2. Establish a review group (including the 3 Accounting Bodies, ATO, Tax Payers Association, practitioners and Self-Managed Superannuation Association).
3. Revise guidance statement in light of the project objectives.
4. Obtain OBPR clearance
5. Obtain AUASB approval for revised GS 009
6. Issue GS 009

Resources

1 Senior Project Manager

Timetable

Date	Description
9 June 2015	Present Project Plan and obtain AUASB approval
June/July 2015	Research amendments to GS 009 Revise GS 009 and prepare 1 st draft, circulate to review group for comment
28 July 2015	AUASB Meeting – present 1 st draft GS 009 for consideration
August 2015	Further revisions of GS 009 Further draft to review group QA GS 009 Obtain OBPR clearance Issue GS
15 September 2015	AUASB Meeting – present 2nd draft GS 009 for review and approval (or by way of an out-of-session approval)



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 7

Meeting Date: 9 June 2015

Subject: GS 018 *Franchising Code of Conduct – Auditor's Report*

Date Prepared: 28 May 2015

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

To provide the AUASB with a final revised GS 018 *Franchising Code of Conduct – Auditor's Report* for consideration and approval, to issue.

Background

GS 018 *Franchising Code of Conduct – Auditor's Reports* was last revised and issued in October 2010. The Competition and Consumer (Industry Codes—Franchising) Regulation 2014 (the franchising code of conduct) on which the guidance is based and the audit requirements are outlined was initially introduced as a code that regulates the conduct of franchising participants in 1998 and since then has been amended four times 1999, 2001, 2008 and most recently in October 2014.

The purpose of GS 018 was to assist the auditor engaged to report under the previous Annexure 1 Item 20.3 audit reporting requirements as applicable of the code which is now Annexure 1 Item 21.4.

Matters to Consider

Part A – General

1. The AUASB is requested to refer to the final revised draft GS 018 *Franchising Code of Conduct – Auditor's Report* at Agenda Item 7.1 for consideration. The marked up is provided for information only.
2. On 27 May 2015, OBPR clearance was received on the revised GS 018 with no RIS required and the internal quality assurance review completed.

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.

Part B – NZAuASB

1. N/A. This Guidance Statement is only applicable for the Australian jurisdiction as it relates specifically to laws under the Competition and Consumer (Industry Codes—Franchising) Regulation 2014 which is regulated by the Australian Competition and Consumer Commission (ACCC).

Part C – “Compelling Reasons” Assessment

1. N/A

The proposed changes conform with IAASB modification guidelines for NSS?

Y ☐ N ☐

Recommendation

The AUASB to approve revised GS 018 *Franchising Code of Conduct – Auditor’s Reports* to be issued subject to final quality assurance processes being completed.

Material Presented

Agenda Item 7	AUASB Board Meeting Summary Paper
Agenda Item 7.1	Final revised GS 018 <i>Franchising Code of Conduct – Auditor’s Report</i> (clean)
Agenda Item 7.2	Final revised GS 018 <i>Franchising Code of Conduct – Auditor’s Report</i> (marked up) (electronic only)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	AUASB to approve final revised GS 018 to be issued.		AUASB	9 June 2015	

GS 018
(June 2015)

Guidance Statement GS 018

Franchising Code of Conduct – Auditor's Report

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.



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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 *Franchising Code of Conduct – Auditor's Report* 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.

CONTENTS

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application.....	1
Issuance Date.....	2
Introduction	3-5
Nature and Extent of the Audit Engagement.....	6-19
Audit Approach.....	20-24
Auditor’s Report.....	25-30
Conformity with International Pronouncements	31
Appendix 1: Excerpt from Franchising Code of Conduct – Item 21 Financial details	
Appendix 2: Example Unmodified Auditor’s Report	

Draft

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 018 *Franchising Code of Conduct – Auditor's Report* 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>

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 018

Franchising Code of Conduct – Auditor's Report

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors to interpret, discharge and report under Item 21 of Annexure 1 to the Franchising Code of Conduct¹ (the “Franchising Code”).

Issuance Date

2. This Guidance Statement is issued on 18 June 2015 by the AUASB and replaces GS 018 *Franchising Code of Conduct – Auditor's Report*, issued in October 2010.

Introduction

3. Item 21 of Annexure 1² to the *Franchising Code* (Annexure 1) imposes mandatory disclosure requirements on the franchisor in relation to financial details, which must be provided to franchisees or prospective franchisees when entering into a new franchise agreement on or after 1 January 2015.
4. Audit engagements undertaken in relation to the financial details as required under Item 21 of Annexure 1 are performed under ASA 805 *Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*. This standard states that when forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in ASA 700 *Forming an Opinion and Reporting on a Financial Report* as necessary in the circumstances of the engagement.
5. In undertaking audit engagements under Item 21 of Annexure 1, the auditor is required to provide the audit report to the franchisor within four months after the end of the financial year to which the statement of the franchisor’s solvency (directors’ statement) relates.

Nature and Extent of the Audit Engagement

Item 21.1 of Annexure 1

6. The directors’ statement required by Item 21.1 of Annexure 1 includes the directors’ opinion on “solvency” as at the end of the last financial year as to whether there are reasonable grounds to believe that the franchisor will be able to pay its debts as and when they fall due.
7. The auditor’s responsibility is to form and express an opinion on the directors’ statement made pursuant to Item 21.1 of Annexure 1. The substance of this responsibility is similar to that assumed by a company auditor in relation to the “solvency” statement by directors which forms part of the directors’ declaration under Section 295(4) of the *Corporations Act 2001* (the “Act”), and on which the auditor forms an opinion and reports, as a component of the financial report, under the Act. For audits under the Act, the auditor’s opinion on the directors’ solvency statement is derived from, and is integral to, the audit process related to forming an opinion on the financial report and the appropriateness of the going concern basis in accordance with ASA 570 *Going Concern*.

¹ The *Franchising Code of Conduct* came into operation on 1 July 1998 and the revised *Competition and Consumer (Industry Code – Franchising) Regulation 2014* (issued Oct 2014) is applicable from 1 January 2015. A copy of the Code is available from the Australian Competition and Consumer Commission (ACCC) website (<http://www.accc.gov.au>).

² Refer to Appendix 1 which sets out the Financial details under Item 1 of Annexure 1 to the *Franchising Code*, to be included in the franchisor’s Disclosure document prepared for a franchisee or prospective franchisee looking to enter into a franchise agreement from 1 January 2015.

8. In the case of an audit under the Act, the auditor's responsibility is to consider the appropriateness of the going concern basis (defined for financial reporting purposes) in the context of the audit of a financial report. The auditor therefore considers the going concern assumption under ASA 570 (including solvency) for the "relevant period"³, being the period from the date of the auditor's current report to the expected date of the next auditor's report on the financial report for the next period.

Item 21.2 and 21.3 of Annexure 1

9. If requested by the franchisee and they are available the franchisor should provide to the franchisee or prospective franchisees as part of the Disclosure documents under Item 21.2 or 21.3 of Annexure 1, the financial reports of the franchisor for each of the last 2 completed financial years or as part of the consolidated entity (or foreign equivalent) which are accompanied by an independent audit report addressed to the directors of the franchisor.

Item 21.4 and 21.5 of Annexure 1

10. In the event that clause 21.4 or 21.5 of Annexure 1 applies and the auditor (either a registered company auditor or for foreign franchisors, a foreign equivalent) is engaged to provide an independent audit report on the directors' statement under Item 21.1 of Annexure 1, the audit report is required to be provided within four months of the end of the financial year to which the directors' statement relates. The implication for the auditor will be on managing workflow, client expectations and meeting all reporting requirements in a shorter time frame.
11. While recognising that for entities subject to audit under the Act, there is an interrelationship between the opinion under the Act and that required under Item 21.4 or 21.5 of Annexure 1, the audit report issued under Item 21.4 or 21.5 of Annexure 1, is undertaken as a separate engagement. It is acknowledged, however, that in situations where the audit reports are to be provided by the same auditor, much of the evidence to support the opinion under Item 21.4 and 21.5 of Annexure 1 will be derived from the financial report audit under the Act.
12. For engagements under Item 21.4 and 21.5 of Annexure 1, the auditor considers the risks inherent in issuing an audit report without the support of an accompanying financial report. For example, unlike the auditor's opinion on solvency under the Act, which is one element of the information reported on by the auditor, the Item 21.4 and 21.5 of Annexure 1 opinion is a specific audit report on the directors' statement and stands in its own right.
13. In situations where no audit has been conducted as at the end of the last financial year, the nature and extent of the audit procedures to be undertaken by an auditor on an entity's financial information, may be similar to those required to express an audit opinion under the Act, before being able to report under Item 21.4 or 21.5 of Annexure 1. Whilst the audit process need not be directed to supporting an opinion on a complete financial report, but rather on the directors' assertion in their statement, the auditor may, for example need to have obtained sufficient appropriate audit evidence under ASA 500 *Audit Evidence* about the assets, liabilities, revenues, expenses, cash flows, budgets and projections of the entity in order to assess the basis for the directors' statement.
14. The audit procedures performed to be able to report under Item 21.4 or 21.5 of Annexure 1, are likely to include an analysis and assessment of prospective information in relation to cash flows, revenue and payment streams and reflect assumptions that are dependent upon future events which may be subject to risks inherent in the business and future economic conditions. The auditor applies professional judgement in auditing any assumptions to determine their reasonableness as such evidence is future oriented and speculative in nature. The auditor may refer to ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* for further guidance on this area.

³ Refer to the definition of relevant period in ASA 570 paragraph Aus 13.2.

Item 21.6 of Annexure 1

15. In situations where the franchisor or the entity were insolvent in either or both of the last two completed financial years, and is required to report under Item 21.6 of Annexure 1, the auditor considers the guidance contained in paragraphs 10-14 of this guidance statement. The auditor considers the date on which the statutory declaration of the franchisor's solvency is provided and the date at which they sign the independent audit report in order to consider that any subsequent events under ASA 560 *Subsequent Events* have been treated appropriately by the franchisor.

Other Considerations under the Franchising Code

16. The franchisor is also required to disclose to the franchisee or prospective franchisee under section 17 of the Franchising Code any materially relevant facts that may affect a statement, declaration or a document referred to in Item 21 of Annexure 1, as soon as reasonably practicable prior to the parties entering into the franchise agreement.
17. In the circumstances where a materially relevant fact becomes known after the disclosure document is completed, the matter should be brought to the attention of the franchisee or prospective franchisee in writing within a reasonable time but not more than 14 days after the franchisor becomes aware of the matter.
18. The auditor needs to enquire of the franchisor as to whether there are any materially relevant facts that should be brought to their attention and applies their professional judgement to determine any impact on the engagement specific audit approach.
19. In the case where a materially relevant fact becomes known to the auditor after completion and distribution of the disclosure document (including the audit report) to the franchisee or prospective franchisee, that may have caused the auditor to amend the audit report the auditor must follow the requirements in ASA 560 to resolve the matter.

Audit Approach

20. The nature, timing and extent of the audit procedures appropriate to achieve reasonable assurance on the directors' statement under Item 21.4 or 21.5 of Annexure 1, are a function of the circumstances of each engagement, and will depend on:
 - (a) whether the auditor is a new or continuing auditor;
 - (b) the proximity of the most recent audited financial report;
 - (c) the extent and nature of changes in the entity's activities and/or industry/industries in which it operates since the issue of the most recent audited financial report; and
 - (d) the nature, timing and extent of the audit procedures conducted since the issue of the most recent audited financial report.

Continuity in Auditor

21. For the continuing auditor where an audited financial report has recently been issued under the Act, the audit process may be limited to a consideration of any changes in the entity's circumstances since the audit of the directors' opinion on solvency included in the directors' declaration is already required under the Act. This may involve the auditor:
 - (a) enquiring of management/directors as to the basis on which they have formed their opinion on solvency under Item 21.1 of Annexure 1, and evaluating the appropriateness of any new assumptions underlying their opinion;
 - (b) updating knowledge of the entity's business and industry, to evaluate whether there have been any significant changes to the appropriateness of significant assumptions

underlying the previous solvency opinion⁴. Particular emphasis may need to be given to any changes in expectations concerning cash flow, trading conditions, financial commitments, financing arrangements etc;

- (c) enquiring as to any changes to the entity's internal control structure in relation to cash flow and management of debt; and
- (d) applying appropriate analytical review procedures, for example comparing the latest management accounts with budgets and cash flow forecasts.

In the absence of evidence contrary to the representations made by the directors in their Item 21.1 of Annexure 1 statement, and for the auditor to report under Item 21.4 or 21.5 of Annexure 1, ASA 700 states that the auditor shall form an unmodified opinion.

22. Significant changes in fundamental assumptions and/or conditions, for example changes in the nature of the entity's business, plans for significant acquisitions and disposals may require application of more extensive audit procedures. Some examples of audit procedures the auditor may consider are provided in paragraph 23(c) of this guidance statement.

Initial Engagement – New Auditor

23. For an auditor undertaking an initial audit engagement, and/or a situation where there has been a significant time lag since the issue of the latest audited financial report, and less extensive audit procedures applied in relation to forming an audit opinion on the financial report in the current financial period, the nature, timing and extent of the audit procedures may need to be more extensive. This may involve the auditor placing further emphasis on certain areas of the audit, but is not limited to, the following:
- (a) understanding the entity and its environment and assessing the risks of material misstatement under ASA 315 .
 - (b) consideration of procedures to obtain information for use in identifying the risks of material misstatement due to fraud under ASA 240 *The Auditor's Responsibilities Relating to Fraud in and Audit of a Financial Report- Appendix 2*.
 - (c) obtaining sufficient appropriate audit evidence under ASA 500 to support the directors' statement:
 - (i) enquiring of management as to the basis on which they have formed their opinion on solvency and evaluating the appropriateness of the assumptions on which this is based;
 - (ii) reviewing procedures and controls over cash flows, trading conditions, financial commitments etc that may affect cash flow e.g. collection of debtor days and budgetary forecasts and the ability of the entity to pay its debts as and when they fall due;
 - (iii) appropriateness of management's use of the going concern assumption in the preparation of the directors' statement under ASA 570; and
 - (iv) obtaining written representations under ASA 580 *Written Representations* from management based on the assertions made throughout the engagement.
 - (d) consideration of subsequent events under ASA 560 that may have the potential to affect the directors' statement.

⁴ Refer to ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* for further guidance on areas the auditor needs to consider when undertaking the audit.

24. In any of the situations described above where the audit procedures create doubt as to the directors' representations concerning solvency, additional audit procedures may need to be undertaken to enable an opinion to be expressed.

Auditor's Report

25. The auditor is concerned with obtaining sufficient appropriate audit evidence that the position and declaration given in the directors' statement pursuant to Item 21.1 of Annexure 1 is fairly presented, based on the foreseeable commercial circumstances facing the entity and which the auditor can reasonably perceive to exist.
26. If, as a result of applying the appropriate level of audit procedures, the auditor forms the opinion that there is sufficient and appropriate audit evidence obtained to support the representations made by the directors in their statement, the auditor issues an unmodified auditor's report under ASA 700. An example report is provided in Appendix 2 to this Guidance Statement⁵.
27. If the auditor is of the opinion that the audit evidence is inconsistent with the representation made by the directors, under ASA 570 the auditor needs to communicate with those charged with governance e.g. directors of the franchisor and/or audit committee, events or conditions arising from the audit that in the auditor's professional judgement may cast significant doubt on the entity's ability to continue as a going concern under ASA 570 and issues a modified report under ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*. In this scenario, the auditor may need to consider the basis for the modification and whether this may potentially result in a breach of the Franchising Code and may deem it appropriate to obtain legal advice to determine the appropriate course of action in the circumstances.
28. Under ASA 240, if the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity such as the regulator, in this case the Australian Competition and Consumer Commission.
29. If the auditor is of the opinion that there is sufficient and appropriate audit evidence to support the representation made by the directors that events exist that put into doubt the ability of the entity to pay its debts as and when they fall due, the auditor expresses an unqualified opinion but adds an emphasis of matter section. ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* may provide the auditor with some further guidance in this area.
30. Item 21.4(b) of Annexure 1, requires the copy of the independent audit [report] to be provided with the directors' statement before distribution of that report by the franchisor to any franchisee or prospective franchisee.

Conformity with International Pronouncements

31. There is no equivalent International Auditing Practice Statement (IAPS) or Auditing Standard to this Guidance Statement.

⁵ This example independent audit report on a Directors' Solvency Statement can be adapted accordingly for similar audit engagements across different subject matter e.g. *Competition and Consumer (Industry Codes – Oil code) Regulation 2006*.

Appendix 1

(Ref: Para. 3)

Excerpt from Franchising Code of Conduct

21 Financial details

21.1 A statement of the franchisor's solvency that:

- (a) reflects the franchisor's position:
 - (i) at the end of the last financial year; or
 - (ii) if the franchisor did not exist at the end of the last financial year—at the date of the statement; and
- (b) is signed by at least one director of the franchisor; and
- (c) gives the directors' opinion as to whether there are reasonable grounds to believe that the franchisor will be able to pay its debts as and when they fall due.

21.2 Financial reports for each of the last 2 completed financial years in accordance with sections 295 to 297 of the *Corporations Act 2001*, or a foreign equivalent of that Act applicable to the franchisor, prepared by the franchisor.

Note: See also items 21.4 to 21.6.

21.3 If:

- (a) the franchisor is part of a consolidated entity that is required to provide audited financial reports under the *Corporations Act 2001*, or a foreign equivalent of that Act applicable to the consolidated entity; and
- (b) a franchisee requests those financial reports; financial reports for each of the last two completed financial years, prepared by the consolidated entity.

Note: See also items 21.4 to 21.6.

21.4 Items 21.2 and 21.3 do not apply if:

- (a) the statement under item 21.1 is supported by an independent audit provided by:
 - (i) a registered company auditor; or
 - (ii) if the franchisor is a foreign franchisor—a foreign equivalent for that franchisor;within 4 months after the end of the financial year to which the statement relates; and
- (b) a copy of the independent audit is provided with the statement under item 21.1.

21.5 If the franchisor or consolidated entity (the **entity**) has not existed for two or more financial years, then instead of providing the financial reports mentioned in item 21.2 or 21.3, the following:

- (a) a statutory declaration of the entity's solvency;

- (b) an independent audit report on the entity's solvency as at the date of the entity's declaration.
- 21.6 If the franchisor or consolidated entity (the **entity**) was insolvent in either or both of the last two completed financial years, the following:
 - (a) a statement of the period during which the entity was insolvent;
 - (b) a statutory declaration of the entity's solvency;
 - (c) an independent audit report on the entity's solvency as at the date of the entity's declaration.

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Appendix 2

(Ref: Para. 27)

Example of An Unmodified Auditor's Report

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

We have audited the statement by directors ("the statement") of [name of franchisor] dated [insert date] [which comprises [name of franchisor] position at [date] and the directors declaration of the entity's solvency] made for the purposes of fulfilling the requirements of Item 21 of Annexure 1 to the *Franchising Code of Conduct*.

In our opinion, the statement dated [insert date], presents fairly, in all material respects, the directors' opinion pursuant to Item 21 of Annexure 1 to the *Franchising Code of Conduct*, that there are reasonable grounds to believe that [name of franchisor] will be able to pay its debts as and when they fall due.

Basis of 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 Statement* section of our report. We are independent of the franchisor in accordance with 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 statement in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of Preparation and Distribution

The statement has been prepared pursuant to Item 21 of Annexure 1 to the *Franchising Code of Conduct* for distribution to the franchisees and prospective franchisees of [name of franchisor]. We disclaim any assumption of responsibility for any reliance on this audit report or on the statement to which it relates to any other party, or for any purpose other than that for which it was prepared.

Directors' Responsibility for the Statement

The [name of franchisor] directors are responsible for the preparation and fair presentation of the statement as at [date of financial year end] to reflect the position of the franchisor at that date, and the ability of [name of franchisor] to meet their debts as and when they fall due over the 12 month period from that date. This responsibility includes such controls as the directors' determine is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

In preparing the statement, directors' are responsible for assessing the franchisor'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 franchisor or to cease operations, or has no realistic alternative but to do so.

The directors' are responsible for overseeing the franchisor's financial reporting process.

Auditor's Responsibilities for the Audit of the Statement

Our objectives are to obtain reasonable assurance about whether the statement 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 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 the statement.

The following information may be provided in an Appendix to the Auditor's Report

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 in the statement, 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 franchisor'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 director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the franchisor'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 this matter or, 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 franchisor to cease to continue as a going concern.*

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.

Inherent Limitation

Because of the subjective nature of prospective information required to fulfil the requirements of Item 21 of Annexure 1 to the Franchising Code, the persuasiveness of the evidence available is limited. Prospective information is information about events and/or actions that have not yet occurred and may not occur. It reflects assumptions about future events and is subject to future changes in the business and economic conditions. Whilst evidence is available to support the assumptions on which the directors' opinion is based, such evidence is future orientated and speculative in nature. As a consequence, actual results are likely to be different from the information on which the audit opinion is based, since anticipated events frequently do not occur as expected or assumed and the variations between the prospective opinion and the actual outcome may be significant.

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

GS 018
(June 2015)

Guidance Statement GS 018

Franchising Code of Conduct – Auditor's Report

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

Draft

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Important Note

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

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

Guidance Statement *Franchising Code of Conduct – Auditor's Report* 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.

CONTENTS

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	1
Issuance Date	2
Introduction	1-19
Audit Approach	20-24
Auditor's Report	25-30
Conformity with International Pronouncements	31
Appendix 14 : Excerpt from Franchising Code of Conduct – Item (All changes from the 2008 to 2014 Franchising Code of Conduct are highlighted) Application Date: 1 January 2015 21 -Financial details Example Unmodified Auditor's Report	
Appendix 24 : Example Unmodified Auditor's Report	

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 018 *Franchising Code of Conduct – Auditor's Report* 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>

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 018

Franchising Code of Conduct – Auditor's Report

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors ~~to assist auditors~~ to interpret, discharge and report under Item 21~~0~~ of Annexure 1 to the Franchising Code of Conduct¹ (the “Franchising Code”).

Issuance Date

2. This Guidance Statement is issued on 18 June 2015 by the AUASB and replaces GS 018 *Franchising Code of Conduct – Auditor's Report*, issued in October 2010.

Introduction

3. ~~Item 21~~0~~ of Annexure 1² to the Franchising Code (Annexure 1) imposes mandatory disclosure requirements on the franchisor in relation to financial details, which must be provided by franchisors to franchisees or prospective franchisees when entering into a new franchise agreement on or after 1 January 2015~~October 1998, as follows:

~~20. Financial details~~

- ~~20.1 A statement as at the end of the last financial year, signed by at least one director of the franchisor, whether in its directors' opinion there are reasonable grounds to believe that the franchisor will be able to pay its debts as and when they fall due.~~

- ~~20.2 Financial reports for each of the last two completed financial years in accordance with sections 295 to 297 of the ., or a foreign equivalent of that Act applicable to the consolidated entity; and~~

- ~~(b) a franchisee requests those financial reports;~~

- ~~financial reports for each of the last two completed financial years, prepared by the consolidated entity.~~

- ~~20.3 Item 20.2 and 20.2A do not apply if:~~

- ~~(a) the statement under item 20.1 is supported by an independent audit [report specifically relating to that statement] provided by:~~

- ~~(i) a registered company auditor; or~~

- ~~(ii) if the franchisor is a foreign franchisor — a foreign equivalent for that franchisor;~~

- ~~within 12 months after the end of the financial year to which the statement relates; and~~

- ~~3. a copy of the independent audit [report] is provided with the statement under Item~~

¹ The Franchising Code of Conduct came into operation on 1 July 1998 and ~~was the revised Competition and Consumer (Industry Code – Franchising) Regulation 2014 (issued Oct 2014) is applicable from 1 January 2015~~, last amended on 3 June 2010. A copy of the Code is available from the Australian Competition and Consumer Commission (ACCC) website (<http://www.accc.gov.au>).

² Refer to Appendix 1 which sets out the Financial details under Item 1 of Annexure 1 to the Franchising Code, to be included in the sets out the content requirements of the franchisor's disclosure document ~~prepared for a franchisee or prospective franchisee looking to enter into a franchise agreement from 1 January 2015~~, when the expected annual turnover of a franchised business is \$50,000 or more. Annexure 2 to the Franchising Code sets out the content requirements of the franchising disclosure document when the expected annual turnover of a franchised business is less than \$50,000. For the purpose of this Guidance Statement, the guidance applicable to the auditing requirements of the solvency statements under Annexure 1 and Annexure 2 is the same.

4. Audit engagements undertaken in relation to the financial details as required under Item 21 of Annexure 1 are performed under ASA 805 *Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*. This standard states that when forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in ASA 700 *Forming an Opinion and Reporting on a Financial Report* as necessary in the circumstances of the engagement.

— In undertaking audit engagements under Item 21 of Annexure 1, the auditor is required to provide the audit report to the franchisor within four months after the end of the financial year to which the statement of the franchisor's solvency (directors' statement) relates.

5. _____

4. ~~Generally, the financial report of the franchisor needs to be accompanied by an independent audit report addressed to the directors of the franchisor entity for the specific purpose of being provided to franchisees as part of the disclosure document. However, as indicated in Item 20.3, a franchisor will not be required to provide a financial report where the directors' statement relating to solvency which is provided pursuant to Item 20.1 is supported by an independent audit report provided by a registered company auditor.~~

Definitions

Nature and Extent of the Audit Engagement

Item 21.1 of Annexure 1

6. ~~The directors' statement required by Item 21.1 of Annexure 1 to the *Franchising Code* includes the directors' ~~is~~ opinion on "solvency" as at the end of the last financial year as to whether there ~~are reasonable grounds~~ are reasonable grounds to believe that the franchisor will be able to pay its debts as and when they fall due.~~

~~5.7.~~ The auditor's ~~direct~~ responsibility is to form and express an opinion on the directors' statement made pursuant to Item 21.1 of Annexure 1 ~~to the *Franchising Code*~~. The substance of this responsibility is similar to that assumed by a company auditor in relation to the "solvency" statement by directors which forms part of the directors' declaration under Section 295(4) of the *Corporations Act 2001* (the "Act"), and on which the auditor forms an opinion and reports, as a component of the financial report, under the Act. For audits under the Act, the auditor's opinion on the directors' solvency statement is derived from, and is integral to, the audit process related to forming an opinion on the financial report and the appropriateness of the going concern basis in accordance with ASA 570 *Going Concern*.

8. In the case of an audit under the Act, the auditor's responsibility is to consider the appropriateness of the going concern basis (defined for financial reporting purposes) in the context of the audit of a financial report. The auditor therefore considers the going concern assumption under ASA 570 (including solvency) for the "relevant period"³, being the period from the date of the auditor's current report to the expected date of the next auditor's report on the financial report for the next period.

Item 21.2 and 21.3 of Annexure 1

9. If requested by the franchisee and they are available the franchisor should provide to the franchisee or prospective franchisees as part of the Disclosure documents under Item 21.2 or 21.3 of Annexure 1, the financial reports of the franchisor for each of the last 2 completed financial years or as part of the consolidated entity (or foreign equivalent) which are accompanied by an independent audit report addressed to the directors of the franchisor.

³ Refer to the definition of relevant period in ASA 570 paragraph Aus 13.2.

Item 21.4 and 21.5 of Annexure 1

6. ~~Due to the specific nature of the engagement under the *Franchising Code* which generally occurs outside the annual financial reporting process, the *Franchising Code* specifies that the directors' statement must be provided within a 12 month period from the end of the financial year to which it relates.~~
- ~~— In the event that clause 21.4 or 21.5 of Annexure 1 applies and the auditor (either a registered company auditor or for foreign franchisors, a foreign equivalent)~~
10. is engaged to provide an independent audit report on the directors' statement under Item 21.1 of Annexure 1, the audit report is required to be provided within four months of the end of the financial year to which the directors' statement relates. The implication for the auditor will be on managing workflow, client expectations and meeting all reporting requirements in a shorter time frame.
- ~~7.11.~~ While recognising that for entities subject to audit under the Act, there is an interrelationship between the opinion under the Act and that required under Item ~~210.43 or 21.5~~ of Annexure ~~1 to the *Franchising Code*~~, the audit report issued under Item ~~210.43 or 21.5~~ of Annexure 1, is undertaken as a separate ~~audit~~ engagement. It is acknowledged, however, that in situations where the audit reports are to be provided by the same auditor, much of the evidence to support the opinion under Item ~~210.4 and 21.53~~ of Annexure 1 will be derived from the financial report audit under the Act.
- ~~8.12.~~ For engagements under Item ~~210.4 and 21.53~~ of Annexure 1 ~~to the *Franchising Code*~~, the auditor considers the risks inherent in issuing an audit report without the support of an accompanying financial report. For example, unlike the auditor's opinion on solvency under the Act, which is one element of the information reported on by the auditor, the Item ~~210.43 and 21.5~~ of Annexure 1 opinion is a specific audit report on the directors' statement and stands in its own right.
- ~~9.13.~~ In situations where no audit has been conducted as at the end of the last financial year, the nature and extent of the audit procedures to be undertaken by an auditor on an entity's financial information, may be similar to those required to express an audit opinion under the Act, before being able to report under Item ~~210.4 or 21.5~~ of Annexure 13. Whilst the audit process need not be directed to supporting an opinion on a complete financial report, but rather on the directors' assertion in their statement, the auditor may, for example need to have obtained sufficient appropriate audit evidence under ASA 500 *Audit Evidence* about the assets, liabilities, revenues, expenses, cash flows, budgets and projections ~~etc.~~ of the entity in order to assess the basis for the directors' ~~“solvency”~~ statement.
14. The audit procedures performed to be able to report under Item 21.4 or 21.5 of Annexure 1, are likely to include an analysis and assessment of prospective information in relation to cash flows, revenue and payment streams and reflects assumptions that are dependent upon future events which may be subject to risks inherent in the business and future economic conditions. The auditor applies professional judgement in auditing any assumptions to determine their reasonableness as such evidence is future oriented and speculative in nature. The auditor may refer to ASAE 3450 *Assurance Engagements Involving Corporate Fundraisings and/or Prospective Financial Information* for further guidance on this area.

Item 21.6 of Annexure 1

- ~~— In situations where the franchisor or the entity were insolvent in either or both of the last two completed financial years, and~~
- ~~— is required to report under Item 21.6 of Annexure 1, the auditor considers the guidance contained in paragraphs 10-14 of this guidance statement. The auditor considers the date on which the statutory declaration of the franchisor's solvency is provided and the date at which~~

they sign the independent audit report in order to consider that any subsequent events
~~[PL1]~~ under ASA 560 Subsequent Events

15. have been treated appropriately by the franchisor.

Other Considerations under the Franchising Code

16. The franchisor is also required to disclose to the franchisee or prospective franchisee under section 17 of the Franchising Code any materially relevant facts that may affect a statement, declaration or a document referred to in Item 21 of Annexure 1, as soon as reasonably practicable prior to the parties entering into the franchise agreement.

17. In the circumstances where a materially relevant fact becomes known after the disclosure document is completed, the matter should be brought to the attention of the franchisee or prospective franchisee in writing within a reasonable time but not more than 14 days after the franchisor becomes aware of the matter.

18. The auditor needs to enquire of the franchisor as to whether there are any materially relevant facts that should be brought to their attention and applies their professional judgement to determine any impact on the engagement specific audit approach.

~~10.~~19. In the case where a materially relevant fact becomes known to the auditor after completion and distribution of the disclosure document (including the audit report) to the franchisee or prospective franchisee, that may have caused the auditor to amend the audit report the auditor must follow the requirements in ASA 560 to resolve the matter.-

Audit Approach

~~11.~~20. The nature, timing and extent of the audit procedures appropriate to achieve reasonable assurance on the directors' statement under Item 21.4 or 21.5 of Annexure 1, are a function of the circumstances of each engagement, and will depend on:

- (a) whether the auditor is a new or continuing auditor;
- (b) the proximity of the most recent audited financial report;
- (c) the extent and nature of changes in the entity's activities and/or industry/industries in which it operates since the issue of the most recent audited financial report; ~~and~~ and
- (d) the nature, timing and extent of the audit procedures conducted since the issue of the most recent audited financial report.~~;~~

~~(e)~~ CContinuity in Auditor

~~12.~~21. For the continuing auditor where an audited financial report has recently been issued under the Act, the audit process may be limited to a consideration of any changes in the entity's circumstances since the audit of the directors' opinion on solvency included in the directors' declaration is already required under the Act. This may involve the auditor:

- (a) enquiring of management/directors as to the basis on which they have formed their opinion on solvency under Item 21.1 of Annexure 1, and evaluating the appropriateness of any new assumptions underlying their opinion;
- (b) updating knowledge of the entity's business and industry, to evaluate whether there have been any significant changes to the appropriateness of significant assumptions underlying the previous solvency opinion⁴. Procedures to be applied in this regard

⁴ Refer to ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* for further guidance on areas the auditor needs to consider when undertaking the audit.

could include, for example, those identified in Appendix 1 of ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. Particular emphasis may need to be given to any changes in expectations concerning cash flow, trading conditions, financial commitments, financing arrangements etc;

- (c) enquiring as to any changes to the entity's internal control structure in relation to cash flow and management of debt; and
- (d) applying appropriate analytical review procedures, for example comparing the latest management accounts with budgets and cash flow forecasts.

In the absence of evidence contrary to the representations made by the directors in their Item 210.1 of Annexure 11 ~~solvency~~ statement, and for the auditor to report under Item 210.4 or 21.5 of Annexure 13, ASA 700 *Forming an Opinion and Reporting on a Financial Report* states that the auditor shall form an unmodified opinion.

- 13.22. Significant changes in fundamental assumptions and/or conditions, for example changes in the nature of the entity's business, plans for significant acquisitions and disposals may require application of more extensive audit procedures. Some examples of audit procedures the auditor may consider are provided in paragraph 23(c) of this guidance statement.

Initial Engagement – New Auditor

- 14.23. For an ~~new~~ auditor undertaking an initial audit engagement, and/or a situation where there has been a significant time lag since the issue of the latest audited financial report, and ~~less extensive~~ limited audit procedures applied in relation to forming an audit opinion on the financial report in the current financial period, the nature, timing and extent of the audit procedures may need to be more extensive. This may involve the auditor placing further emphasis on certain areas of the audit, but is not limited to, the following:

- (a) Understanding the entity and its environment and assessing the risks of material misstatement under ASA 315.
- ~~(a)~~(b) consideration of procedures to obtain information for use in identifying the risks of material misstatement due to fraud under ASA 240 *The Auditor's Responsibilities Relating to Fraud in and Audit of a Financial Report- Appendix 2.*
- ~~(b)~~(c) Obtaining sufficient appropriate audit evidence under ASA 500 to support the ~~solvency statement by d~~Directors' statement.
 - (i) enquiring of management as to the basis on which they have formed their opinion on solvency and evaluating the appropriateness of the assumptions on which this is based;
 - (ii) reviewing procedures and controls over cash flows, trading conditions, financial commitments etc that may affect cash flow e.g. collection of debtor days and budgetary forecasts and the ability of the entity to pay its debts as and when they fall due;
 - (iii) appropriateness of management's use of the going concern assumption in the preparation of the directors' ~~solvency~~ statement under ASA 570 ~~Going Concern~~;
 - (iv) obtaining written representations under ASA 580 *Written Representations* from management based on the assertions made throughout the engagement.
- ~~(c)~~(d) Consideration of subsequent events under ASA 560 ~~Subsequent Events~~ that may have the potential to affect the ~~solvency statement by Directors' statement~~.

- 15.24. In any of the situations described above where the audit procedures create doubts as to the directors' representations concerning solvency, additional audit procedures may need to be undertaken to enable an opinion to be expressed.

Auditor's Report

- 16.25. The auditor is concerned with obtaining sufficient appropriate audit evidence that the position and declaration opinion given stated in the directors' ~~solvency~~ statement pursuant to Item 21.1 of Annexure 1 is fairly presented ~~is reasonable~~, based on the foreseeable commercial circumstances facing the entity and which the auditor can reasonably perceive to exist.
- 17.26. If, as a result of applying the appropriate level of audit procedures, the auditor forms the opinion that there is sufficient and appropriate audit evidence obtained to support the representations made by the directors in their ~~solvency~~ statement, the auditor issues an unmodified auditor's report under ASA 700. An example report is provided in Appendix 24 to this Guidance Statement⁵.
27. If the auditor is of the opinion that the audit evidence is inconsistent with the representation made by the directors, under ASA 570 the auditor needs to communicate with those charged with governance e.g. directors of the franchisor and/or audit committee, events or conditions arising from the audit that in the auditor's professional judgement may cast significant doubt on the entity's ability to continue as a going concern under ASA 570 and issues a modified report under ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*. In this scenario, the auditor may need to consider the basis for the modification and whether this may potentially result in a breach of the Franchising Code and may deem it appropriate to obtain legal advice to determine the appropriate course of action in the circumstances.
- 18.28. Under ASA 240, if the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity such as the regulator, in this case the Australian Competition and Consumer Commission.
- 19.29. If the auditor is of the opinion that there is sufficient and appropriate audit evidence to support the representation made by the directors that events exist that put into doubt the ability of the entity to pay its debts as and when they fall due, the auditor ~~expresses an unqualified opinion~~ but adds an emphasis of matter section. *ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* may provide the auditor with some further guidance in this area.
- 20.30. Item 210.43(b) of Annexure 1, requires the copy of the independent audit [report] to be provided with the directors' statement before distribution of that report by the franchisor to any franchisee or prospective franchisee.

Conformity with International Pronouncements

- 21.31. There is no equivalent International Auditing Practice Statement (IAPS) or Auditing Standard to this Guidance Statement.

⁵ This example independent audit report on a Directors' Solvency Statement can be adapted accordingly for similar audit engagements across different subject matter e.g. *Competition and Consumer (Industry Codes – Oil code) Regulation 2006*.

Appendix 1

(Ref: Para. 3)

Excerpt from Franchising Code of Conduct

(All changes from the 2008 to 2014 Franchising Code of Conduct are highlighted)

Application Date: 1 January 2015

21 Financial details

- 21.1 A statement of the franchisor's solvency that:(a)reflects the franchisor's position:
- (a) at the end of the last financial year; or
 - (i) if the franchisor did not exist at the end of the last financial year—at the date of the statement; and
 - (ii) is signed by at least one director of the franchisor; and
 - (b) gives the directors' opinion as to whether there are reasonable grounds to believe that the franchisor will be able to pay its debts as and when they fall due.
- 21.2 Financial reports for each of the last 2 completed financial years in accordance with sections 295 to 297 of the *Corporations Act 2001*, or a foreign equivalent of that Act applicable to the franchisor, prepared by the franchisor.

Note: See also items 21.4 to 21.6.

- 21.3 If:
- (a) the franchisor is part of a consolidated entity that is required to provide audited financial reports under the *Corporations Act 2001*, or a foreign equivalent of that Act applicable to the consolidated entity; and
 - (b) a franchisee requests those financial reports;
- financial reports for each of the last two completed financial years, prepared by the consolidated entity.

Note: See also items 21.4 to 21.6.

- 21.4 Items 21.2 and 21.3 do not apply if:
- (a) the statement under item 21.1 is supported by an independent audit provided by:
 - (i) a registered company auditor; or
 - (ii) if the franchisor is a foreign franchisor—a foreign equivalent for that franchisor;within four months after the end of the financial year to which the statement relates; and
 - (b) a copy of the independent audit is provided with the statement under item 21.1.

- 21.5 If the franchisor or consolidated entity (the **entity**) has not existed for two or more financial years, then instead of providing the financial reports mentioned in item 21.2 or 21.3, the following:
- (a) a statutory declaration of the entity's solvency;
 - (b) an independent audit report on the entity's solvency as at the date of the entity's declaration.
- 21.6 If the franchisor or consolidated entity (the **entity**) was insolvent in either or both of the last two completed financial years, the following:
- (a) a statement of the period during which the entity was insolvent;
 - (b) a statutory declaration of the entity's solvency;
 - (c) an independent audit report on the entity's solvency as at the date of the entity's declaration.

Appendix 21

(Ref: Para. 27)

Example of An Unmodified Auditor's Report

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

Report on Solvency

We have audited the statement by directors ("the statement") of [name of [franchisor entity](#)] dated [insert date] [which comprises [name of franchisor] position at [date] and the directors declaration of the entity's solvency] made for the purposes of fulfilling the requirements of Item 210 of Annexure 14⁶ to the *Franchising Code of Conduct*.

Opinion

In our opinion, the statement dated [insert date], presents fairly, in all material respects, the directors' opinion pursuant to Item 210 of Annexure 14 to the *Franchising Code of Conduct*, that there are reasonable grounds to believe that [name of [franchisor entity](#)] will be able to pay its debts as and when they fall due.

Basis of 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 Statement Financial Report* section of our report. We are independent of the [franchisor Entity](#) in accordance with 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 [statement financial report](#) in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of Preparation and Distribution

22. The statement has been prepared pursuant to Item 210 of Annexure 14 to the *Franchising Code of Conduct* for distribution to the franchisees and prospective franchisees of [name of [franchisor entity](#)]. We disclaim any assumption of responsibility for any reliance on this audit report or on the statement to which it relates to any other party, or for any purpose other than that for which it was prepared.

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

Directors' Responsibility for the Statement

The [name of [franchisor entity](#)] directors are responsible for the preparation and fair presentation of the statement ~~which has been prepared~~ as at [date of financial year end] to reflect the position of the franchisor at that date, and the ability of [name of [franchisor entity](#)] to meet their ~~ir~~se debts as and when they fall due over the 12 month period from that date. This responsibility includes such controls as

⁶ The requirements of Item 20 of Annexure 1 are the same as those of Item 10 of Annexure 2 to the *Franchising Code*. Therefore the phrase 'Item 20 of Annexure 1' in the auditor's report may be replaced with "Item 10 of Annexure 2", as applicable to the relevant franchised business.

~~the directors' determine is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error. establishing, designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or errors; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances~~

In preparing the ~~statement~~financial report, ~~directors' are~~management is responsible for assessing the ~~franchisor~~Entity'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' management~~ either intends to liquidate the ~~franchisor~~Entity or to cease operations, or has no realistic alternative but to do so.

The ~~directors' are charged with governance~~ are responsible for overseeing the ~~franchisor~~Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Statement

Our objectives are to obtain reasonable assurance about whether the ~~statement~~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 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 the ~~statement~~financial report.

The following information may be provided in an Appendix to the Auditor's Report

Paragraph 40(b) of this Auditing Standard explains that the shaded material below can be located in an Appendix to the auditor's report.

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~~ in the statement 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 ~~franchisor~~Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by ~~the directors' management~~.
- Conclude on the appropriateness of ~~the director~~management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ~~franchisor~~Entity'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 ~~this matter e-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 ~~franchisor~~Entity 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' those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors' those charged with governance 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.

~~Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with Australian Auditing and Assurance Standards. These standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the statement is free from material misstatement.~~

~~Our audit, in accordance with Australian Auditing and Assurance Standards, involved such tests and procedures as we considered necessary in the circumstances. Our procedures included examination, on a test basis, of evidence supporting the reasonableness of assumptions and procedures used by the directors in forming their opinion as at [date of financial year end] whether there are reasonable grounds to believe [name of entity] will be able to pay its debts as and when they fall due over the 12 month period from [date of financial year end].~~ **Inherent Limitation**

Because of the subjective nature of prospective information required to fulfil the requirements of Item 21⁴ of Annexure 1 to the Franchising Code, the persuasiveness of the evidence available is limited. Prospective information is information about events and/or actions that have not yet occurred and may not occur, and It reflects assumptions about future events and is subject to future changes in the risks inherent in the business and future economic conditions. Whilst evidence is available to support the assumptions on which the directors' opinion is based, such evidence is future orientated and speculative in nature. As a consequence, actual results are likely to be different from the information on which the audit opinion is based, since anticipated events frequently do not occur as expected or assumed and the variations between the prospective opinion and the actual outcome may be significant.

~~The statement has been prepared pursuant to Item 20 of Annexure 14 to the Franchising Code of Conduct for distribution to the franchisees and prospective franchisees of [name of entity]. We disclaim any assumption of responsibility for any reliance on this audit report or on the statement to which it relates to any other party, or for any purpose other than that for which it was prepared.~~

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

Opinion

~~In our opinion, the statement by directors dated [insert date], presents fairly, in all material respects, the directors' opinion pursuant to Item 20 of Annexure 14 to the Franchising Code of Conduct, that there are reasonable grounds to believe that [name of entity] will be able to pay its debts as and when they fall due.~~

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

[Auditor's address]

⁴—The requirements of Item 20 of Annexure 1 are the same as those of Item 10 of Annexure 2 to the Franchising Code. Therefore the phrase 'Item 20 of Annexure 1' in the auditor's report may be replaced with "Item 10 of Annexure 2", as applicable to the relevant franchised business.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **8(b)**

Meeting Date: 9 June 2015

Subject: IAASB Meeting 15-19 June 2015

Date: 3 June 2015

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objective

To provide the AUASB, for information and discussions, selected agenda papers for the IAASB Meeting to be held in New York on 15-19 June 2015, to be attended by the AUASB Chairman and Executive Director.

Material Presented

Agenda Item 8(b) Board Meeting Summary Paper

Agenda Item 2 – NOCLAR (cover page)

Agenda Item 2-A NOCLAR-issues-final

Agenda Item 2-B NOCLAR-pp-final

Agenda Item 2-C NOCLAR-draft ED-final

Agenda Item 3 - Data Analytics (cover page)

Agenda Item 3-A Data analytics working group update presentation-final

Agenda Item 5 – ISA 810 (cover page)

Agenda Item 5-A ISA 810 issues paper-final

Agenda Item 5-B ISA 810 marked from extant-final

Agenda Item 6 - Group Audits-Staff Practice Alert (cover page)

Agenda Item 6-A Staff audit practice alert responsibilities of the engagement partner final

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Agenda Item 7 - Agreed Upon Procedures (cover page)

Agenda Item 7-A Agreed Upon Procedures-Issues Paper

Agenda Item 8 - Approach to Combined DP (cover page)

Agenda Item 9 - Group Audits (cover page)

Agenda Item 9-A Group Audit issues

Agenda Item 11 - Financial Institutions (cover page)

Agenda Item 11-A Financial Institutions-Presentation

Agenda Item 12 - Quality Control (cover page)

Agenda Item 12-A Quality Control-Issues

Agenda Item 12-B Quality Control-Engagement Partner Analysis

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **9(a)**
Meeting Date: 9 June 2015
Subject: Revision of ASAE / SAE 3100 *Compliance Engagements*
Date Prepared: 1 June 2015

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. To consider an update of the project to revise ASAE / SAE 3100 *Compliance Engagements*.
2. To confirm the proposed approach to the scope and content and/or provide comment or additional considerations.

Background

1. ASAE 3100 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified some matters to be addressed in any future revisions to ASAE 3100.
2. The NZAuASB also completed a post-implementation survey for SAE 3100 in April 2015 and any matters raised will also be addressed by the NZAuASB in their revision of SAE 3100 and considered by the AUASB in the revision of ASAE 3100 to ensure consistency.
3. The AUASB approved a project plan to revise ASAE 3100 at the AUASB meeting in February 2015.

Matters to Consider

Part A – General

1. Following approval of the project, the AUASB invited a representative as nominated by the appropriate AUASB Board member where applicable, from the Big 4 accounting firms, two 2nd tier firms, NZAuASB and academia to participate on a Project Advisory Group (PAG) to advise the AUASB on development of a revised standard.
2. Following formation of the PAG, a PAG discussion was held in mid-May to discuss the proposed approach to addressing issues identified to that point, to identify any further matters to be addressed in the revision and to recommend the scope of the revised standard. Due to the delays in finalising

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the PAG and other resourcing constraints, the project plan timetable has been revised (Agenda Item 9(a).1).

3. In summary the outcome of the PAG discussion was that the scope of the revised ASAE / SAE 3100 is recommended to address:
 - (a) assurance over the underlying subject matter (activity) evaluated against the suitable criteria (requirements, regulation contractual etc) = subject matter information (outcome = compliance or non-compliance / deficiency); the assurance practitioner will be concluding on the outcomes (either on a statement of compliance or directly on the outcome).
 - (b) both direct engagements and attestation engagements;
 - (c) both reasonable and limited assurance;
 - (d) both long form and short form reporting;
 - (e) flexible scope and reporting to accommodate reporting of factual findings and recommendations dependant on type of engagement: multi-scope or stand alone; and
 - (f) appendix outlining nature of assurance engagements on compliance: which may include scope of engagement, subject matter, suitable criteria, outcome of evaluation and materiality etc (based on ASAE 3150 *Controls* Appendix 1 and Appendix 3).
4. The recommended content of the revised ASAE / SAE 3100 would include:
 - (a) requirements anchoring to ASAE / SAE 3000, but as the subject matter specific standard would need to override ASAE 3000 if any inconsistency arose;
 - (b) tabular format to separate limited and reasonable assurance requirements including more guidance on how to obtain sufficient appropriate evidence for each type of engagement;
 - (c) more practical examples of subject matter and suitable criteria and how these interplay with the compliance framework;
 - (d) explanation of materiality and risk assessment in the context of compliance engagements;
 - (e) consideration of the needs of users, such as plain English wording of conclusions;
 - (f) management representations supported by documentation at the entity;
 - (g) evaluation of outcomes from the engagement in the context of the compliance framework and aggregation and interaction with materiality; and
 - (h) how, when and what to report on outcomes to the users e.g. TCWG or regulators and impact on assurance conclusions.
5. The issues paper (Agenda Item 9(a).2) provides more detailed discussion of the issues discussed at the first PAG meeting which has led to these recommendations.
6. The PAG noted that ASAE / SAE 3100 application in practice seemed to be working and as such no new issues were raised by the PAG for further consideration on revision.
7. The PAG will meet again in July once drafting of the ED has commenced.

Part B – NZAuASB

1. This is a joint project with NZAuASB, as they currently have SAE 3100 *Compliance Engagements* (August 2011) which is in clarity format however needs to be revised to remain consistent with ISAE 3000 (revised) and ASAE 3100 (revised).

AUASB Technical Group Recommendations

The AUASB Technical Group recommends that the AUASB confirm the approach recommended with respect to the scope and content of revised ASAE 3100.

Material Presented

Agenda Item 9(a)	AUASB Board Meeting Summary Paper
Agenda Item 9(a).1	Revised Project Plan for revision of ASAE / SAE 3100 <i>Compliance Engagements</i>
Agenda Item 9(a).2	PAG Issues Paper – Revision of ASAE / SAE 3100 <i>Compliance Engagements</i>
Agenda Item 9(a).3	Project Timeline

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider scope and content of revised standard	Confirm recommended scope and content.	AUASB	9 June 2015	Pending



Project Plan

Project Title:	Revision of ASAE 3100 <i>Compliance Engagements</i>
Project ID:	ASAE 3100 (2015)
Project Objective(s):	To revise existing standard to conform to revised ASAE 3000 and update for stakeholder feedback on existing standard.
Priority:	Medium
Issue/Reason:	Current ASAE 3100 was issued in 2008 since which time ASAE 3000 has been reissued in June 2014 with significant changes in terminology and far greater detail in the approach to assurance engagements. These changes need to be reflected in revisions to ASAE 3100. Stakeholders having used the existing standard can provide feedback on the areas which need to be addressed more fully or a different approach taken.
Date Prepared:	29 January 2015
Date To Be Approved:	24 February 2015
Date Updated: (if applicable)	28 April 2015

Project Objectives

To revise ASAE 3100 *Compliance Engagements* in the following respects:

1. To anchor to revised ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (June 2014);
2. To reflect current terminology, approach, style and format of examples and reports in the AUASB Standards;
3. To address any feedback from stakeholders on existing ASAE 3100 and reflect best practice.

Stakeholders

Key stakeholders include:

1. Assurance Practitioners from industry and public sector who perform compliance engagements; and
2. Regulators that require compliance engagements to be undertaken as part of their regulatory activities and reporting requirements e.g. APRA and ASIC

Background

ASAE 3100 was issued in July 2008, and revised for editorial amendments only in September 2008, and is operative for reporting periods or compliance engagements commencing on or after 1 October 2008.

ASAE 3100 is an standard developed in Australia by the AUASB for compliance engagements undertaken in the Australian assurance and regulatory market.

In 2012, the AUASB conducted a post implementation survey and invited a mixture of medium and large accounting firms and each of the offices of the 6 State, 2 Territory and Commonwealth Auditors General to complete the survey. The on-line survey presented 10 questions regarding ASAE 3100, seeking any problems with the standard, omissions or improvements which stakeholders could identify from applying ASAE 3100 in the 3 ½ years since it was issued. 7 responses were received to the survey, which were overall supportive of the standard, but identified some areas for improvement in any revisions to ASAE 3100.

Since ASAE 3100 was issued, ASAE 3000 *Assurance Engagements Other than Audits and Reviews of Historical Financial Information* was revised and reissued in June 2014, in conformity with revised and reissued ISAE 3000. The revised ASAE 3000 contains new terminology, a revised approach and greater detail in the requirements and application material, with respect to which ASAE 3100 is now inconsistent. In addition, existing ASAE 3100 is not written in clarity format, the style used for all current AUASB Standards, in which the application and other explanatory material is contained in a separate section of the standard to the requirements.

Scope

The scope of revised ASAE 3100 will include compliance engagements addressing:

1. different regulatory requirements and compliance frameworks;
2. limited or reasonable assurance; and
3. attestation in which the responsible party evaluates the compliance and provides a Statement on the outcome of that evaluation, or direct engagements.

ASAE 3100 will be anchored to ASAE 3000 (June 2014), with minimum repetition of the content of ASAE 3000, and will be required to be applied in conjunction with ASAE 3000.

Risks/Issues

1. Current best practice in compliance engagements to be reflected in the standard.
2. As the standard is to reflect only requirements and application material additional to that provided by ASAE 3000, it will be a challenge to ensure that the standard is clear to the user and the flow of the document is maintained.
3. Consistency in approach with the revision of ASAE 3500 *Performance Engagements* will be important and the two projects will be conducted in parallel to ensure a consistent outcome.
4. The way in which the objectives of an assurance engagement are expressed in ASAE 3000 may not be applicable to all compliance engagements especially those undertaken by the public sector. Consequently interpretation and adaption of those objectives for compliance engagements and appropriate adaption, will be important in applying ASAE 3000 as the overarching standard for compliance engagements.
5. Consistency with the approach to taken in the Australian Auditing Standards (ASAs) and Standards on Assurance Engagements (SAEs) to aspects of those engagements which may be relevant to compliance engagements will be important in ensuring the most up-to-date approach, as those the ASAs have been revised and a number of new SAEs have been issued since ASAE 3100 was issued.

Action Plan

Key steps in the project will be:

1. Planning the project and agreeing a project plan with the AUASB;
2. Analysing the 2012 post-implementation survey results to identify and revisit areas to be addressed in revisions to the standard and to be discussed with stakeholders.
3. Researching the nature of current compliance engagements and any existing issues for assurance practitioners and identifying the key stakeholders;
4. Forming a Project Advisory Group of stakeholders (PAG) to advise the AUASB on the development of the standard;
5. Drafting based on existing ASAE 3100 and ASAE 3000 and drawing on the material in other ASAEs and the Auditing Standards;
6. Obtaining and addressing feedback on drafts from the PAG and the AUASB;
7. Obtaining approval of an exposure draft and issuing for public comment for at least 60 days;
8. Analysing ED comments and finalising standard; and
9. Obtaining AUASB approval and issuing final standard with Basis for Conclusions.

Resources

- 1 Senior Project Manager 3 days/week.
- Project Advisory Group of stakeholders to meet every 4-6 weeks.

Timetable (revised 28 April 2015)

Date	Revised Date	Description
24 Feb 2015	24 Feb 2015	Present Project Plan for approval at Board meeting by AUASB.
Late Feb- mid Mar 2015	Late Feb- mid-Mar 2015	Analyse post-implementation survey results, obtain further stakeholder feedback on existing standard and determine nature of current compliance engagements.
Late Mar 2015	Mid-May 2015	Project Advisory Group Meeting – discuss suitable scope of standard.
Late Mar- Mid Apr 2015	Mid-May	Initial drafting.
20 Apr 2015	9 Jun 2015	Present project update, including issues paper, proposed scope to Board.
Late Apr - mid May 2015	Jun 2015	Further drafting.

Date	Revised Date	Description
Mid May 2015	Mid-July 2015	Project Advisory Group Meeting.
9 Jun 2015	28 Jul 2015	Draft revised ASAE 3100 presented at the Board meeting.
Late June 2015	Mid-August	Project Advisory Group Meeting.
	August	Regulatory Impact Assessment submitted to OBPR to obtain initial OBPR clearance.
28 July 2015	15 Sept 2015	Exposure draft presented at Board meeting for AUASB approval.
Early Aug – Early Oct 2015	Late Sept – Late Nov 2015	60 day exposure period.
Oct 2015	Dec 2015	Analysis of ED comments and redrafting to address comments.
Oct 2015	Dec 2015	Updated Regulatory Impact Assessment (and RIS if required) submitted to OBPR if necessary to confirm OBPR clearance.
Late Oct 2015	Mid-Dec	Project Advisory Group Meeting.
Early Nov 2015	Dec 2015 – Jan2016	Drafting final standard.
1 Dec 2015	1 December 2015	Disposition of ED comments presented to AUASB meeting. Present final standard to AUASB for approval.
Mid Dec 2015	Feb 2016	Final quality assurance and issue revised and redrafted ASAE 3100.



PAG Issues Paper

Project Title: Revision of ASAE / SAE 3100 Compliance Engagements

Date Prepared: 12 May 2015

Issues to be addressed in determining scope of ASAE / SAE 3100

Some matters have already been raised through responses to the 2012 Post-implementation Survey of ASAE / SAE 3100:

1. Application and Scope of Standard

The range of engagements to be addressed in the revised standard needs to be determined in order to define the scope of that standard:

Questions for discussion:

Should the standard allow for:

- Direct and attestation engagements?
- Long-form reports or also short form (example reports)?
- Appendix explaining the application of the Standard?
- Are compliance engagements primarily conducted by assurance practitioners or practitioners more broadly?
- Are compliance engagements primarily done as standalone engagements or as part of a multi-scope engagement?

2.1 ASAE / SAE 3000 as an Umbrella Standard

ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information provides the overarching requirements for all assurance on non-historical financial information including engagements on performance, however it is primarily directed at attestation engagements and the objective can be related/adapted to the objectives of a compliance engagement.

In conducting an assurance engagement, the objectives of the assurance practitioner are:

- (a) *To obtain either reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement;*
- (b) *To express a conclusion regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report that conveys either a reasonable assurance or a limited assurance conclusion and describes the basis for the conclusion; (Ref: Para. A2) and*
- (c) *To communicate further as required by this ASAE and any other relevant ASAEs.*

In all cases when reasonable assurance or limited assurance, as appropriate, cannot be obtained and a qualified conclusion in the assurance practitioner's assurance report is insufficient in the circumstances for purposes of reporting to the intended users, this ASAE requires that the assurance practitioner disclaim a conclusion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation.

Definitions:

- (d) Subject matter information—The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter. (Ref: Para. A19)
- (e) Underlying subject matter—The phenomenon that is measured or evaluated by applying criteria.

2.2 Objectives of a Compliance Engagement

Under the existing ASAE / SAE 3100 the objective of a compliance engagement is to enable the assurance practitioner to express a conclusion on whether an entity has complied in all material respects, with requirements as measured by the suitable criteria.

This objective in ASAE / SAE 3000 needs to be adapted and interpreted for compliance engagements which would usually have “subject matter information (outcome)” and “criteria” however the assurance practitioner will not be looking for misstatements, but will be evaluating the subject matter information for deficiencies or compliance breaches against the suitable criteria.

Questions for discussion:

- Does the standard need to provide a limited set of objectives for compliance engagements or should those objectives be more flexible?
- How is this interpretation of the ASAE / SAE 3000 objective best reflected in the objective of a compliance engagement?
- Is the extant objective stated clearly in terms readily understood and applied by practitioners?

3. Issues Raised in Post-Implementation Survey

The following additional matters were raised in the 2012 post-implementation survey for ASAE / SAE 3100 as requiring further clarification:

- How to obtain a sufficient understanding of the subject matter information and the criteria and the compliance engagement circumstances e.g. compliance framework
- Understanding the “suitable criteria” definition i.e. what is meant by “the reasonable and acceptable standards of compliance which are subject to the compliance engagement”
- Subject matter – consider inclusion of more examples
- Sufficient appropriate evidence for reasonable and limited assurance engagements. More guidance is needed in this area
- How materiality is applied to compliance engagements
- How to assess the compliance engagement risk components and responding to those risks
- How selective testing is applied in the context of testing compliance. Applying professional judgement in determining the sufficiency of audit evidence when selective testing is used more guidance required
- Assessment of findings/deficiencies in context of the compliance framework and aggregation and interaction with materiality
- How and when to communicate deficiencies and compliance breaches to users / TCWG and impact on conclusions e.g. modified/qualified
- Appropriate terminology, consistent with practice (consistent with ASAE / SAE 3000)
- Engagements may need to address overall or specific compliance objectives
- Relevance of controls in compliance engagements

Revision of ASAE 3100 Compliance Engagements

Project Timeline		2015														
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
AUASB Meetings			27-Feb		16-Apr		4-Jun	23-Jul		10-Sep	2-Oct	26-Nov			25-Feb	
	Project activity/milestone															
1	Background research															
2	Project plan approved by AUASB		●✓													
3	1st PAG meeting			●		✓ ¹										
4	Issues paper developed & considered by AUASB				●		✓									
5	2nd PAG Meeting					●										
6	1st draft considered by AUASB						●	●								
7	3rd PAG Meeting															
8	Final ED approved for exposure by AUASB							●		●						
9	ED 60 day exposure period															
10	Stakeholder engagement and targetted discussions															
11	Analysis of ED comments in disposition & redrafting															
12	Regulatory Impact Assessment/RIS submitted and OBPR clearance obtained								●		●					
	Update regulatory impact assessment if necessary															
13	4th PAG Meeting															
14	ED comments considered & disposition presented to AUASB												●		●	
15	5th PAG meeting															
16	Final Standard, explanatory memorandum & basis for conclusions prepared and approved by AUASB												●		●	
17	Final QA and issue revised and readrafted ASAE 3500												●		●	
Legend																
	Project activity - planned															
	Project activity - actual met plan															
	Project deliverable - planned															
	Project deliverable - actual met plan															
	Project activity - actual later than planned															
	Project deliverable - actual later than planned															
	Project Activity - amended plan															
	Project deliverable - amended plan															
	Project deliverable - actual met amended plan															
Notes/Reasons for change from project plan																
¹	Delays in holding first PAG meeting were due to key project resources being allocated to other priority projects (GS018) to be completed for 9 June meeting and confirming final PAG members and co-ordination of times for 1st meeting.															



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **9(b)**
Meeting Date: 9 June 2015
Subject: Revision of ASAE 3500 *Performance Engagements*
Date Prepared: 21 May 2015

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. To consider an update of the project to revise ASAE 3500 *Performance Engagements*.
2. To confirm the proposed approach to the scope and content and/or provide comment or additional considerations.

Background

1. ASAE 3500 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified a number of matters to be addressed in any future revisions to ASAE 3500.
2. The AUASB approved a project plan to revise ASAE 3500 at the AUASB meeting in February 2015.

Matters to Consider

Part A – General

1. Following approval of the project, the AUASB Technical Group met with the Australasian Council of Auditors-General (ACAG) Heads of Performance Audit at their annual meeting in late March, in order to bring the project to the attention of the Auditors General and to obtain initial feedback on the scope of the revised standard and issues to be addressed in the redrafting. Following that meeting, the AUASB invited the Auditors General to nominate representatives to participate on a Project Advisory Group (PAG) to advise the AUASB on development of a revised standard.
2. Following formation of the PAG, a PAG discussion was held in mid-May to discuss the proposed approach to addressing issues identified to that point, to identify any further matters to be addressed in the revision and to recommend the scope of the revised standard. Due to the delays in finalising the PAG, the project plan timetable has been revised (Agenda Item 9(b).1).

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3. In summary the outcome of the PAG discussion was that the scope of the revised ASAE 3500 is recommended to address:
 - (a) assurance over performance outcomes rather than outputs, so as to exclude assurance on service performance information or other information measured purely by key performance indicators (KPIs) or other performance metrics;
 - (b) both direct engagements and attestation engagements, including “follow-on” engagements but excluding assurance over service performance information reported;
 - (c) both reasonable and limited assurance;
 - (d) both long form and short form reporting;
 - (e) flexible scope and reporting to accommodate different Government reporting requirements; and
 - (f) broad objectives of a performance engagement not limited to economy, efficiency and effectiveness to allow flexibility to address other objectives.
4. The recommended content of the revised ASAE 3500 would include:
 - (a) requirements anchoring to ASAE 3000, but as the subject matter specific standard would need to override ASAE 3000 if any inconsistency arose;
 - (b) tabular format to separate limited and reasonable assurance requirements;
 - (c) explanation of materiality and risk assessment in the context of performance engagements;
 - (d) consideration of the needs of users, such as plain English wording of conclusions so they are more meaningful to Parliament and other users;
 - (e) management representations supported by documentation at the entity;
 - (f) the manner in which “acceptance and continuance” of engagements is undertaken in a performance engagement, where the engagement is usually chosen by the Auditor General as part of strategic planning rather than requested by the entity; and
 - (g) incorporation of public sector specific needs in reporting such as descriptive sections as engagements are primarily public sector.
5. The issues paper (Agenda Item 9(b).2) provides more detailed discussion of the background to these recommendations.
6. The PAG will meet again on 11 June to further discuss this project.

Part B – NZAuASB

1. This is not a joint project with NZAuASB, as currently NZAuASB does not plan to issue an equivalent of ASAE 3500, as this topic is not within its mandate.
2. The AUASB Technical Group is monitoring the current NZAuASB project to develop a standard on assurance of *Service Performance Information* and the joint AASB and NZ XRB project to develop an accounting standard on *Reporting Service Performance Information* in order to differentiate from ASAE 3500 engagements. The AUASB as a result will determine any implications for the AUASB arising from the NZAuASB and joint AASB-NZ XRB projects.

AUASB Technical Group Recommendations

The AUASB Technical Group recommends that the AUASB confirm the approach recommended with respect to the scope and content of revised ASAE 3500.

Material Presented

Agenda Item 9(b)	AUASB Board Meeting Summary Paper
Agenda Item 9(b).1	Revised Project Plan for revision of ASAE 3500 <i>Performance Engagements</i>
Agenda Item 9(b).2	Issues Paper – Revision of ASAE 3500 <i>Performance Engagements</i> – Recommended Scope and Content
Agenda Item 9(b).3	Project Timeline

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider scope and content of revised standard	Confirm recommended scope and content.	AUASB	9 June 2015	Pending



Project Plan

Project Title:	Revision of ASAE 3500 Performance Engagements
Project ID:	ASAE 3500 (2015)
Project Objective(s):	To revise existing standard to conform to revised ASAE 3000 and update for stakeholder feedback on existing standard and best practice.
Priority:	Medium
Issue/Reason:	Current ASAE 3500 was issued in 2008 since which time ASAE 3000 has been reissued in June 2014 with significant changes in terminology and far greater detail in the approach to assurance engagements. These changes need to be reflected in revisions to ASAE 3500. Stakeholders having used the existing standard can provide feedback on the areas which need to be addressed more fully or a different approach taken.
Date Prepared:	8 January 2015
Date To Be Approved:	23 February 2015
Date Updated: (if applicable)	27 April 2015

Project Objectives

To revise ASAE 3500 *Performance Engagements* in the following respects:

1. To anchor to revised ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (June 2014);
2. To reflect current terminology, approach, style and format of examples and reports in the AUASB Standards;
3. To address any feedback from stakeholders on existing ASAE 3500 and reflect best practice.

Stakeholders

Key stakeholders include:

1. Commonwealth, State and Territory Auditors General;
2. Assurance Practitioners to whom performance engagements are outsourced; and
3. Commonwealth, State and Territory Government departments, agencies and other bodies subject to performance engagements.

Background

ASAE 3500 was issued in July 2008, and revised for editorial amendments only in October 2008, and became operative for performance engagements commencing on or after 1 January 2009. ASAE 3500 replaced standards AUS 806 *Performance Auditing* and AUS 808 *Planning Performance Audits* issued by the former AuASB.

In 2012, the AUASB conducted a post implementation survey and invited each of the offices of the 6 State, 2 Territory and Commonwealth Auditors General to complete the survey. The on-line survey presented 10 questions regarding ASAE 3500, seeking any problems with the standard, omissions or improvements which stakeholders could identify from applying ASAE 3500 in the 3½ years since it was issued. 8 responses were received to the survey, which were supportive of the standard overall, but identified a number of areas for improvement through future revisions to ASAE 3500.

Since ASAE 3500 was issued, ASAE 3000 *Assurance Engagements Other than Audits and Reviews of Historical Financial Information* was revised and reissued in June 2014, in conformity with revised and reissued ISAE 3000. The revised ASAE 3000 contains new terminology, a revised approach and greater detail in the requirements and application material, with respect to which ASAE 3500 is now inconsistent. In addition, existing ASAE 3500 is not written in clarity format, the style used for all current AUASB Standards, in which the application and other explanatory material is contained in a separate section of the standard to the requirements.

Scope

The scope of revised ASAE 3500 will include performance engagements addressing:

1. economy, efficiency and effectiveness or other suitable performance objectives;
2. limited or reasonable assurance;
3. attestation, in which the responsible party evaluates the performance and provides a Statement on the outcome of that evaluation, or direct engagements.

ASAE 3500 will be anchored to ASAE 3000 (June 2014), with minimum repetition of the content of ASAE 3000, and will be required to be applied in conjunction with ASAE 3000.

Should changes to the scope of the engagement, as set out above, be recommended by the AUASB Technical Group in consultation with the Project Advisory Group, approval from the AUASB will be sought.

Risks/Issues

1. Current best practice in performance engagements to be reflected in the standard.
2. As the standard is to reflect only requirements and application material additional to that provided by ASAE 3000, it will be a challenge to ensure that the standard still makes sense to the reader and the flow of the document is maintained.
3. Consistency in approach with the revision of ASAE 3100 *Compliance Engagements* will be important and the two projects will be conducted in parallel to ensure a consistent outcome.
4. The way in which the objectives of an assurance engagement are expressed in ASAE 3000 are not intuitively applicable to performance engagements and in addition ASAE 3000 applies only to attestation engagements, whereas performance engagements are commonly direct engagements. Consequently interpretation and adaption of those objectives for performance engagements and appropriate adaption and supplementation of the requirements for direct engagements, will be important in applying ASAE 3000 as the overarching standard for performance engagements and showing the standard is relevant to these engagements.

5. Consistency with the approach taken in the Australian Auditing Standards (ASAs) and Standards on Assurance Engagements (SAEs) to aspects of those engagements which may be relevant to performance engagements will be important in ensuring the most up-to-date approach, as those ASAs have been revised and a number of new SAEs have been issued since SAE 3500 was issued.
6. Performance engagements are most commonly conducted as direct engagements obtaining reasonable assurance, so it will be necessary to determine whether attestation or limited assurance engagements are ever conducted. Even if these engagements are simply uncommon the standard will need to continue to allow for them, however if it is inappropriate to conduct performance engagements as attestation and/or limited assurance then limiting the standard to direct and/or reasonable assurance engagements may be appropriate.

Action Plan

Key steps in the project will be:

1. Planning the project and agreeing a project plan with the AUASB;
2. Analysing the 2012 post-implementation survey results to identify and revisit areas to be addressed in revisions to the standard and to be discussed with stakeholders.
3. Researching the nature of current performance engagements and any existing issues for assurance practitioners and identifying the key stakeholders;
4. Forming a Project Advisory Group of stakeholders (PAG) to advise the AUASB on the development of the standard;
5. Drafting based on existing SAE 3500 and SAE 3000 and drawing on the material in other SAEs and the Auditing Standards;
6. Obtaining and addressing feedback on drafts from the PAG and the AUASB;
7. Obtaining approval of an exposure draft and issuing for public comment for at least 60 days;
8. Analysing ED comments and finalising standard; and
9. Obtaining AUASB approval and issuing final standard with Basis for Conclusions.

Resources

- 1 Senior Project Manager 3 days/week.
- Project Advisory Group of stakeholders to meet every 4-6 weeks.

Timetable

Date	Revised Date	Description
24 Feb 2015	24 Feb 2015	Present Project Plan for approval at Board meeting by AUASB.
Early Feb– mid Mar 2015	Early Feb– mid Mar 2015	Analyse post-implementation survey results, obtain further stakeholder feedback on existing standard and research nature of current performance engagements.
Late Mar 2015	Mid May 2015	Project Advisory Group Meeting – discuss suitable scope of standard.
Late Mar– Mid Apr 2015	Mid May	Initial drafting.
20 Apr 2015	9 Jun 2015	Present project update, including issues paper, proposed scope to Board.
Late Apr – Mid May 2015	Jun 2015	Further drafting.
Mid May 2015	Mid June 2015	Project Advisory Group Meeting.
9 Jun 2015	28 Jul 2015	Draft revised ASAE 3500 presented at the Board meeting.
Late Jun 2015	Mid Aug	Project Advisory Group Meeting.
	August	Regulatory Impact Assessment submitted to OBPR to obtain initial OBPR clearance.
28 Jul 2015	15 Sept 2015	Exposure draft presented at Board meeting for AUASB approval.
Early Aug – Early Oct 2015	Late Sept– Late Nov 2015	60 day exposure period.
Aug-Sept 2015	Oct 2015	Stakeholder engagement and targeted discussions.
Oct 2015	Dec 2015	Analysis of ED comments and redrafting to address comments.
Oct 2015	Dec 2015	Updated Regulatory Impact Assessment (and RIS if required) submitted to OBPR if necessary to confirm OBPR clearance.
Late Oct 2015	Mid Dec	Project Advisory Group Meeting.
Early Nov 2015	Dec 2015– Jan 2016	Drafting final standard.
	1 Dec 2015	ED Comments received presented to AUASB meeting.
1 Dec 2015	Feb 2016	Present final standard and disposition of ED comments to AUASB for approval to issue.
Mid Dec 2015	Feb 2016	Final quality assurance and issue revised and redrafted ASAE 3500.



Issues Paper

AGENDA ITEM NO. **9(b).2**

Meeting Date: 9 June 2015

Subject: Revision of ASAE 3500 *Performance Engagements* – Recommended Scope and Content

Date Prepared: 21 May 2015

Proposed Scope

1. The scope of the revised ASAE 3500 is recommended to address:
 - (a) assurance over performance outcomes rather than outputs, so as to exclude audits of service performance information or other information measured purely by key performance indicators (KPIs) or other performance metrics;
 - (b) both direct engagements and attestation engagements, including “follow-on” engagements but excluding assurance over service performance information reported;
 - (c) both reasonable and limited assurance;
 - (d) both long form and short form reporting;
 - (e) flexible scope and reporting to accommodate different Government reporting requirements; and
 - (f) broad objectives of a performance engagement not limited to economy, efficiency and effectiveness to allow flexibility to address other objectives.
2. Each of these aspects of the proposed scope is discussed below.

Performance outcomes

3. The objectives of a performance engagement relate to the achievement of outcomes by the activity, rather than simply outputs. Outputs, which can be measured using performance indicators, may or may not result in the achievement of the desired outcome/s. The AASB have a project underway, jointly with NZ to develop an accounting standard on *Reporting Service Performance Information*, which focusses primarily on the measurement of outputs. The AASB proposes through this standard to require service performance information to be reported by not-for-profit entities with respect to:
 - (a) An entity’s performance objectives;
 - (b) An entity’s performance indicators (relating to inputs and outputs, the outcomes that the entity is seeking to influence, the link between inputs and/or outputs and outcomes and the link between outputs and/or outcomes and service performance objectives);
 - (c) The assumptions which underlie the service performance information and the methodologies adopted in compiling the service performance information; and
 - (d) Risks and the risk management strategies associated with achievement of the entity’s service performance objectives.

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4. Notably, this service performance information will not seek to directly address whether outcomes and the performance objectives, to which those outcomes relate, have been achieved. The AASB defines “outcomes” as the impacts on society or segments of society, which occur as a result of, or are reasonably attributable to the entity’s outputs. The AASB define “outputs” as the goods and services provided by an entity to recipients external to the entity.
5. The NZAuASB is developing an auditing standard to address the audit of this service performance information in conjunction with the annual financial report audit, which is being monitored by the AUASB technical group. These service performance information audits may be able to be contrasted from the performance engagements encompassed in ASAE 3500 in the following ways:
 - (a) The subject matter for service performance audits is primarily outputs, which are evaluated against key performance indicators or other performance metrics, rather than outcomes, which are evaluated against objectives in performance engagements.
 - (b) The target is usually the entity in a service performance audit, whereas it is restricted to an activity in a performance engagement, which may cut across entity boundaries and will not usually encompass the entirety of the entity.

Service performance audits are attestation engagements and whilst performance engagements are most commonly direct engagements, they may also be attestation engagements in certain circumstances, such as for “follow-on” engagements, where the responsible party makes a statement regarding whether they have addressed recommendations arising from a previous performance engagement. Service performance engagements are typically short form whereas performance engagements are typically long form focussing on recommendations, nevertheless neither needs to be restricted to short or long form. Neither of these features can be used to differentiate the different types of engagements.

6. The features which distinguish audits of service performance information from performance engagements to be captured by ASAE 3500 will need to be identified and clearly articulated in the revisions.

Direct & Attestation Engagements

7. Typically, performance engagements are direct engagements as they are initiated by the auditors-general based on their strategy, objectives and priorities without an attestation being provided by the responsible party. Nevertheless, sometimes auditors-general conduct follow-on engagement to assess how well an activity has responded to the recommendations of a previous performance assurance report. For follow-on engagements, the responsible party may provide an attestation or statement regarding their response to the performance engagement recommendations. In other circumstances, the responsible party may make a statement (or certification) regarding performance of the activity in achieving identified outcomes or objectives. There are benefits in the responsible party going through a self-evaluation process in order to provide their own statement on performance in advance of the assurance practitioner conducting a performance engagement. It may be possible for the auditors-general to encourage this self-assessment and seek a statement which may result in better preparedness for the engagement. Consequently, both direct and attestation engagements need to be accommodated in revised ASAE 3500.

Reasonable and limited assurance

8. Whilst reasonable assurance is required to be obtained for most performance engagements, limited assurance can be required and consequently there is no need to preclude application of ASAE 3500 to limited assurance engagements.

Long form and short form reporting

9. Whilst most reports on performance engagements are required by users to be presented in long-form including information such as the objectives, scope, criteria, methodology, sources of data, any limitations on data used, findings and detailed recommendations, there may be instances where a short form report is required by users or both a summary short form report alongside the detailed long form report meets the needs of users. Consequently the both short and long-form reports need to be addressed within the revised standard.

Flexible scope and reporting

10. The scope of a performance engagement is usually determined by an auditor-general in response to priorities arising from government policy objectives, risk assessment or strategic planning. Consequently the auditors-general require flexibility on scoping these engagements to address the risk or policy objectives identified.
11. Reports on performance engagements are read by a variety of users who are not necessarily familiar with audit or assurance terminology or methodologies, such as the responsible party for the activity, Parliament and the general public. It is important that plain English is used in reports so that they can be understood by the layperson. It may not be appropriate or necessary for the assurance practitioner to express an overall opinion or conclusion on performance for the report to meet the needs of users, consequently a standardised assurance report is not likely to be appropriate. However, if any overall opinion or conclusion is provided it will be important to include the circumstances and context in which that conclusion was reached. Modifications may not be well understood by users of performance assurance reports and so a more simplified style of conclusion may be appropriate. The performance assurance report may benefit from providing the conclusion first and the detailed long form report afterwards. The conclusion itself should be able to stand alone and be understood without reference to the detailed approach, findings and recommendations.
12. Flexibility in the style and content of reporting on performance engagements will need to be allowed for in the revised standard.

Broad objectives

13. The objectives of economy, efficiency and effectiveness which underpin the existing ASAE 3500 may not be applicable to all performance engagements and so a broader range of objectives need to be accommodated in ASAE 3500. Performance objectives may be expressed in terms such as: probity, ethical, appropriate, accessible, reliable or quality.
14. The objective of a performance engagement needs to be broad and allow for any of these possibilities, perhaps providing some objectives as examples, rather than a definitive list.

Proposed Content

15. The recommended content of the revised ASAE 3500 would include:
 - (a) requirements anchoring to ASAE 3000, but as the subject matter specific standard would need to override ASAE 3000 if any inconsistency arose;
 - (b) tabular format to separate limited and reasonable assurance requirements;
 - (c) explanation of materiality and risk assessment in the context of performance engagements;
 - (d) consideration of the needs of users, such as plain English wording of conclusions so they are more meaningful to Parliament and other users;
 - (e) management representations supported by documentation at the entity;
 - (f) the manner in which “acceptance and continuance” of engagements is undertaken in a performance engagement, where the engagement is usually chosen by an auditor-general as part of strategic planning rather than requested by the entity; and
 - (g) incorporation of public sector specific needs in reporting such as descriptive sections as engagements are primarily public sector.

Anchoring to ASAE 3000

16. Whilst ASAE 3000 provides the overarching requirements for all assurance on non-historical financial information including engagements on performance, it is primarily directed at attestation engagements and the objective does not readily relate to the objectives of a performance engagement, which are more commonly direct engagements.

17. The objectives of an assurance engagement in ASAE 3000 include “to obtain either reasonable or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement”. This objective needs to be adapted and interpreted for performance engagements which will usually not have a “subject matter information” at the outset of the engagement, being the outcome of the evaluation of performance against suitable criteria, as they are typically direct engagements. Furthermore, the assurance practitioner will not be looking for misstatements in that subject matter information. The objective in ASAE 3000 can be adapted and interpreted for performance engagements and this will be explained in revised ASAE 3500. For example, the objective of a performance engagement could be expressed as:

To obtain either reasonable or limited assurance, as appropriate, about whether, in all material respects based on suitable criteria, the activity achieved its performance objectives.

18. Whilst ASAE 3500 will need to anchor to ASAE 3000, the PAG noted that ASAE 3500 will be used by assurance practitioners who are typically not familiar with other AUASB Standards, consequently the need to refer back to ASAE 3000 should be limited. This can be overcome by inclusion of core requirements from ASAE 3000 and clear reference to the other relevant requirements in ASAE 3000 by way of footnote, so readers can easily see when to refer back to ASAE 3000. It is likely to be too cumbersome to repeat all requirements from ASAE 3000. ASAE 3500, as the subject matter specific standard, will override ASAE 3000 where there is a difference in approach, although any difference or interpretation should be explained in revised ASAE 3500.

Tabular format

19. The tabular format which identifies the requirements relevant to limited assurance engagements separately but alongside the requirements relevant to reasonable assurance engagements, as presented in ASAE 3000, to differentiate the procedures required for limited as opposed to reasonable assurance engagements, is recommended for the revisions to ASAE 3500.
20. This format allows for a clear comparison of the minimum requirements for both limited and reasonable assurance engagements so that the assurance practitioner can readily identify the additional work effort required for a reasonable assurance engagement. The tabular format has been effective in ASAE 3000, ASAE 3410 and ASAE 3150.

Materiality and Risk Assessment

21. Materiality is usually more difficult to apply in a performance engagement, where quantification is not necessarily relevant, than in a financial report audit. Nevertheless, materiality relates to the matters which are relevant to users and which impact the decision making of those users. Consequently the revisions to ASAE 3500 will need to flesh out the matters to consider in applying materiality in a performance engagement.
22. Likewise, the factors to consider in conducting a risk assessment for a performance engagement need to be developed further in the revisions to ASAE 3500 as this is also a difficult area to apply in these engagements.

Needs of Users

23. The scope of a performance engagement and the matters addressed in the report on a performance engagement need to directly address the needs of users. Particularly as there is no prescriptive form or content of for the performance engagement report, users’ understanding of the report will be critical to its value. One of the purposes of a performance engagement is transparency so that Parliament and the general public can see value for money for government expenditure, so both the scope and reporting of a performance engagement need to be clearly directed at the purposes of the engagement as they relate to users.

Representations

24. Whilst representations are not generally obtained currently for performance engagements, it may be beneficial for auditors-general to seek them in order to clarify the responsible party’s responsibilities with respect to performance, as well as to confirm that information and access have been provided for the assurance team. Representations may be more important for performance engagements, where the target is not familiar with the assurance process or their responsibilities to assist an Auditor-general, than in a financial report audit.

Acceptance and Continuance Procedures

25. Not all of the acceptance and continuance procedures as set out in ASAE 3000 will be relevant to performance engagements as most engagements are initiated by auditors-general, such as agreeing the terms of engagement or accepting a change in the terms of engagement. Whether these requirements may be usefully applied in some way to performance engagements will need to be explored. An explanation in the introduction to the standard as to how auditors-general typically select activities and performance objectives as the subject of an engagement could be useful. This would help to put the approach to performance engagements in context.

Public Sector Specific Needs

26. As the majority of performance engagements are conducted in the public sector by auditors-general, the nature of engagements could be described in the introduction again for some context to the standard. Nevertheless some private sector performance engagements are emerging and the nature of these engagements could also be described.

Revision of ASAE 3500 Performance Engagements

Project Timeline		2015														
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
AUASB Meetings			27-Feb		16-Apr		4-Jun	23-Jul		10-Sep	2-Oct	26-Nov			25-Feb	
	Project activity/milestone															
1	Background research															
2	Project plan approved by AUASB		●✓													
3	1st PAG meeting			●		✓ ¹										
4	Issues paper developed & considered by AUASB				●		✓									
5	2nd PAG Meeting					●										
6	1st draft considered by AUASB						●	●								
7	3rd PAG Meeting															
8	Final ED approved for exposure by AUASB							●		●						
9	ED 60 day exposure period															
10	Stakeholder engagement and targetted discussions															
11	Analysis of ED comments in disposition & redrafting															
12	Regulatory Impact Assessment/RIS submitted and OBPR clearance obtained								●		●					
	Update regulatory impact assessment if necessary															
13	4th PAG Meeting															
14	ED comments considered & disposition presented to AUASB												●		●	
15	5th PAG meeting															
16	Final Standard, explanatory memorandum & basis for conclusions prepared and approved by AUASB												●		●	
17	Final QA and issue revised and readrafted ASAE 3500												●		●	
Legend																
	Project activity - planned															
	Project activity - actual met plan															
	Project deliverable - planned															
	Project deliverable - actual met plan															
	Project activity - actual later than planned															
	Project deliverable - actual later than planned															
	Project Activity - amended plan															
	Project deliverable - amended plan															
	Project deliverable - actual met amended plan															
Notes/Reasons for change from project plan																
¹	Delays in holding first PAG meeting were due to meeting with ACAG meeting of Performance Audit Heads in March prior to forming PAG, followed by delays in receiving confirmation of PAG members nomintaed by Auditors General.															



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **9(c)**
Meeting Date: 9 June 2015
Subject: AASB project on Australian Financial Reporting Framework
Date Prepared: 2 June 2015

☐ Action Required

☒ For Information Purposes Only

Agenda Item Objectives

To inform the AUASB on the AASB's project to review the Australian Financial Reporting Framework.

Background

Refer Agenda Item 9(c).1 for an brief explanation of the background to the project.

Matters to Consider

Part A – General

1. The AUASB is to be informed of the AASB's project to reform the Australian financial reporting framework (in terms of what entities should report and what should be reported), with a view to considering possible audit implications.
2. The AUASB will be provided a verbal update on the outcome of the AASB's key decisions on this project from their recent 27-28 May 2015 board meeting.

Part B – NZAuASB

N/A

Part C – “Compelling Reasons” Assessment

N/A

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The proposed changes conform with IAASB modification guidelines for NSS?
N/A

Y ☐ N ☐

Material Presented

Agenda Item 9(c)	AUASB Board Meeting Summary Paper
Agenda Item 9(c).1	AASB Memorandum Board paper [as presented to 27-28 May 2015 AASB board meeting]
Agenda Item 9(c).2	AASB Draft project plan [as presented to 27-28 May 2015 AASB board meeting]



Memorandum

To:	AASB members	Date:	12 May 2015
From:	Clark Anstis	Agenda Item:	11.1
Subject:	Australian Financial Reporting Framework	Project Priority	High
Project Status:	Initial deliberations	Decision-Making:	Low

Action for this meeting

To consider and discuss the scope of the project and the project plan.

Background

The draft AASB research strategy arising out of the Board's strategy discussion in February 2015 outlines four key areas: the Australian financial reporting framework, the conceptual framework, a post-implementation review of the adoption of IFRSs in Australia, and alliances. The research strategy is addressed in the papers for agenda item 9 for this meeting of the Board.

This agenda item (item 11) is to put before the Board the developing project plan for the initial phases of the first research strategy area listed – the Australian financial reporting framework. The objective of this agenda item is to update the Board as to the approach undertaken to date and to give Board members the opportunity to comment.

Overall, the Australian financial reporting framework project is intended to achieve reforms in financial reporting that appropriately balance costs and benefits and result in 'fit for purpose' information. The objective of the project is to clarify and simplify the Australian financial reporting framework, so that objective criteria determine which entities would be required to prepare general purpose financial statements and the level of the reporting requirements, without individual entities having to apply the reporting entity concept.

Attachments

11.2 Project plan (May 2015).

Overview of agenda papers

Agenda paper 11.2 – Project plan

This agenda paper addresses the initial, related phases of the financial reporting framework project: corporate and non-corporate financial reporting, including requirements for Tier 2 entities (the

reduced disclosure requirements, or RDR). The focus is on financial information reported publicly through general purpose financial statements (GPFSs) and the types of entities that ought to present GPFSs. Through considering reporting thresholds, the project ultimately could result in some entities that currently prepare GPFSs or special purpose financial statements (SPFSs) not being required to prepare such financial statements. It could also result in some entities that currently prepare SPFSs being required to prepare GPFSs instead.

The project plan sets out the work planned to be carried out in developing proposals regarding which entities should be required to report publicly and the appropriate reporting requirements. The necessary due process procedures have not been included in the plan.

The project plan does not address the following topics included in the draft research strategy under the financial reporting framework strategy: a post-implementation review (PIR) of RDR, control (phase 2) issues, group information (i.e. information in group financial statements on entities within the group) and the Australian XBRL taxonomy. These topics are generally self-contained, although the PIR of RDR would be assisted by the work performed for the initial phases.

Agenda Paper 11.2 includes the following Question to Board members:

Q1 Does the Board support the project plan and have suggestions for its amendment?



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 9(d)
Meeting Date: 9 June 2015
Subject: Integrated Reporting Update
Date Prepared: 2 June 2015

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

Update the AUASB on <IR> Activities since the 20 April 2015 AUASB meeting.

Background

Refer to detail in the attachment at Agenda Item 9(d).1.

Matters to Consider

Part A – General

Refer to Agenda Item 9(d).1 for a brief update on IAASB IR WG and IIRC activities since February 2015.

Part B – NZAuASB

N/A

Part C – “Compelling Reasons” Assessment

N/A

The proposed changes conform with IAASB modification guidelines for NSS?

Y ☐ N ☐

Material Presented

Agenda Item 9(d)	AUASB Board Meeting Summary Paper
Agenda Item 9(d).1	Attachment to AUASB Board Meeting Summary Paper

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Australian Financial Reporting Framework – AASB Project Plan

May 2015

Project description and objective

The AASB is working to reform the Australian financial reporting framework in terms of who should report and what should be reported. Australia appears to be the only jurisdiction that requires public lodgement of financial statements that are not necessarily general purpose in nature. This arises because the decision about the nature of the financial statements (i.e. general purpose or special purpose) is made by those governing an entity, based on the reporting entity concept. Most jurisdictions use quantitative thresholds to determine which entities should lodge financial statements and the tier of requirements they apply. The threshold levels vary widely, as do the nature of the thresholds.

Australian Accounting Standards provide a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations. Tier 2 requirements comprise the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Further reform of the Australian financial reporting framework depends on the involvement of government policymakers and regulators who have the power to identify entities that must report and their reporting requirements. The AASB aims to encourage policymakers and regulators to revisit reporting thresholds to ensure that the benefits of financial reporting requirements exceed the costs. For example, a third tier of reporting requirements may be appropriate for smaller entities required to report, particularly in the not-for-profit sector.

The overall objective of the project is to clarify and simplify the Australian financial reporting framework, so that objective criteria determine which entities would be required to prepare general purpose financial statements and the level of the reporting requirements. The project aims to cover both corporate and non-corporate entities, in conjunction with policymakers and regulators.

Project work plan and timetable

The principal steps and potential timing for progressing the initial phases of the project are as follows. The plan does not specify necessary due process requirements.

Phase 1 – Research Reporting Criteria		
	Project step	Estimated Timing
1	Benchmark reporting requirements and thresholds to other jurisdictions (a) discuss with overseas standard-setters/regulators - e.g. Japan, New Zealand (b) comparison report to inform debate - alternative thresholds, e.g. revenue, assets, employees, expenses, debt, contributed capital	April-June 2015

Phase 1 – Research Reporting Criteria		
	Project step	Estimated Timing
2	Research ‘economic significance’ and other reporting criteria for public financial reporting (and, with AUASB, auditing requirements)	April-June 2015
	(a) discuss with constituent groups: • preparers – AICD, BCA, G100, HoTARAC • accountants and auditors – Big 4 (Deloitte, EY, KPMG, PwC), medium-sized firms, CAANZ, CPAA, IPA, ACAG • users – lenders, credit reporting agencies • insolvency experts – CAANZ, ARITA	April-June 2015
	(b) discuss with regulators: • Commonwealth – Treasury, ASIC, ACNC, APRA, ATO, RBA, AUASB • State/Territory – treasury and finance departments, consumer affairs departments (non-corporate entities)	June 2015
	(c) academic research: • University of Melbourne – research paper on operationalising tests for economic significance • Other research?	

Phase 2 – Corporate Financial Reporting Framework		
	Project step	Estimated Timing
1	Develop Consultation Paper with Treasury, applying research from Phase 1, to consider (a) objective criteria for public lodgement of GPFs rather than subjective application of reporting entity concept: • types of entities • reporting thresholds, e.g. based on two years’ figures (b) potential implications of revised criteria • who should report and what should be reported (and audited) • some entities preparing GPFs or SPFs no longer required to lodge financial statements • some entities preparing SPFs required to lodge GPFs instead • simplified transition from SPFs to Tier 2 GPFs	June-July 2015

Phase 2 – Corporate Financial Reporting Framework		
	Project step	Estimated Timing
	(c) potential implications for wholly owned subsidiaries • no longer required to report • deed of cross-guarantee reconsidered	

Phase 3 – Reduced Disclosure Requirements (Tier 2)		
	Project step	Estimated Timing
1	Assess the basis for determining the disclosure concessions (reduced disclosure requirements) for Tier 2 entities (a) applying present principles based on whether recognition and measurement requirements in Australian Accounting Standards are the same as in the <i>IFRS for SMEs</i> - difficult to apply in practice, e.g. irregular update of <i>IFRS for SMEs</i> - insufficient reductions in disclosure compared with Tier 1? (b) alternative RDR principles - develop in conjunction with NZASB to retain Trans-Tasman equivalence - consider disclosures required for Tier 2 entities rather than which Tier 1 disclosures to remove	April-June 2015
2	If changing the basis for determining Tier 2 disclosure concessions, consider (a) the method for communicating RDR - disclosure reductions identified in all pronouncements - disclosure reductions identified in a separate pronouncement - new principles and disclosure requirements identified in a separate pronouncement (b) applying the new basis in order to replace the current RDR across all pronouncements - identify new disclosure concessions	May-June 2015 from June 2015
3	Assess the general process for updating RDR (a) the timing of RDR proposals for public comment - when IASB ED published - when final IFRS issued	May-June 2015

Phase 4 – Non-Corporate Financial Reporting Framework		
	Project step	Estimated Timing
1	Consider research on reporting criteria under Phase 1 and outcomes in Phases 2 and 3 to assess reporting requirements for non-corporate entities (a) remove special purpose financial reporting for some entities? (b) replace special purpose financial reporting for some entities with new, simplified requirements (Tier 3)? • for-profit sector • not-for-profit sector (private and public)	[tbd]
2	Basis for possible Tier 3 requirements (a) potential for relief from some recognition, measurement and presentation requirements in addition to reductions in disclosure requirements (b) AASB involvement as standard-setter • standard-by-standard analysis? • adoption of other requirements, e.g. <i>IFRS for SMEs</i> (compare with IFRSs)?	[tbd]

Question for the Board

Q1 Does the Board support the project plan and have suggestions for its amendment?



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **9(d).1**

Meeting Date: 9 June 2015

Subject: Integrated Reporting Update

Date Prepared: 2 June 2015

Key Activities since 20 April 2015

IIRC

1. [IIRC April 2015](#) Newsletter provides further information on <IR> activities undertaken by the IIRC in recent months.
2. The IIRC website was relaunched in its new format on 1 May 2015.
3. **Professor Mervyn King:** Chairman – IIRC spoke at the ACSI Annual Conference on 5 May 2015 about <IR>. After many years of evolution, Integrated Reporting is now being unleashed globally as a progressive, business-led initiative to transform the narrative between companies and the providers of the investment capital that sustains them. In his keynote address, Professor King, the global founder and inspiration for the <IR> movement, detailed what it all means for superannuation funds as investors – and some of the lessons that in turn apply to their internal dialogue with their own members and stakeholders.

IAASB <IR> WG

1. The IAASB <IR> Assurance Working Group, chaired by Merran Kelsall, in her capacity as an IAASB Member, is preparing a short paper in response to the IIRC summary assurance paper to be released shortly. This paper will be vetted by the IAASB in June. Depending on the outcomes from this process a more detailed assurance discussion paper may then be prepared by the <IR> Working Group in late 2015 / early 2016 for the IAASB.
2. The IAASB <IR> Assurance Working Group meets next on 11 and 12 June 2015 in New York to look at the detailed responses to the IIRC assurance papers.
3. At the IAASB Meeting in June 2015 there is a panel discussion about <IR> developments and assurance thereon.

AUASB <IR> Activities

1. The AUASB met with Liz Prescott of the IIRC for a detailed update on activities of the IIRC on 28 April 2015.
2. Two AUASB staff attended the ACSI conference on 5 May 2015 to hear Mervyn King discuss his vision for <IR> and its application globally. In addition, there were a number of International speakers discussing workplace mental health issues, diversity, Board panel discussion on current challenges in the short, medium and long term, Director Liability, Climate Change and sustainability issues.
3. The AUASB Chairman and staff have also attended BLRF meetings held in Melbourne and Sydney in May 2015, where the AUASB Chairman gave a short update on the IAASB <IR> Assurance Working Group activities and how best to approach <IR> discussions with multiple stakeholders e.g. Treasury, AICD, ASIC etc. in the Australian context from a holistic external/corporate reporting reform / deregulation platform.

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Report on AUASB Chairman's Activities

Apr 2015		
20	ACCA and Deakin	Presentation on Integrated reporting - The current state of play
21	BDO	Meeting
21	AUASB	2015 Consultative Meeting
22	NZAuASB	Attend Tony Dale's funeral in Wellington with Kris Peach, AASB Chair
28	IIRC	Meeting with Liz Prescott (with R Mifsud and M Michaelides)
28	AASB/AUASB/CPA Australia	Staff working lunch
29	NZAuASB	Meeting by teleconference
29	IIRC/AASB/AUASB	Meeting with Liz Prescott and Kris Peach
29	IAASB	Conference Call
30	BRLF/AASB	Meeting re: Service Performance Reporting with John Stanhope, Michael Bray, Kris Peach and Joanna Spencer (AASB Project Manager)
30	IAASB	Integrated Reporting Working Group teleconference
May		
1	ASIC	Meeting with John Price and Doug Niven (with R Mifsud)
1	FRC Audit Quality Committee	Videoconference meeting



6	IESBA-NSS	Meeting in New York
7-8	IAASB-NSS	Meeting in New York
7	IESBA-IAASB	Joint reception in New York
11	FRC Nominations Committee Meeting	Teleconference
11	FRC Strategic Planning Committee	Meeting
12	BRLF	Breakfast
15	AASB/AUASB	Audit Committee meeting
18	Communications Consultant	Strategy meeting
18	IAASB	Integrated Reporting Working Group teleconference
19	AUASB	Special meeting teleconference
19	AFR	Meeting with Agnes King
19	AICD	Meeting with Nicci Steele
19	G100	Dinner in Sydney
20	ASX Corporate Governance	Symposium in Sydney
20	G100	Forum
21	Audit Committee	Risk register meeting
21	IAASB Steering Committee	Teleconference



25	RSM Bird Cameron	Meeting
25	AASB/AUASB	Premises meeting
26	AUASB	AUASB Auditor Reporting Roundtable at AUASB offices
26	AUASB/CA ANZ/CPAA	Improving Communication in Audit Report – AUASB Director, CFO and Investor Forum at CPAA Melb
28	BRLF	Breakfast in Sydney
28	AUASB	AUASB Auditor Reporting Roundtable at ASIC offices Sydney
28	AUASB/CA ANZ/CPAA	Improving Communication in Audit Report – AUASB Director, CFO and Investor Forum at CA ANZ offices Sydney
June		
2	KPMG	Directors Accounting & Auditing update
3	IAASB	Teleconference re Toronto Roundtable
3	Consultant	Meeting with Gregg Vines, AASB/AUASB Communications Strategist
4	AUASB	Meeting with Robin Low (and R Mifsud) re teleconference re IAASB papers
4	Minter Ellison	Director briefing
5	FRC	Meeting in Sydney



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **10(d)**

Meeting Date: 9 June 2015

Subject: AUASB Strategy 2015-2019 and updated AUASB Technical Work Program
for year ending 30 June 2015

Date Prepared: 3 June 2015

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To provide to the AUASB with:

1. a preliminary draft AUASB Strategy 2015-2019; and.
2. an updated Technical Work Program for year ending 30 June 2015.

The draft AUASB Strategy 2015-2019 has been revised and presented in a format similar to that of the AASB (refer Agenda Item 10(d).2). The AUASB is requested to provide input to the AUASB Strategy with a view to finalising this document prior to the commencement of the new financial year.

A technical work program for the new financial year ending 30 June 2016 will be presented for consideration at the next AUASB meeting to align with the revised Strategy. This will then reflect the views of the AUASB regarding the priorities for the balance of the four year planning cycle, next year's work program and also reflect considerations from the issues raised at the 21 April Consultative Meeting.

Material Presented

Agenda Item 10(d)	AUASB Board Meeting Summary Paper
Agenda Item 10(d).1	Draft AUASB Strategy 2015-2019
Agenda Item 10(d).2	Draft AASB Strategy 2015-2017 [information only]
Agenda Item 10(d).3	Updated AUASB Technical Work Program for year ending 30 June 2015

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.

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	AUASB Strategy 2015-2019	To consider and finalise	AUASB	9 June 2015	
2.	AUASB to note updated technical work program for year ending 30 June 2015	AUASB to note	AUASB	9 June 2015	

DRAFT AUASB STRATEGY 2015-2019

AUASB Vision Statement

To be recognised as a leading national auditing and assurance standards-setting body that develops high quality auditing and assurance standards and guidance in the public interest.

AUASB Mission Statement

To develop, in the public interest, high quality auditing and assurance standards and related guidance as a means to enhance the relevance, reliability and timeliness of information provided to users of audit and assurance services.

AUASB Strategic Directions

1. *Improve audit quality and confidence in assurance on external reporting by contributing to the development of and converging with one set of robust international auditing standards and consistency in the application of AUASB pronouncements*
2. *Be recognised as the auditing and assurance standards-setting body in Australia in the private and public sectors: enabling AUASB to formulate and maintain Auditing and Assurance Standards and guidance pronouncements to address local issues*
3. *Undertake thought leadership and respond to emerging issues*
4. *Communicate and engage with stakeholders to promote Audit Quality*
5. *Harmonise Australian and New Zealand auditing standards*

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Strategic Objectives	Strategic Initiative and KPI's	Key Dates 2015-16 Financial Year
1. <i>Improve audit quality and confidence in assurance on external reporting by contributing to the development of and converging with one set of robust international auditing standards and consistency in the application of AUASB pronouncements</i>	Develop and maintain appropriate high quality Australian Auditing and Assurance Standards and guidance to promote audit quality systemically and at the engagement level: • Contribute to regular periodic IAASB meetings and the annual IAASB-NSS meeting; • Participate in IAASB projects – Integrated Reporting Working Group, Agreed Upon Procedures and Audit Quality; • Provide AUASB submissions on IAASB project exposure drafts and discussion papers; and • Develop and revise Australian Standards to conform with international standards. Influence and conclude IAASB projects for inclusion on AUASB work program: • Auditor Reporting (ISAs 570 & 700 series etc); • Audit Quality; • Quality Control (Revision of ISQC1 & ISA 220); • Auditor's Responsibility for Other Information (ISA 720); • Group Audits (Revision of ISA 600); • Agreed Upon Procedures (Revision of ISRS 4400); • Auditing Financial Statement Disclosures; • Integrated Reporting Working Group; and • Audits of Financial Institutions. Monitor and Implement: • Provide feedback to the IAASB through the board, its project task forces and the Innovation Working Group; • Develop articles for professional journals that will highlight key principles and major changes, and that will provide guidance on significant matters in the Auditing Standards; and • Participate in public debate, conferences and seminars on topics relevant to global auditing and assurance standards and strategic audit and assurance issues;	• Qtly& May '15 • Ongoing • Ongoing • Ongoing • Dec 2015 • Ongoing • Jun 2016 • Dec 2015 • Jun 2016 • Ongoing • Dec 2015 • Ongoing • Ongoing • Ongoing • Ongoing

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	- Consider Australian legislation, other regulatory requirements and developments in international auditing standards for any changes which may require further amendments to the Auditing Standards; and - Engage with practitioners, professional bodies and regulators to assist with implementation and understanding of the principles underlying standards and resultant work effort and evidence. Actively promote a strong relationship with IAASB and other NSS: - Chairman and Executive Director to attend IAASB meetings; - Develop relationships and contribute to IAASB projects; and - Maintain relationships and interactions with other NSS.	- Each AUASB meeting - Ongoing - Quarterly - Ongoing - Ongoing
2. Be recognised as the auditing and assurance standards-setting body in Australia in the private and public sectors: enabling AUASB to formulate and maintain Auditing and Assurance Standards and guidance pronouncements to address local issues	Increase acceptance of AUASB Pronouncements and their application by government agencies and other bodies: - Promote GS on Grant Acquittals and Multi Scope Engagements. Formulate and maintain other Auditing and Assurance Standards: - Compliance Engagements (ASAE 3100 Revision); - Fundraisings (ASAE 3450 post-implementation review); and - Performance Engagements (ASAE 3500 Revision). Formulate and maintain Guidance Statements and pronouncements including: - Audit and Review Requirements for AFSL (GS 003); - Auditing Self-managed Superannuation Funds (GS 009); - Prudential Requirements for ADIs (GS 012); and - GS 022 Grant Acquittals and Multi-Scope Engagements.	- Jul 2015 - Feb 2016 - Dec 2015 - Feb 2016 - Jul 2015 - Sep 2015 - Apr 2016 - Jul 2015

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Strategic Objectives	Strategic Initiative and KPI's	Key Dates 2015-16 Financial Year
3. Undertake thought leadership and respond to emerging issues	Identify and respond to significant auditing and assurance issues of public interest on a timely basis: • Identify emerging issues, such as integrated reporting, and determine appropriate action; • Encourage and participate in determining policy issues and the amendments to any legislation and regulation arising from the international debate on audit quality and audit regulation; • Respond to local and international developments in order to enhance the role, relevance and quality of audit and related services to promote audit quality systemically and at the engagement level; and prepare papers and guidance on topical issues; • Enhance the profile of the AUASB as a leading national standard setter as a result of activities involving thought leadership, including developing a consistent external reporting framework (with AASB); and • Consultation with subject matter experts, where appropriate, in addressing the key emerging topics as identified from time to time. With appropriate expertise, the AUASB intends to contribute to any policy debate on the external reporting framework and appropriate assurance. Monitor international developments on auditing and assurance, including: • Monitor the activities of other auditing standard setting bodies including Canada, France, Germany, Netherlands, United Kingdom, United States and South Africa and especially the work of other international regulatory bodies, such as IOSCO, PCAOB and IFIAR, and consider matters that may impact on AUASB pronouncements; • Monitor the work of other international bodies, such as FEE and the IIRC; and • Prepare International Update on IAASB and other national auditing standard setters' (NSS) activities for AUASB meetings and post on the AUASB website.	• Ongoing • Ongoing • Ongoing • Ongoing • Ongoing • Monthly • Monthly • Quarterly

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Strategic Objectives	Strategic Initiative and KPI's	Key Dates 2015-16 Financial Year
4. <i>Communicate and engage with stakeholders to promote Audit Quality</i>	- Actively engage with Australian regulatory bodies, professional accounting bodies, practitioners, preparers, users and other stakeholders (including ASIC, APRA, ACNC and ATO), professional accounting bodies, practitioners, Australian Treasury to promote Audit Quality. This will include engaging directly with key stakeholders and through topic specific Roundtable meetings and/or surveys to identify the needs of stakeholders and other users of auditing and assurance services; - AUASB Chairman active involvement in FRC including membership of Audit Quality Committee; and - AUASB will also hold its annual Consultative Meetings with stakeholders to discuss significant projects and to obtain input on the AUASB's priorities. Identify AUASB stakeholders and understand their needs and expectations: - Brief and engage communications consultant; - Conduct stakeholder satisfaction survey; - Create stakeholder database; - Circulate engagement strategy to AUASB; and - Increase media mentions, social media activity and level of participation at AUASB events.	- Ongoing - Quarterly - Annually (Apr 2016) - Jul 2015 - Jul/Aug 2015 - Jul/Aug 2015 - Sep 2015 - Ongoing
5. <i>Harmonise Australian and New Zealand auditing standards</i>	- Harmonise Australian and New Zealand Auditing Standards, and work actively with the NZAuASB; and - Set up meetings with NZAuASB staff and NZAuASB Chairman and relevant board members at key points for key joint projects.	- Ongoing - Ongoing

AASB Vision Statement

The AASB's vision is to be recognised as a leading national standard setter and a global centre of excellence.

AASB Mission Statement

*The AASB:
creates principles based external reporting Standards for Australia that meet user needs;
and
contributes to the development of international external reporting Standards.*

AASB Strategic Directions

- 1. Use IFRS and transaction-neutrality as a starting point, taking into account cost/benefit considerations and user needs*
- 2. To maintain relevance, expand scope of activities to cover external reporting rather than just financial reporting*
- 3. Take a leadership role in shaping the Australian Reporting Framework*
- 4. Improve AASB's international influence with respect to IASB & IPSASB outcomes*
- 5. Facilitate and encourage active stakeholder participation in the development of standards*

Strategic Direction	Objectives & KPI's	Key Dates
1. <i>Use IFRS and transaction-neutrality as a starting point, taking into account cost/benefit considerations and user needs</i>	Determine whether adoption of IFRS / transaction neutrality has been effective - Review and report back the effectiveness of IFRS adoption in Australia, in particular looking at the adoption of IFRS by the NFP sector - Further report and recommendations Consult on AASB agenda - Consultation on AASB workplan - Report	- December 2015 - June 2016 - June 2015 - July 2015
2. <i>To maintain relevance, expand scope of activities to cover external reporting rather than just financial reporting</i>	Identify and evaluate other non-accounting Standard-setting opportunities Report	December 2015
3. <i>Take a leadership role in shaping the Australian Reporting Framework</i>	Use corporate reporting as a role model to identify criteria for entities that should prepare GPFS - Benchmark to other jurisdictions - Revise RDR Disclosure Principles - Consultation with Treasury - Transaction neutrality policy update - Translate GPFS criteria for corporates to other policy makers including state treasuries - Determine whether there is a need for a third tier of reporting To respond to user needs to reduce disclosure overload, develop trans-Tasman policy for RDR disclosure principles Maintain convergence with New Zealand - Consult and share views with NZ Accounting Standards Board staff on IASB projects in an endeavour to align views and/or provide further insight	- March 2015 - July 2015 - February 2015 - September 2015 - December 2015 - June 2015 - December 2015 - Ongoing

Strategic Direction	Objectives & KPI's	Key Dates
4. <i>Improve AASB's international influence with respect to IASB & IPSASB outcomes</i>	Be seen as a leader in development of high quality thought leadership with an overlay of practical application to meet user needs • Two published papers • Maintain contribution and seat at ASAF • Present at least 1 topic at ASAF meeting • Present topic at the IASB Research Forum • Invitations to Ken Spencer Memorial Lecture to promote international relationships Influence through relationships • Develop relationship map of interactions with other Standard-setters/key influencers • Maintain regular meetings with key influencers who share AASB objectives Actively promoting a strong relationship with IPSASB • Influence member nominations by Accounting Bodies • Technical Advisor to attend IPSASB meetings • Develop relationships and assist in IPSASB projects	• December 2015 • July 2015 • July 2015 • October 2015 • July 2015 • June 2015 • December 2015 • February 2015 • Ongoing • 31 December 2016
5. <i>Facilitate and encourage active stakeholder participation in the development of standards</i>	Identify AASB stakeholders and understand their needs and expectations from financial reporting • Circulate engagement strategy to Board • Conduct stakeholder satisfaction survey • Create stakeholder database Facilitate and involve stakeholders in discussions with decision makers (AASB members, IASB members, IASB staff) • Hold roundtables/facilitated workshops • Set up meetings between IASB and individual stakeholders/industry groups at key decision points for key projects Make communication more accessible and target messages to specific stakeholders • Increase media mentions, social media activity and level of participation at consultative events	• June 2015 • March 2016 • June 2015 • Ongoing • Ongoing • Ongoing

AUASB Technical Work Program for 2014-15

Agenda Item 10(d).3
AUASB Meeting 9 June 2015

Project Strategies/ Initiatives	Responsibility /Status	AUASB Meeting							
		2014					2015		
			29 July (cancelled)	9 Sept	21 Oct	25 Nov	24 Feb	20 Apr	9 Jun
Develop appropriate high quality Australian auditing standards and guidance to promote audit quality									
1. Contribute to the development of and converge with one set of robust international auditing standards									
1.1 Contribute to scheduled IAASB meetings and annual NSS meeting. AUASB Chairman and Executive Director to participate in these meetings	RM/MK Attend IAASB meetings			IAASB meeting 15-19 Sep		IAASB meeting 1-5 Dec	IAASB meeting 16-20 March		IAASB – NSS meeting 7-8 May IAASB meeting 15-19 June
1.2 Participate in IAASB projects: • Innovation Working Group • Audit Quality	MK			Taskforce project updates	→	→	→	→	→
1.3 Provide comment on IAASB exposure draft and discussion papers	RM/MK All			On going	→	→	→	→	→
1.4 Develop and revise Australian Standards to conform with international standards. Consider the implications of new and revised IAASB standards on the equivalent Australian standards, and undertake projects to revise the equivalent Australian standards.	All			On going	→	→	→	→	→

Updated 3 June 2015

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Project Strategies/ Initiatives	Responsibility /Status	AUASB Meeting							
		2014					2015		
			29 July (cancelled)	9 Sept	21 Oct	25 Nov	24 Feb	20 Apr	9 Jun
IAASB projects and related Australian standards:									
a) Auditor Reporting (i) Consider revision of ASAs 210/230/260/540/570/700/701/705/706 (ii) Consider revision of ASAs 800 & 805	HP/SF/MK/RM	IAASB considering revisions of ISA 700 and consequential amendments to other auditing standards		IAASB to consider proposed final standards	Consider feedback from IAASB meeting	Further consideration of approach to be taken by AUASB to exposure of new and revised auditor reporting standards in Australia IAASB to consider EDs of revised ISAs 800 and 805	Consider final PIOB approved versions of new ISAs for exposure as EDs of equivalent ASAs	Finalise and approve proposed EDs of equivalent ASAs and conduct roundtables in late May Prepare and finalise ED submission (due 22 Apr)	Consider stakeholder comments from roundtables Progress equivalent ASAs Consider further developments
b) Audit Quality	MK/RM/RH	<i>Audit Quality – An International Framework</i>		Consider opportunities for promoting AQ Framework in Australia	→	→	Undertake stakeholder engagement on application of AQ framework in Australia	→	→
c) Auditing financial statement disclosures Consider revision of ASAs 200,210, 240, 260, 300, 315, 320, 330, 450, 580, 700	SF	IAASB ED proposing changes to ISAs regarding auditing disclosures	Conduct RT with stakeholders	Provide AUASB briefing on issues raised at AUASB RT. Approve AUASB submission on IAASB ED	→	Consider issues to be presented at Dec IAASB meeting	Consider papers for March IAASB meeting		Consider further developments
d) ISA 720 Auditor's responsibility for other information Consider revision of ASA 720	SF	IAASB re-exposure of proposed revised ISA 720	Conduct RT with stakeholders	Provide AUASB briefing on matters raised at AUASB RT and to be considered at Sept IAASB meeting	→	Consider issues to be presented at Dec IAASB meeting		Consider final PIOB approved IAASB standard and issue Aust. ED at 19 May teleconf.	Finalise ED and issue for comment

Project Strategies/ Initiatives	Responsibility /Status	AUASB Meeting							
		2014					2015		
			29 July (cancelled)	9 Sept	21 Oct	25 Nov	24 Feb	20 Apr	9 Jun
e) Revisions to ISAs arising from post impl. review: - ISQC 1 and ISA 220 Quality Control - ISA 600 Group Audits New IAASB guidance on: - Professional scepticism - Auditing Financial Institutions	MK	IAASB to revise/develop various ISAs and guidance				Consider project proposals to be considered at Dec IAASB meeting	Consider papers to be presented at Mar IAASB meeting	Provide update to AUASB	Consider papers to be presented at June IAASB meeting
f) Integrated reporting	MK/RM/MM			Provide AUASB briefing on IIRC developments and liaise with IIRC and BRLF	Conduct RTs on IIRC assurance discussion paper with BRLF and Accounting Bodies	Provide further update on feedback from RTs and finalise submission on IIRC <IR> assurance paper	Provide AUASB briefing on IIRC developments and liaise with IIRC and BRLF	→	→
g) Audit implications of XBRL/SBR	MM			Maintain watching brief on any developments	→	→	→	→	→
2. Formulate and maintain Auditing and Assurance Standards and Guidance Pronouncements to address local issues									
2.1 Monitoring and implementation									
• Monitor implications of the Auditing Standards and seek ongoing stakeholder feedback	HP/RM/MK In progress			On going	→	→	→	→	→
• Participate in public debate, conferences and seminars on topics relevant to auditing & assurance standards and strategic audit & assurance issues	All				CPA Congresses in during Oct			CA ANZ Business Forum in May	

Project Strategies/ Initiatives	Responsibility /Status	AUASB Meeting							
		2014					2015		
			29 July (cancelled)	9 Sept	21 Oct	25 Nov	24 Feb	20 Apr	9 Jun
2.2 Formulate and maintain other auditing and assurance standards									
Issue new and revised standards									
a) Internal Control Engagements (revision of AUS 810)	CG On going		Conduct RT with stakeholders	Consider comments received on exposure and from RT	Consider draft proposed standard	Approve and release final standard	Promote new assurance standard with stakeholders	→	→
b) ASAE 3100 <i>Compliance Engagements</i>	MM Revisions arising from reissuance of ASAE 3000						Approve project plan and consider issues paper	Conduct research and seek feedback on practice issues	Consider project update
c) ASAE 3500 <i>Performance Engagements</i>	MM/CG Revisions arising from reissuance of ASAE 3000						Approve project plan and consider issues paper	Conduct research and seek feedback on practice issues	Consider project update
2.3 Formulate and maintain guidance pronouncements									
Issue new and revised guidance statements									
a) GS 003 Audit requirements of AFSs	RH		Revised GS completed – release on hold awaiting ASIC to finalise FS71 and related changes	→	→	Liaise with ASIC on review of FS71	→	Liaise further with ASIC	Consider final draft FS71 and timeline to finalise GS 003
b) GS 005 <i>Using the Work of a Management’s Expert</i>	RH			Approve project plan and consider issues	Consider first draft	Consider further draft	Consider feedback from ASIC and approve GS for release		
c) GS 009 <i>Auditing Self-Managed Superannuation Funds</i>	RH							Undertake background research to legislative	Approve project plan for revision

Project Strategies/ Initiatives	Responsibility /Status	AUASB Meeting							
		2014					2015		
			29 July (cancelled)	9 Sept	21 Oct	25 Nov	24 Feb	20 Apr	9 Jun
								changes affecting SMSFs	
d) Authorised deposit taking institutions GS 012 (APRA)	MM						Monitor APRA ADI developments	→	→
e) GS 013 <i>Audit of Compliance Plans of Managed Investment Schemes</i>	RH		Monitor ASIC developments. Project on hold – awaiting revision of ASIC RG	→	→	→	→	→	→
f) Life Companies GS 017 (APRA)	MM			Approve project plan and consider issues	Consider draft GS	Approve GS for release			
g) Multi-Scope Engagements and Grant Acquittals	HP			Project update	Project update	Consider further draft	Consider further amended draft		Approve final GS for release
h) Guidance on Group Audits	SF						Consider project plan	Deferred pending IAASB revision of ISA 600	→
i) AUASB Bulletin on ASA 610 Internal Audit Application Issues	RH					Consider draft AUASB Bulletin		Consider draft Bulletin and approve	
j) IT audit issues: - Cloud Computing assurance implications; - Audit implications of Data and Analytics	CG								Monitor IAASB activities

Project Strategies/ Initiatives	Responsibility /Status	AUASB Meeting							
		2014					2015		
			29 July (cancelled)	9 Sept	21 Oct	25 Nov	24 Feb	20 Apr	9 Jun
3 Promote thought leadership and respond to emerging issues									
3.1 Identify and respond to significant emerging auditing and assurance issues of public interest on a timely basis									
- Identify emerging issues and determine appropriate action - Encourage and participate in determining policy issues and the development of any legislation and regulation arising from the international debate on audit quality and audit regulation - Respond to local and international developments in relation to the above points - Enhance the profile of the AUASB as a leading NSS - Consult with subject matter experts, as appropriate				On going	→	→	→	→	→
3.2 Monitor international developments on auditing and assurance									
Monitor the activities of: - other NSS incl. Canada, France, Germany, Netherlands, UK, US and South Africa. - IOSCO, PCAOB and IFIAR				On going	→	→	→	→	→
Prepare periodic AUASB International Update	SF			AUASB International update	→	→	→	→	→
4 Communicate and liaise with stakeholders									
4.1 Actively engage with Australian regulatory bodies, professional accounting bodies, practitioners, preparers, users and other stakeholders									
Liaise and work with Australian regulatory bodies (including ASIC, APRA, ATO,				APRA and ASIC qtly meetings		APRA and ASIC qtly meetings	APRA and ASIC qtly meetings		APRA and ASIC qtly meetings

Project Strategies/ Initiatives	Responsibility /Status	AUASB Meeting							
		2014					2015		
			29 July (cancelled)	9 Sept	21 Oct	25 Nov	24 Feb	20 Apr	9 Jun
and CER/Dept of Environment), professional accounting bodies, practitioners, Australian Treasury, Financial Reporting Council and other govt departments and other organisations									
The AUASB Chairman will continue active involvement in FRC activities, including membership on task forces on Audit Quality and Integrated Reporting						FRC Meeting 21 Nov	FRC Meeting 6 March		FRC Meeting 5 June
Annual Consultative Meeting with stakeholders to discuss significant projects and to obtain input on the AUASB's priorities over the next three-year period								2014-15 meeting to be held 21 April	Consider feedback from Consultative Meeting
5 Harmonise Australian and New Zealand auditing standards									
5.1 Harmonise Australian and New Zealand auditing standards and work actively with the New Zealand Auditing and Assurance Standards Board (NZAuASB)									
5.1 Work on: - conformity with international auditing standards and harmonisation between Australia and New Zealand. - jointly influence policy and international standard setting - work jointly on various projects (Internal Control Project)	On going Attend NZAuASB meetings		23 July	On going 20 Aug	→ 15 Oct	→ 11 Dec	→ 18 Feb	→ 29 Apr	→ 11 June

Agenda Item 2-A

RESPONDING TO NON-COMPLIANCE OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS (NOCLAR)—ISSUES AND WORKING GROUP RECOMMENDATIONS

Summary of the IAASB's Discussions at Its March 2015 Meeting¹

Ms. Caroline Gardner, IESBA member and Chair of the NOCLAR Task Force, updated the IAASB on the IESBA's progress towards a re-exposure draft (re-ED) of the proposed changes to the IESBA Code² to address actions by professional accountants in the case of actual or suspected non-compliance with laws and regulations. She highlighted that the NOCLAR project was a top priority for IESBA and that the ED was planned for approval in April 2015. Mr. Murtagh explained that an IAASB Working Group was proposed to be established to consider the need for any amendments to the IAASB's International Standards to ensure there are no conflicts with the proposed revised IESBA Code and the timing of such amendments.

The IAASB supported the establishment of the Working Group and asked the Working Group to consider the following:

- Whether the amendments would be limited to changes to avoid inconsistencies between the IAASB's International Standards and the proposed revised IESBA Code, or whether the proposed revised IESBA Code indicates areas of the International Standards that may warrant additional scrutiny. It was noted that changes beyond the minimum to avoid inconsistencies may need to be considered as part of the IAASB's next work plan, whereas the initial intent would be to progress the amendments quickly to enable an IAASB ED to be exposed for comment concurrently with the NOCLAR re-ED.
- The impact on the professional accountant's proposed ability to override confidentiality in certain cases, under the IESBA Code, of laws requiring confidentiality to be maintained in certain circumstances to avoid 'tipping off'.
- How incidences of NOCLAR are communicated to the group auditor.
- The implications for the IAASB standards relating to review and other assurance engagements.

Mr. Van der Ende noted that it was helpful to have IESBA and the IAASB working together and that the IAASB may need to consider safe harbors and how differences in legal frameworks affect the auditor's obligations.

WAY FORWARD

Subject to the Working Group's deliberations, an IAASB ED will be presented at the June 2015 IAASB meeting for approval.

¹ The minutes of the March 2015 IAASB meeting will be approved at the June 2015 IAASB meeting.

² *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants.

Objectives of the IAASB Discussion

The objectives of the IAASB discussion at its June 2015 meeting are to:

- (a) Approve a project proposal on amendments to International Standards³ in response to the International Ethics Standards Board for Accountants' (IESBA) project on NOCLAR.
- (b) Approve the proposed amendments to the International Standards for exposure and agree an appropriate exposure period.

Background

1. At its April meeting, the IESBA approved a re-exposure draft of the NOCLAR proposals. The ED is open for comments until September 4th, 2015. The ED is included as Agenda Item 2-G for information.
2. As requested by the IAASB at its March 2015 meeting, the IAASB's NOCLAR Working Group has focused on whether amendments to the IAASB's International Standards should be limited to changes to avoid inconsistencies with the proposed revised IESBA Code, or whether the proposed revised IESBA Code indicates areas of the International Standards that may warrant further exploration by the IAASB in due course. It was noted that changes beyond the minimum to avoid inconsistencies between the International Standards and the revised IESBA Code may need to be considered as part of the IAASB's next work plan. Following such consideration, as appropriate, the Working Group developed responses to clarify the implications for the IAASB's International Standards of, and to emphasize in those standards, the changes made by IESBA regarding the professional accountants' obligations regarding NOCLAR, including confidentiality. These responses have benefited from the involvement of a member of the IESBA NOCLAR Task Force on the IAASB's Working Group, as well as IESBA staff.

Section I – Project Proposal

Section I-A – Project Proposal Considerations

3. The project proposal has been reviewed by both the Steering Committee and the IAASB NOCLAR Working Group (see Agenda Item 2-B). The project objectives are to:
 - (a) Identify any actual or perceived inconsistencies of approach or scope between the NOCLAR proposals and the International Standards, including ISA 250⁴;
 - (b) Develop amendments to the International Standards to address such inconsistencies to the extent considered appropriate to enable the International Standards to continue to be applied effectively applied with the IESBA Code or to clarify and emphasize key aspects of the proposed revised IESBA Code in the International Standards; and
 - (c) Make other recommendations, as appropriate, including identifying other areas where further improvements may need to be considered in due course.

³ The IAASB's International Standards comprise the International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), International Standards on Related Services (ISRSs), and International Standards on Quality Control (ISQCs).

⁴ ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

4. The scope of this project covers actual or perceived inconsistencies of approach and scope between the IESBA NOCLAR proposals and the International Standards. This project will not address other potential amendments to ISA 250 or other International Standards in an effort to achieve improvements in those Standards in the immediate term. However, the project Task Force may make other recommendations, as appropriate, regarding other aspects of ISA 250 where further improvements may need to be considered in due course (for example, under a future IAASB Work Program).
5. The Working Group believes an expedited approach to this project is necessary and appropriate given the limited nature and scope of the anticipated amendments to the International Standards and the importance of providing stakeholders with an opportunity to consider the proposed amendments to the International Standards and the IESBA's NOCLAR proposals side by side. As the proposed "Process to Address Circumstances Requiring an Accelerated Response" has not yet been finalized, Staff has evaluated the project proposal and noted that it incorporates the elements and steps of the proposed accelerated response process, which is aligned to the elements of the IAASB's normal due process. The Project Proposal includes a timetable detailing how the project is intended to proceed.

Section I-B – Implications of the Proposed Restructure of the IESBA Code

6. The IESBA is aiming to close off the proposed NOCLAR standards under its extant drafting conventions (termed a "close-off document") by Q1 2016. It then intends to restructure the close-off document in accordance with the new structure and drafting conventions for the IESBA Code, which it is currently developing under a separate project.⁵ No change in meaning is intended as part of this restructuring exercise. The restructured NOCLAR standards are intended to be exposed for comment on the restructuring only. The IESBA is aiming to approve the restructured Code by Q4, 2016 with the effective date to be determined in due course.
7. For information, "close-off documents" were used in the IAASB's Clarity project to seek the Board's approval of the final policy decisions and text of each ISA while the restructuring of the ISAs into their current form was undertaken. A close-off document means that the Board approves the text of the amendments to the standard, but does not issue the standard until the restructuring/redrafting process is complete. The restructuring or redrafting process is not intended to result in changes of meaning. The Standard-Setting Board (SSB) is then asked to approve the restructured standard, but does not further deliberate the content of the standard or re-discuss the policy positions set by the SSB in its approval of the close-off document.
8. Due to the IESBA's intention to approve a restructured Code by Q4 2016, it is intended (based on the current IESBA timetable) that the IAASB will approve the amendments to the International Standards in a close-off document as well, in approximately Q1 2016. After the restructuring of the IESBA Code is complete, the project Task Force would then review the implications of the final changes to the IESBA Code arising from the restructuring and make a recommendation to the IAASB regarding the approval of the amendments included in the close-off document, in approximately Q4, 2016

⁵ www.ethicsboard.org/projects/structure-code

Matter for IAASB Consideration

1. The IAASB is asked to approve the Project Proposal as shown in **Agenda Item 2-B**

Section II – Issues

Section II-A – Introduction to the Working Group’s Approach

Process

9. As noted in Section I, the proposed ED addresses only (i) actual or perceived inconsistencies of approach or scope to the extent considered appropriate to enable the International Standards to continue to be applied effectively, once the final IESBA NOCLAR standard becomes effective and (ii) amendments to clarify and emphasize key aspects of the proposed revised IESBA Code in the International Standards.
10. The Working Group reviewed the IESBA's NOCLAR proposals, other than aspects that do not relate to the IAASB's International Standards, such as the provisions for Professional Accountants in Business, and compared the proposals against relevant provisions of the International Standards.
11. In its discussions, the Working Group focused on identifying issues and categorizing them by the Working Group's proposed response as follows:
 - (a) Category 1 – Amendments to address actual or perceived inconsistencies of approach or scope or to clarify and emphasize key aspects of the NOCLAR proposals, such as the changes to the confidentiality responsibilities. These changes are included in the proposed ED (see **Agenda Items 2-C and 2-D** and Section II-B below).
 - (b) Category 2 – Additional guidance material that might be considered helpful if added to ISA 250, or other International Standards, but is not considered to be of sufficient importance to warrant their inclusion in the ED as proposed amendments (see **Agenda Item 2-E** and paragraph 15 below).
 - (c) Category 3 – Areas for further consideration in a possible future revision of ISA 250. The Working Group identified other issues related to how the International Standards address the auditor's responses to NOCLAR (see **Agenda Item 2-F** and paragraph 16 below). These issues may result in changes to the scope and approach of extant ISA 250. The Working Group does not believe these issues should be addressed at this time. The Working Group does, however, believe that respondents' consideration of the proposals in the ED, and future consideration of these issues by the IAASB, may be facilitated by highlighting these areas in the Explanatory Memorandum of the proposed ED as matters not addressed at this time, supported by an appropriate question for respondents.

Comparison Documents

12. To facilitate the IAASB's review of the Working Group's proposals, the Working Group has prepared comparison documents to highlight selected aspects of ISA 250 and IESBA's NOCLAR proposals. These documents are:
 - (a) **Agenda Item 2-D**, which lists Category 1 issues;

- (b) **Agenda Item 2-E**, which lists Category 2 issues; and
- (c) **Agenda Item 2-F**, which lists Category 3 issues.

Section II-B – Proposed ED

13. The Working Group's proposed amendments in **Agenda Item 2-C** address the Category 1 issues described above and are drawn from, or based on, the IESBA's proposed amendments. Broadly, the proposed amendments can be characterized as follows:
- (a) "Signpost" provisions that bring key aspects of the IESBA's NOCLAR proposals to the auditor's attention. For example ISA 250, paragraph 8a and ISA 240,⁶ paragraph 8a, highlight that the auditor may have additional obligations under relevant ethical requirements regarding NOCLAR which are proposed to change;
 - (b) Proposed amendments to recognize and reflect the changes to the auditor's duty of confidentiality, particularly the right to disclose identified or suspected NOCLAR to an appropriate authority. See:
 - (i) ISA 250, paragraph A19;
 - (ii) ISQC 1,⁷ paragraph A56;
 - (iii) ISA 240, paragraphs 43 and A65
 - (iv) ISRE 2400 (Revised),⁸ paragraph A92; and
 - (v) ISAE 3402,⁹ paragraph A53;
 - (c) New guidance to clarify the implications of the IESBA's NOCLAR proposals for ISA 250, such as the possibility that the auditor may otherwise become aware of matters that the auditor is required to address under relevant ethical requirements, and which may have an effect on the audit. Illustrations of this type of proposed amendment are in ISA 250, paragraphs A12a and A17a. For example, if the auditor becomes aware of NOCLAR that the auditor is required to address under relevant ethical requirements, such non-compliance is relevant to the auditor's responsibilities under paragraphs 18-21 of ISA 250—for example, such non-compliance may cause the auditor to evaluate the integrity of management and, when appropriate, those charged with governance, even if the non-compliance does not have a material effect on the financial statements;
 - (d) New guidance to highlight the requirement in the IESBA NOCLAR ED for the auditor to communicate, prior to accepting the engagement, with the predecessor auditor—ISA 220,¹⁰ paragraph A8a;

⁶ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁷ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁸ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁹ ISAE 3402, *Assurance Reports on Controls at a Service Organization*

¹⁰ ISA 220, *Quality Control for an Audit of Financial Statements*

- (e) New guidance to recognize that laws or regulations may prohibit alerting (“tipping off”) the entity when, for example, the auditor is required to report the NOCLAR to an appropriate authority pursuant to money laundering legislation—ISA 240, paragraph A65; ISA 250, paragraph A19; ISA 260 (Revised),¹¹ paragraph 7; ISA 450,¹² paragraph A8;
 - (f) Additional examples or explanatory material that the Working Group believes would be sufficiently significant in clarifying the text of applying the International Standards to warrant proposed amendments. For example:
 - (i) ISA 250, paragraph A1a – highlights that management and those charged with governance may have additional responsibilities;
 - (ii) ISA 250, paragraph A7a – Includes examples of relevant laws and regulations drawn from the IESBA NOCLAR ED; and
 - (iii) ISA 250, paragraph A18a – Examples of circumstances that may cause the auditor to evaluate the reliability of written representations; and
 - (g) Minor changes for consistency with the IESBA NOCLAR ED in ISA 250, paragraph 5.
14. The Working Group believes that these amendments address actual or perceived inconsistencies of approach or scope or clarify and emphasize key aspects of the NOCLAR proposals.

Section II-C – Other Elements of the IESBA’s NOCLAR ED

15. To aid the IAASB in understanding which items were in “Category 2,” as described in Section II-A above, the Working Group has prepared a comparison document which includes the relevant provisions of the IESBA ED and the related paragraphs from the International Standards (see **Agenda Item 2-E**). These items are not included in the proposed ED.
16. The Working Group also identified the following items in “Category 3,” as described in Section II-A above. These items are listed below and are not included in the proposed ED, but are areas for possible future exploration (see also **Agenda Item 2-F**):
- (a) The distinction between the types of laws and regulations¹³ and the different levels of work effort applied to each under extant ISA 250, and whether an alternative approach is warranted.
 - (b) Whether ISA 250 should deal with all personal misconduct of those charged with governance, management, and employees related to the business activities of the entity.
 - (c) Whether the list of agents (those charged with governance, management, and employees) in the definition of “non-compliance” in paragraph 11 of ISA 250 is sufficiently broad to include, for example, contractors and sub-contractors.

¹¹ ISA 260 (Revised), *Communication with Those Charged with Governance*

¹² ISA 450, *Evaluation of Misstatements Identified During the Audit*

¹³ ISA 250, paragraph 6, distinguishes the auditor’s responsibilities in relation to compliance with two different categories of laws and regulations as follows: (a) The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and pension laws and regulations; and (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity’s ability to continue its business, or to avoid material penalties.

- (d) Whether ISA 250 should address making inquiries of management or, when appropriate, those charged with governance, regarding NOCLAR that “may occur” – which is included in IESBA’s NOCLAR ED.
 - (e) Whether ISA 250 should include a requirement to obtain an understanding of how management identifies and addresses known or suspected NOCLAR as an essential component in obtaining an understanding of the entity and its environment.
 - (f) Whether ISA 620¹⁴ should require the auditor to include in the written agreement with an auditor’s expert that the expert must inform the auditor if the expert becomes aware of NOCLAR in the entity.
 - (g) How incidences of NOCLAR are communicated to the group engagement team. At the March 2015 IAASB meeting, the Working Group was asked to also consider this point. The Working Group discussed the issue and concluded that it is beyond the scope of the project proposal as it does not specifically relate to the IESBA’s NOCLAR proposals.
17. In addition to these areas, respondents may have their own views on matters that may need to be considered in any future revision of ISA 250, and may have views on the urgency of the need to revise ISA 250.
18. The Working Group is therefore of the view that including a specific question on these matters in the Explanatory Memorandum would be helpful for the IAASB in developing its consultations on its future Work Plans and assessing the relative priority of any possible additional efforts relating to ISA 250 against other priorities.

Matters for IAASB Consideration

- 2. The IAASB is asked to provide its views on the proposed ED as shown in Agenda Item 2-C, and to approve its issuance.
- 3. Does the IAASB support inclusion of a question in the Explanatory Memorandum to the ED to seek views about areas within ISA 250 that may warrant further attention in a future IAASB work plan?

Section III – Way Forward and Due Process

Section III-A – Opportunities for Further IESBA/IAASB Interaction

19. The IAASB’s NOCLAR project will feature close interaction between the IAASB and IESBA, particularly in relation to comments received on the IAASB ED and IESBA Re-ED. As this project is based on making amendments in light of the NOCLAR proposals, the final amendments to the International Standards will take into account the final NOCLAR standards approved by the IESBA. Accordingly, the IAASB and IESBA will interact at a staff, task force, and Board level as appropriate in relation to any comments on the respective EDs that may be relevant to either Board.
20. While preparing the draft ED for this meeting, the Working Group noted that there were areas within the IESBA NOCLAR ED that the Working Group would seek to discuss further with IESBA to improve both the IESBA and the IAASB’s understanding of the issues. Examples of areas for possible discussion include:

¹⁴ ISA 620, *Using the Work of an Auditor’s Expert*

- Whether explicit or implicit references in the NOCLAR proposals to the IAASB International Standards are appropriate. For example, section 225.31 of the NOCLAR ED includes references to ISA 230's documentation requirements.
- Whether there should be additional references to the impact of NOCLAR on the financial statements.
- Whether there are aspects of ISA 250 that would be useful additional material for inclusion in the IESBA NOCLAR material. One example is paragraph 23 of ISA 250 regarding communication of a matter to those charged with governance as soon as practicable when, in the auditor's judgment, non-compliance is believed to be intentional and material.

Section III-B – Significant Matters Identified by the IAASB Working Group

21. In the Working Group's view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its considerations thereof, have all been reflected in the issues papers presented to the IAASB at its meetings. In the IAASB Working Group's view, there are no significant matters it has discussed in this project that have not been brought to the IAASB's attention.
22. The Working Group does not believe that a consultation paper, field testing, or a roundtable is warranted, as the proposed amendments are only limited in nature. The Working Group believes that effective consultation with the public is best achieved by the issuance of an ED with an overlapping exposure period with the IESBA ED.

Section III-C – Exposure Period

23. As seen in **Agenda Item 2-C**, the proposed changes to the IAASB's International Standards are limited in nature. In addition, the Working Group notes that there would be benefit in finalizing the proposed changes to the IAASB's International Standards as timely as possible to align with the IESBA process as much as is feasible, given each Board's meeting schedules. Accordingly, the Working Group believes there is merit in a shorter exposure period of 90 days.¹⁵

Matter for IAASB Consideration

4. Does the IAASB agree that an exposure period of 90 days would be appropriate?

¹⁵ Although the exposure period for a draft international standard will ordinarily be no shorter than 120 days, a shorter or longer exposure period may be set when considered appropriate. A shorter exposure period may be set, for example, where in the public interest there is a need to conclude on a matter more quickly, the exposure draft is relatively simple or short, or where the IAASB decides to re-expose all or only part of a draft international standard.

IAASB PROJECT PROPOSAL—LIMITED AMENDMENTS IN RESPONSE TO THE IESBA'S PROJECT REGARDING RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

I. Subject

1. This project considers the implications of the International Ethics Standards Board for Accountants' (IESBA's) project to develop new standards for its Code of Ethics for Professional Accountants (IESBA Code) regarding responding to non-compliance with laws and regulations (NOCLAR) on the IAASB's International Standards.¹

II. Background and Relevant Developments

2. In providing a professional service to a client or carrying out professional activities for an employer, a professional accountant (including an auditor or an assurance practitioner)² may come across an act or suspected act of NOCLAR. Such an act may have been committed or may be about to be committed by the client or employer, or by those charged with governance (TCWG), management or employees of the client or employer. The IESBA noted that the professional accountant has a prima facie ethical responsibility not to turn a blind eye to identified or suspected NOCLAR. At the same time, the IESBA recognized that such a situation can often be a difficult and stressful one for the professional accountant. The IESBA therefore approved a [project proposal](#) in 2010 to develop enhancements to the IESBA Code to help guide the professional accountant in dealing with the situation and in deciding how best to act in the public interest in these circumstances.
3. Among other matters, the project sought to address: whether identified or suspected NOCLAR should be disclosed to an appropriate authority in certain circumstances, having regard to the duty of confidentiality under the IESBA Code; the process for responding to identified or suspected NOCLAR; the threshold for taking action; and documentation. The IESBA released an Exposure Draft (ED), [Responding to a Suspected Illegal Act](#) in August 2012. In response to significant stakeholder concerns regarding the proposals in this ED, the IESBA revised the proposals and issued a second Exposure Draft (Re-ED), [Responding to Non-compliance with Laws & Regulations](#), in May 2015. The comment period on this closes on September 4, 2015.
4. The IESBA is aiming to close off the proposed standards under its extant drafting conventions ("close-off document") by the Q1 2016. It then intends to restructure the close-off document in accordance with the new structure and drafting conventions for the IESBA Code, which it is currently developing under a separate project. No change in meaning is intended as part of this restructuring exercise. The restructured NOCLAR standards will be exposed for comment on the restructuring only. The IESBA is aiming to approve the restructured Code by Q4, 2016 with the effective date to be determined in due course.

¹ The IAASB's International Standards comprise the International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), International Standards on Related Services (ISRSs), and International Standards on Quality Control (ISQCs).

² Henceforth, the term "auditor" is used to include both auditors and practitioners.

5. The IAASB has been kept apprised of developments on the IESBA project. In particular, at the March 2015 IAASB meeting, the Chair of the IESBA's NOCLAR Task Force briefed the IAASB on the near-final proposals in the draft second ED.
6. Under the NOCLAR proposals, the professional accountant would have the right to disclose an identified or suspected NOCLAR to an appropriate authority if the professional accountant determines that such disclosure is an appropriate course of action in the circumstances. If the professional accountant determines that such a disclosure is appropriate, this will not be considered a breach of the duty of confidentiality under Section 140 of the IESBA Code. Certain of the International Standards, however, contain material that does not explicitly recognize this proposed right to disclosure without breaching confidentiality under the NOCLAR proposals. For example, ISA 250 states that "[t]he auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity."³ While this does not necessarily contradict the proposed right to disclose, it would not draw this proposed right to the attention of the auditor. Accordingly, there may be a perceived inconsistency in approach with the IESBA Code.
7. In light of the issuance of the second IESBA NOCLAR ED, potential changes to the International Standards may be warranted to address actual or perceived inconsistencies of approach, or the scope of laws and regulations considered, with the IESBA Code when the final NOCLAR revisions become effective. Failing to address these actual or perceived inconsistencies may raise questions among stakeholders regarding the clarity of the interaction between the International Standards and the auditor's (or practitioner's) ethical obligations.
8. Given the issuance of the IESBA's second ED, the IAASB agreed at its March 2015 meeting that it should consider issuing an ED of any warranted limited amendments to its International Standards on an expeditious basis and, if possible, before the close of the comment period on the current IESBA's ED on NOCLAR. This would enable stakeholders to consider any proposed limited amendments to the International Standards alongside the IESBA's NOCLAR proposals, thereby facilitating a coordinated review of, and response to, both IAASB and IESBA proposals by stakeholders.
9. An IAASB Working Group (WG) has been established to consider on a preliminary basis the nature and extent of the potential amendments to the International Standards, and to provide input to Staff in developing this project proposal. The WG includes a member of the IESBA's NOCLAR Task Force. In addition, since January 2015, the Chair of the IAASB's NOCLAR WG has acted as a correspondent member on the IESBA's NOCLAR Task Force.
10. The IAASB WG believes that prioritization of this project will be an efficient and effective use of the IAASB's resources as stakeholders will have the opportunity to consider both the IESBA's and the IAASB's proposals at the same time. The WG envisages that final amendments to the International Standards will take into account the final changes to the IESBA Code.
11. During the IAASB discussion in March 2015, IAASB members noted that the changes proposed by the IESBA would represent a fundamental change in the approach to confidentiality under the IESBA Code in this area. The NOCLAR proposals applicable to an auditor also include a wider range of examples of laws and regulations covered than the examples provided in extant ISA 250 and includes NOCLAR that may occur (whereas ISA 250 focusses on historical compliance). It was suggested that

³ ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph A19

the proposed changes to the IESBA Code might therefore raise questions about whether the extant ISA 250 needs a more fulsome review to consider the implications of that wider range of examples of laws and regulations and application to potential NOCLAR.

III. Project Objectives, Scope, Focus and How They Serve the Public Interest

Project Objectives

12. The project objectives are to:

- (i) Identify any actual or perceived inconsistencies of approach or scope between the NOCLAR proposals and the International Standards, including ISA 250;
- (ii) Develop amendments to the International Standards to address such inconsistencies to the extent considered appropriate to enable the International Standards to continue to be applied effectively together with the IESBA Code or to clarify and emphasize key aspects of the proposed revised IESBA Code in the International Standards; and
- (iii) Make other recommendations, as appropriate, including identifying other areas where further improvements may need to be considered in due course.

Project Scope

- 13. The IESBA's NOCLAR proposals are intended to address professional accountants' ethical responsibilities when they face an instance of NOCLAR or suspected NOCLAR in the course of performing their engagements for their clients. In particular, the proposals are not intended to set any specific requirements with respect to the performance of an audit or assurance engagement, nor interfere with or undermine the International Standards, including ISA 250.
- 14. The scope of this project therefore covers actual or perceived inconsistencies of approach and scope between the IESBA NOCLAR proposals and the International Standards. The WG is of the view that guidance in the form of International Practice Notes, Staff Alerts, or similar would not be an appropriate alternative to making amendments to the International Standards, as they would not adequately address the actual or perceived inconsistencies.
- 15. This project will not address other potential amendments to ISA 250 or other International Standards in an effort to achieve improvements in those Standards in the immediate term. However, the project Task Force may make other recommendations, as appropriate, regarding other aspects of ISA 250 where further improvements may need to be considered in due course (for example, under a future IAASB Work Program). The Explanatory Memorandum to the ED could be a vehicle for soliciting stakeholders' views as to whether there is merit in exploring any further areas identified by the project Task Force.

Focus of the Project

- 16. The project will focus on identifying the amendments to ISA 250 and other International Standards that may be needed to avoid actual or perceived inconsistencies with the NOCLAR proposals. On a

preliminary basis, the WG has identified a potential need for limited amendments to ISQC 1,⁴ ISA 220,⁵ ISA 240,⁶ ISA 260 (Revised),⁷ ISA 450,⁸ ISRE 2400 (Revised),⁹ and ISAE 3402.¹⁰

17. The purpose of these amendments would be to (a) ensure that the International Standards and the IESBA Code will be able to operate in conjunction with each other without conflict once the final NOCLAR standards become effective and (b) clarify and emphasize key aspects of the NOCLAR proposals in the International Standards.
18. These amendments are expected to be limited, as developing them does not involve re-consideration of the objectives, requirements and application material of ISA 250, or other International Standards, in their own right.

How the Project Serves the Public Interest

19. It is in the public interest that the IAASB's and the IESBA's standards be able to operate in concert and without confusion due to the many jurisdictions that utilize both. It is also important that the International Standards acknowledge and do not potentially undermine the enhancements that will be made to the IESBA Code as a result of the NOCLAR project—either through being inconsistent or through failing to draw appropriate attention to the revised requirements in the IESBA Code. Equally, it would not be in the public interest for practitioners to be placed in a situation where the IESBA Code required one approach but the ISAs, either in the requirements or the application material, did not support or recognize that approach.

IV. Outline of the Project

Major Issues that Will Be Addressed

20. Amendments to the International Standards, albeit expected to be minor, are necessary to resolve inconsistencies of approach or scope and to clarify and emphasize key aspects of the NOCLAR proposals in the International Standards.
21. Among other possible issues, the project includes consideration of:
 - (a) Whether relevant references within the International Standards to confidentiality continue to be appropriate in light of the NOCLAR proposals.
 - (b) Whether requirements to communicate with management should acknowledge that, in some circumstances, law or regulation may specifically prohibit alerting management, or other actions, which might prejudice an investigation by an appropriate authority into an identified or suspected NOCLAR (“tipping-off”).

⁴ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁵ ISA 220, *Quality Control for an Audit of Financial Statements*

⁶ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁷ ISA 260 (Revised), *Communication with Those Charged with Governance*

⁸ ISA 450, *Evaluation of Misstatements Identified During the Audit*

⁹ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

¹⁰ ISAE 3402, *Assurance Reports on Controls at a Service Organization*

Impact Analysis Considerations

22. The primary benefit of this project is the avoidance of actual or perceived inconsistencies between the International Standards and the IESBA Code and to clarify and emphasize key aspects of the proposed revised IESBA Code in the International Standards. Of particular importance is the need to highlight that the auditor has the right, under some relevant ethical requirements, to disclose an identified or suspected NOCLAR to an appropriate authority if the auditor determines that such disclosure is an appropriate course of action in the circumstances. If that is the case, this will not be considered a breach of the duty of confidentiality under those relevant ethical requirements. Due to the anticipated limited nature of the amendments, the project is not expected to have a significant positive or negative impact on the cost of engagements covered by the International Standards beyond that necessary to implement the new IESBA Code. Conversely, failing to make the limited amendments may lead to confusion in practice regarding the interaction between the IESBA Code and IAASB's International Standards and, accordingly, may increase costs.

V. Implications for any Specific Persons or Groups

23. The project has implications for national standard setters (NSS) who have adopted the International Standards or elements thereof and auditors who use the International Standards or used them as the basis for their audit or other assurance engagement methodology.

VI. Development Process, Project Timetable and Project Output

Development Process and Project Timetable

24. Given the limited nature and scope of the anticipated amendments to the International Standards and the importance of providing stakeholders with an opportunity to consider the proposed amendments to the International Standards and the NOCLAR proposals side by side, this project will be undertaken on an expeditious basis as outlined in the proposed project timetable below. In particular, it is proposed that the amendments to the International Standards be issued for a 90-day comment period, given the benefits of aligning the IAASB's consideration of responses on the ED with the IESBA's consideration of comments on the second NOCLAR ED.¹¹
25. Due to the IESBA's intention to approve a restructured Code by Q4 2016, it will be necessary for the IAASB to approve the amendments to the International Standards in a close-off document. After the restructuring of the IESBA Code is complete, the project Task Force will review any final changes and make a recommendation to the IAASB regarding the approval of the amendments included in the close-off document.

Timing	Action
June 2015	Provide notice on the IAASB's website of the IAASB's consideration of the project at the June IAASB meeting

¹¹ Under the Due Process and Working Procedures, the exposure period for a draft international pronouncements issued by the IAASB will ordinarily be 120 days. A shorter exposure period may be set, for example, where in the public interest there is a need to conclude on a matter more quickly, the ED is relatively simple or short, or where the IAASB decides to re-expose all or only part of a draft international pronouncement.

Timing	Action
	Inform the Public Interest Oversight Board (PIOB) about the issue and of the intent to apply the Due Process in an accelerated manner
	Teleconference to obtain CAG input on project proposal and ED
	IAASB approval of project proposal and ED, with a 90-day comment period
	Full review of responses to the ED
December 2015	Report back from IESBA on responses to the second NOCLAR ED
	CAG consideration of ED responses and proposed amendments to the International Standards as a result of responses to the ED
March 2016	Report back from IESBA to IAASB about their ED responses and planned approach to finalizing the NOCLAR amendments
	IAASB discussion of proposed amendments to the International Standards as a result of revised based on responses to the ED
	IAASB approval of final amendments to the International Standards as a close-off document
First half of 2016	IESBA approval of restructured Code, including NOCLAR
December 2016	IAASB consideration of the need for any further changes to the International Standards as a result of IESBA approval of the restructured Code and, if so, final IAASB approval of amendments to the International Standards

26. The project will feature close interaction between the IAASB and IESBA, particularly in relation to comments on the IAASB ED and the current IESBA NOCLAR-ED. As this project is based on making amendments in light of the NOCLAR proposals, the final amendments to the International Standards will take into account the final NOCLAR standards approved by the IESBA. Accordingly, the IAASB and IESBA will interact at a staff, task force, or Board level as appropriate in relation to any comments on the respective EDs that may be relevant to either Board.

Project Output

27. The output of the project is anticipated to be amendments to requirements or application material in the International Standards. As noted in the objectives in paragraph 12, this project has only a limited scope and, therefore, amendments to the International Standards are expected to be limited as well. The Task Force may make further recommendations to the IAASB relative to the IAASB's consultation on its future Work Plans.
28. It is anticipated that the effective date of the amendments to the International Standards would be aligned to the effective date of the NOCLAR standards, which the IESBA will determine in due course.

VII. Resources Required

29. A project Task Force will be established, consisting of 4 IAASB members with an IESBA member as an observer. The project will be chaired by an IAASB member and supported by IAASB technical staff. It is expected that the members of the WG will continue as the project Task Force.

Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations (NOCLAR)—Proposed Amendments to International Standards

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

CONTENTS

	Paragraph
Introduction	
Scope of this ISA	1
Effect of Laws and Regulations	2
Responsibility for Compliance with Laws and Regulations	3–8a
Effective Date	9
Objectives	10
Definition	11
Requirements	
The Auditor's Consideration of Compliance with Laws and Regulations	12–17
Audit Procedures When Non-Compliance is Identified or Suspected	18–21
Reporting of Identified or Suspected Non-Compliance	22–28
Documentation	29
Application and Other Explanatory Material	
Responsibility for Compliance with Laws and Regulations	A1–A6
The Auditor's Consideration of Compliance with Laws and Regulations	A7–A12
Audit Procedures When Non-Compliance is Identified or Suspected	A13–18
Reporting of Identified or Suspected Non-Compliance	A19–A20
Documentation	A21

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

Introduction

Scope of this ISA

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

Effect of Laws and Regulations

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

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

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

Responsibility of the Auditor

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

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

² ISA 200, paragraphs A51-A52

potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:

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

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

6. This ISA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:
 - (a) The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and pension laws and regulations (see paragraph 13); and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements (see paragraph 14).
7. In this ISA, differing requirements are specified for each of the above categories of laws and regulations. For the category referred to in paragraph 6(a), the auditor's responsibility is to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations. For the category referred to in paragraph 6(b), the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.
8. The auditor is required by this ISA to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances of identified or suspected non-compliance to the auditor's attention. Maintaining professional skepticism throughout the audit, as required by ISA 200,³ is important in this context, given the extent of laws and regulations that affect the entity.
- 8a. The auditor may have additional responsibilities under relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including laws and regulations other than those

³ ISA 200, paragraph 15

described in paragraph 6. Complying with those additional responsibilities may provide further information relating to the entity's compliance with laws and regulations (for example, regarding the integrity of management or, where appropriate, those charged with governance), which is relevant to the auditor's work in accordance with this and other ISAs.

Effective Date

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

Objectives

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

Definition

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

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

Requirements

The Auditor's Consideration of Compliance with Laws and Regulations

12. As part of obtaining an understanding of the entity and its environment in accordance with ISA 315 (Revised),⁴ the auditor shall obtain a general understanding of:
- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
 - (b) How the entity is complying with that framework. (Ref: Para. A7–~~A7a~~)

⁴ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11

13. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements. (Ref: Para. A8)
14. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements: (Ref: Para. A9–A10)
 - (a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and
 - (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
15. During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. (Ref: Para. A11)
16. The auditor shall request management and, where appropriate, those charged with governance, to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor. (Ref: Para. A12)
17. In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 12–16. (Ref: Para. A12a)

Audit Procedures When Non-Compliance Is Identified or Suspected

18. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain: (Ref: Para. A13)
 - (a) An understanding of the nature of the act and the circumstances in which it has occurred; and
 - (b) Further information to evaluate the possible effect on the financial statements. (Ref: Para. A14)
19. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. (Ref: Para. A15–A16)
20. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.
21. The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action. (Ref: Para. A17–A18a)

Reporting of Identified or Suspected Non-Compliance

Reporting Non-Compliance to Those Charged with Governance

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

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

25. If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with ISA 705, express a qualified opinion or an adverse opinion on the financial statements.⁶
26. If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit in accordance with ISA 705.
27. If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion in accordance with ISA 705.

Reporting Non-Compliance to Regulatory and Enforcement Authorities

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

⁵ ISA 260, *Communication with Those Charged with Governance*, paragraph 13

⁶ ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7–8

Documentation

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

Application and Other Explanatory Material

Responsibility for Compliance with Laws and Regulations (Ref: Para. 3–8)

- A1. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with laws and regulations. Laws and regulations may affect an entity's financial statements in different ways: for example, most directly, they may affect specific disclosures required of the entity in the financial statements or they may prescribe the applicable financial reporting framework. They may also establish certain legal rights and obligations of the entity, some of which will be recognized in the entity's financial statements. In addition, laws and regulations may impose penalties in cases of non-compliance.

A1a. In some jurisdictions, management and those charged with governance may also have a responsibility to identify and address non-compliance with laws and regulations by the entity or by those charged with governance, management or employees of the entity.

- A2. The following are examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:

- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
- Instituting and operating appropriate systems of internal control.
- Developing, publicizing and following a code of conduct.
- Ensuring employees are properly trained and understand the code of conduct.
- Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
- Engaging legal advisors to assist in monitoring legal requirements.
- Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.

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

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

⁷ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6

Responsibility of the Auditor

- A3. Non-compliance by the entity with laws and regulations may result in a material misstatement of the financial statements. Detection of non-compliance, regardless of materiality, may affect other aspects of the audit including, for example, the auditor's consideration of the integrity of management or employees.
- A4. Whether an act constitutes non-compliance with laws and regulations is a matter for legal determination, which is ordinarily beyond the auditor's professional competence to determine. Nevertheless, the auditor's training, experience and understanding of the entity and its industry or sector may provide a basis to recognize that some acts, coming to the auditor's attention, may constitute non-compliance with laws and regulations.
- A5. In accordance with specific statutory requirements, the auditor may be specifically required to report, as part of the audit of the financial statements, on whether the entity complies with certain provisions of laws or regulations. In these circumstances, ISA 700⁸ or ISA 800⁹ deal with how these audit responsibilities are addressed in the auditor's report. Furthermore, where there are specific statutory reporting requirements, it may be necessary for the audit plan to include appropriate tests for compliance with these provisions of the laws and regulations.

Considerations Specific to Public Sector Entities

- A6. In the public sector, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of financial statements or may extend to other aspects of the entity's operations.

The Auditor's Consideration of Compliance with Laws and Regulations

Obtaining an Understanding of the Legal and Regulatory Framework (Ref: Para. 12)

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

⁸ ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraph 38

⁹ ISA 800 *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 11

evaluating and accounting for litigation claims.

Categories of Laws and Regulations [Note: subsequent heading drops down a level]

A7a. Examples of laws and regulations that may be included in the categories described in paragraph 6 include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

Laws and Regulations Generally Recognized to Have a Direct Effect on the Determination of Material Amounts and Disclosures in the Financial Statements (Ref: Para. 13)

A8. Certain laws and regulations are well-established, known to the entity and within the entity's industry or sector, and relevant to the entity's financial statements (as described in paragraph 6(a)). They could include those that relate to, for example:

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

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

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

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

A9. Certain other laws and regulations may need particular attention by the auditor because they have a fundamental effect on the operations of the entity (as described in paragraph 6(b)). Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may cause

the entity to cease operations, or call into question the entity's continuance as a going concern. For example, non-compliance with the requirements of the entity's license or other entitlement to perform its operations could have such an impact (for example, for a bank, non-compliance with capital or investment requirements). There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.

- A10. As the financial reporting consequences of other laws and regulations can vary depending on the entity's operations, the audit procedures required by paragraph 14 are directed to bringing to the auditor's attention instances of non-compliance with laws and regulations that may have a material effect on the financial statements.

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

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

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

Written Representations (Ref: Para. 16)

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

Absence of Identified or Suspected Non-Compliance (Ref: Para. 17)

- A12a. If the auditor is otherwise aware of non-compliance with laws or regulations (for example, matters that the auditor is required to address under relevant ethical requirements, including those related to laws and regulations not described in paragraph 6), such non-compliance is relevant to the auditor's responsibilities in accordance with paragraphs 18–21. For example, such non-compliance may cause the auditor to evaluate the integrity of management and, where appropriate, those charged with governance, even if the non-compliance does not have a material effect on the financial statements.

¹⁰ ISA 580, *Written Representations*, paragraph 4

Audit Procedures When Non-Compliance is Identified or Suspected

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

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

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

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

A14. Matters relevant to the auditor's evaluation of the possible effect on the financial statements include:

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

Audit Procedures (Ref: Para. 19)

A15. The auditor may discuss the findings with those charged with governance where they may be able to provide additional audit evidence. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to transactions or events that have led to the possibility of non-compliance with laws and regulations.

A16. If management or, as appropriate, those charged with governance do not provide sufficient information to the auditor that the entity is in fact in compliance with laws and regulations, the auditor

may consider it appropriate to consult with the entity's in-house legal counsel or external legal counsel about the application of the laws and regulations to the circumstances, including the possibility of fraud, and the possible effects on the financial statements. If it is not considered appropriate to consult with the entity's legal counsel or if the auditor is not satisfied with the legal counsel's opinion, the auditor may consider it appropriate to consult the auditor's own legal counsel as to whether a contravention of a law or regulation is involved, the possible legal consequences, including the possibility of fraud, and what further action, if any, the auditor would take.

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

- A17. As required by paragraph 21, the auditor evaluates the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations. The implications of particular instances of non-compliance identified by the auditor will depend on the relationship of the perpetration and concealment, if any, of the act to specific control activities and the level of management or employees involved, especially implications arising from the involvement of the highest authority within the entity. As noted in paragraph 8a, the auditor's compliance with relevant ethical requirements may provide further information that is relevant to the auditor's responsibilities in accordance with paragraph 21.
- A18. In exceptional cases, the auditor may consider whether withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, is necessary when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances, even when the non-compliance is not material to the financial statements. When deciding whether withdrawal from the engagement is necessary, the auditor may consider seeking legal advice. If withdrawal from the engagement is not possible, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter paragraph in the auditor's report.¹¹
- A18a. Examples of circumstances that may cause the auditor to evaluate the reliability of written representations received from management and, where applicable, those charged with governance include when:
- The auditor suspects or has evidence of their involvement or intended involvement in any non-compliance.
 - The auditor is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized reporting of, the matter to an appropriate authority within a reasonable period.

Reporting of Identified or Suspected Non-Compliance

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

- A19. ~~The auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. However, in determining whether the auditor has a responsibility to report the identified or~~

¹¹ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8

suspected non-compliance to parties outside the entity, the auditor may consider it appropriate to obtain legal advice to determine the appropriate course of action, since:

- The auditor's legal responsibilities vary by jurisdiction and, in certain circumstances, the duty of confidentiality may not apply or may be overridden by statute, the law or courts of law law or regulation. In some jurisdictions, the auditor of a financial institution has a statutory duty to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities. Also, in some jurisdictions, the auditor has a duty to report misstatements to authorities in those cases where management and, where applicable, those charged with governance fail to take corrective action. The auditor may consider whether withdrawal from the engagement is necessary, when withdrawal is possible under applicable law or regulation. The auditor may consider it appropriate to obtain legal advice to determine the appropriate course of action. In some jurisdictions, law or regulation may prohibit alerting ("tipping-off") the entity when, for example, the auditor is required to report the non-compliance to an appropriate authority pursuant to anti-money laundering legislation.
- Under some relevant ethical requirements, the auditor may have the right, in certain circumstances, to disclose identified or suspected non-compliance with laws or regulations to an appropriate authority without breaching the duty of confidentiality.¹² Under other relevant ethical requirements, the auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity.

Considerations Specific to Public Sector Entities

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

Documentation (Ref: Para. 29)

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

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

¹² See, for example, Section 225.30 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code).

Other International Standards

[Note to IAASB: In this section, only extracts from the International Standards and the proposed amendments are shown. Other paragraphs remain unchanged, other than renumbering as appropriate.]

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

[Note: This paragraph is unchanged.]

Confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation

46. The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. (Ref: Para. A56–A59)

Application and Other Explanatory Material

A56. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional right or duty to do so. Under some relevant ethical requirements, the firm's personnel may have the right, in certain circumstances, to disclose identified or suspected non-compliance with law or regulation to an appropriate authority without breaching the duty of confidentiality.¹³ Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

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

[Note: This paragraph is unchanged.]

Acceptance and Continuance of Client Relationships and Audit Engagements

12. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A8–A9)

Application and Other Explanatory Material

A8a. Law, regulation, or relevant ethical requirements may require the proposed auditor to communicate, prior to accepting the engagement, with the predecessor auditor regarding any facts or circumstances that, in the predecessor auditor's judgment, the auditor needs to be aware of before deciding whether to accept the engagement.

¹³ See, for example, Section 225.30 of the IESBA Code.

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

Introduction

Responsibility for the Prevention and Detection of Fraud

Responsibilities of the Auditor

8a. The auditor may have responsibilities under relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including fraud. Complying with those additional responsibilities may provide further information relating to the entity's compliance with laws and regulations, which is relevant to the auditor's work in accordance with this and other ISAs (for example, regarding management's integrity).

Requirements

Communications to Regulatory and Enforcement Authorities

43. If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the ~~auditor's professional duty~~ relevant ethical requirements regarding ~~to maintaining~~ the confidentiality of client information may preclude such reporting, the auditor's legal or professional responsibilities may override the duty of confidentiality or may include a right or duty to report to an appropriate authority in some circumstances. (Ref: Para. A65–A67)

Application and Other Explanatory Material

Communications to Regulatory and Enforcement Authorities (Ref: Para. 43)

A65. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting fraud to a party outside the client entity. However, the auditor's legal responsibilities vary by country and, in certain circumstances, the duty of confidentiality may be overridden by ~~statute, the law or courts of law~~ law or regulation. In some countries, the auditor of a financial institution has a statutory duty to report the occurrence of fraud to supervisory authorities. Also, in some countries the auditor has a duty to report misstatements to authorities in those cases where management and those charged with governance fail to take corrective action. In some jurisdictions, law or regulation may prohibit alerting ("tipping-off") the entity when, for example, the auditor is required to report the non-compliance to an appropriate authority pursuant to anti-money laundering legislation. Under some relevant ethical requirements, the auditor may have the right, in certain circumstances, to disclose identified or suspected non-compliance with law or regulation to an appropriate authority without breaching the duty of confidentiality.¹⁴

¹⁴ See, for example, Section 225.30 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code)

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

Introduction

The Role of Communication

7. Law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting ("tipping-off") the entity when, for example, the auditor is required to report the non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the auditor may consider obtaining legal advice.

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

Requirements

[Note: This paragraph is unchanged.]

Communication and Correction of Misstatements

8. The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation.³ The auditor shall request management to correct those misstatements. (Ref: Para. A7–A9)

Application and Other Explanatory Material

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

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

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

[Note: This paragraph is unchanged.]

Performing the Engagement

Designing and Performing Procedures

Fraud and non-compliance with laws or regulations

52. When there is an indication that fraud or non-compliance with laws or regulations, or suspected fraud or non-compliance with laws or regulations, has occurred in the entity, the practitioner shall:
- (a) Communicate that matter to the appropriate level of senior management or those charged with governance as appropriate;
 - (b) Request management's assessment of the effect(s), if any, on the financial statements;
 - (c) Consider the effect, if any, of management's assessment of the effects of fraud or non-compliance with laws or regulations communicated to the practitioner on the practitioner's conclusion on the financial statements and on the practitioner's report; and
 - (d) Determine whether there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity. (Ref: Para. A92)

Application and Other Explanatory Material

Performing the Engagement

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

Procedures to Address Specific Circumstances

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

A92. Under this ISRE, if the practitioner has identified or suspects fraud or illegal acts, the practitioner is required to determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. The auditor's ethical, legal, and regulatory responsibilities vary by jurisdiction and, in certain circumstances, the duty of confidentiality may be overridden by law or regulation. Under some relevant ethical requirements, the auditor may have the right, in certain circumstances, to disclose identified or suspected non-compliance with law or regulation to an appropriate authority without breaching the duty of confidentiality.¹⁵ Under other relevant ethical requirements, the auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. Although the practitioner's professional duty to maintain the confidentiality of client information may preclude such reporting, the practitioner's legal responsibilities may override the duty of confidentiality in some circumstances.

¹⁵ See, for example, Section 225.30 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code)

ISAE 3402, Assurance Reports on Controls at a Service Organization

Requirements

[Note: This paragraph is unchanged.]

Other Communication Responsibilities

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

Application and Other Explanatory Material

Other Communication Responsibilities (Ref: Para. 56)

A53. Appropriate actions to respond to the circumstances identified in paragraph 56 may include:

- Obtaining legal advice about the consequences of different courses of action.
- Communicating with those charged with governance of the service organization.
- Communicating with third parties (for example, a regulator) when required or permitted to do so.
- Modifying the service auditor's opinion, or adding an Other Matter paragraph.
- Withdrawing from the engagement.

Meeting: IAASB
Meeting Location: New York, USA
Meeting Dates: June 15–19, 2015

Agenda Item

2

Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations (NOCLAR)

Objectives of Agenda Item

1. The objectives of the IAASB discussion at its June 2015 meeting are to:
 - (a) Approve a project proposal on amendments to International Standards in response to the International Ethics Standards Board for Accountants' (IESBA) project on NOCLAR.
 - (b) Approve the proposed amendments to the International Standards for exposure and agree an appropriate exposure period.

Working Group

2. The Working Group comprises:
 - Brendan Murtagh, Chair, IAASB Member;
 - Jean Blascos, IAASB Member;
 - Marek Grabowski, IAASB Member; and
 - Chuck Landes, IAASB Deputy Chair.

Activities since Last IAASB Discussion

3. Since the March 2015 IAASB meeting, the Task Force has met via teleconference three times, and physically in May 2015 to develop the project proposal and proposed Exposure Draft (ED).

Action Requested

4. The IAASB is asked to consider the issues and the proposals presented in Agenda Item 2-A. Agenda Items 2-D, 2-E and 2-F have been provided as supporting material to highlight key elements of the comparison of the IESBA's NOCLAR ED against the IAASB's International Standards.

Material Presented

Agenda Item 2-A	Issues and Working Group Recommendations
Agenda Item 2-B	Project Proposal – Limited Amendments in Response to the IESBA's Project Regarding Responding to Non-Compliance with Laws and Regulations
Agenda Item 2-C	Proposed ED

IESBA – NOCLAR (Cover)
IAASB Main Agenda (June 2015)

Agenda Item 2-D	Category 1 Items: IESBA NOCLAR Exposure Draft vs. the IAASB's International Standards
Agenda Item 2-E	Category 2 Items: IESBA NOCLAR Exposure Draft vs. the IAASB's International Standards
Agenda Item 2-F	Category 3 Items
Agenda Item 2-G	IESBA NOCLAR ED – For Information Only

Data Analytics Working Group Update

Bob Dohrer, IAASB Member and Working
Group Chair

IAASB Meeting
June 2015
Agenda Item 3-A

Audit Data Analytics Agenda

- Current Landscape
- What Is It?
- Audit Data Analytics and the ISAs
- The Key Areas
- Benefits to Audit Quality
- Challenges to Adoption and Implementation
- Working Group Planned Outreach
- Concluding Thought

Audit Data Analytics – Current Landscape

- Data is an ever increasing aspect of today's world
- Audit Data Analytics is a topic of great interest to many, including:
 - Audit Standard Setters
 - Academia
 - Companies
 - Practitioners
 - Regulators
- Technology in the audit to date – incremental changes versus audit transformation

Audit Data Analytics – What Is It?

Audit Relevant Data

“Audit Data Analytics (ADA) is the science and art of discovering and analyzing patterns, identifying anomalies, and extracting other useful information in the data underlying or related to the subject matter of an audit through analysis, modeling and visualization for the purpose of planning or performing the audit.”

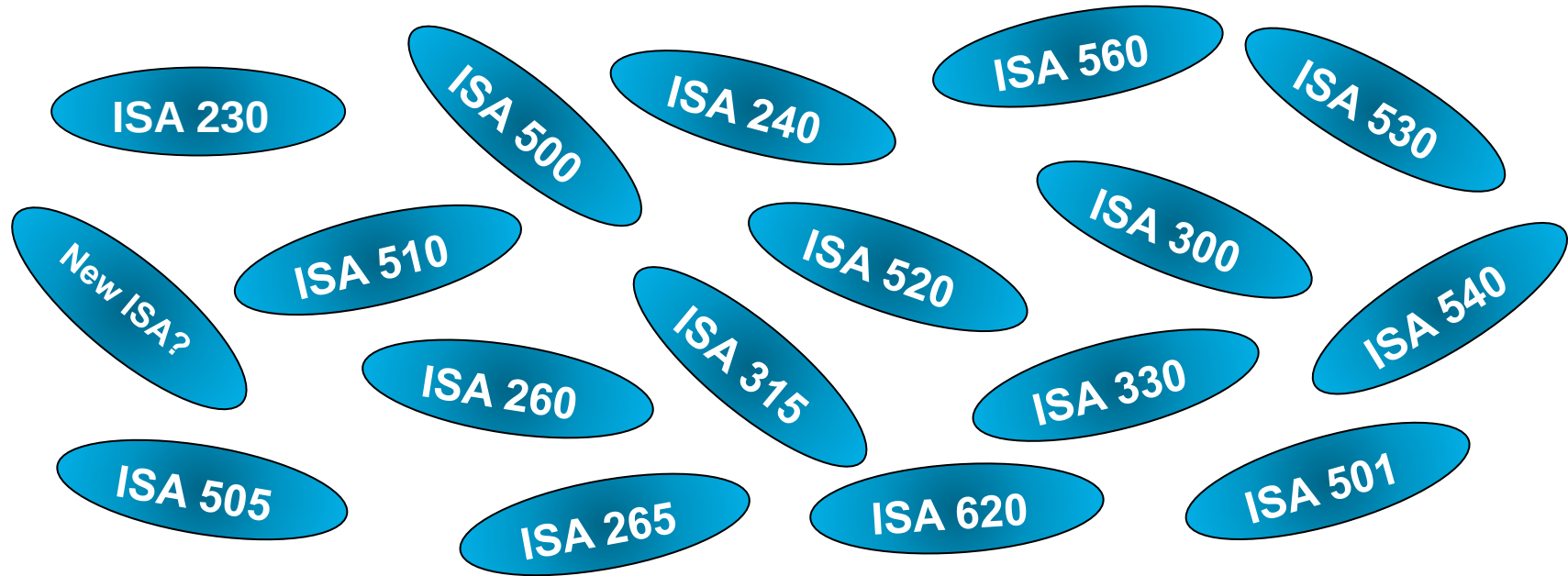
[AICPA White Paper – Reimagining Auditing in a Wired World \(August 2014\)](#)

Audit Data Analytics and the ISAs

External audits being performed in the digital age

- Different views on whether ISAs are fit for Audit Data Analytics:
 - Are ISAs prohibitive?
 - Are they agnostic?
- And should they:
 - Be more encouraging – perhaps through guidance?
 - Require use of Audit Data Analytics in the audit?

Audit Data Analytics and the ISAs – Possible ISAs Impacted

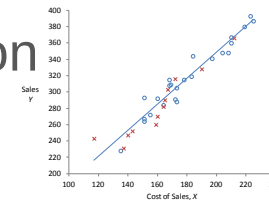
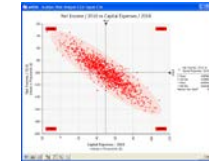


Audit Data Analytics – The Key Areas

- Auditing Standards
 - Analytical and risk assessment procedures standards
 - Defining what constitutes audit evidence (electronic audit evidence)
 - Quantifying audit evidence: whole populations versus sampling
 - Data validation (completeness and accuracy)
 - Controls over information technology (e.g., change management, managing access processes)
 - Documentation requirements
 - Controls testing – nature and relevance

Audit Data Analytics – The Key Areas (continued)

- Audit Data Standards
- Data Access / Capture
 - Access to company's data (data security)
- Data Analysis
 - Visual exploratory techniques (e.g., Scatterplots, heatmaps, relationship maps)
 - Confirmatory (mathematical and analytical) techniques (e.g., regression analysis, extraction and summarization of data)



Audit Data Analytics – Benefits to Audit Quality

Improved coverage

- Analyzing larger populations
- More focused selection for testing

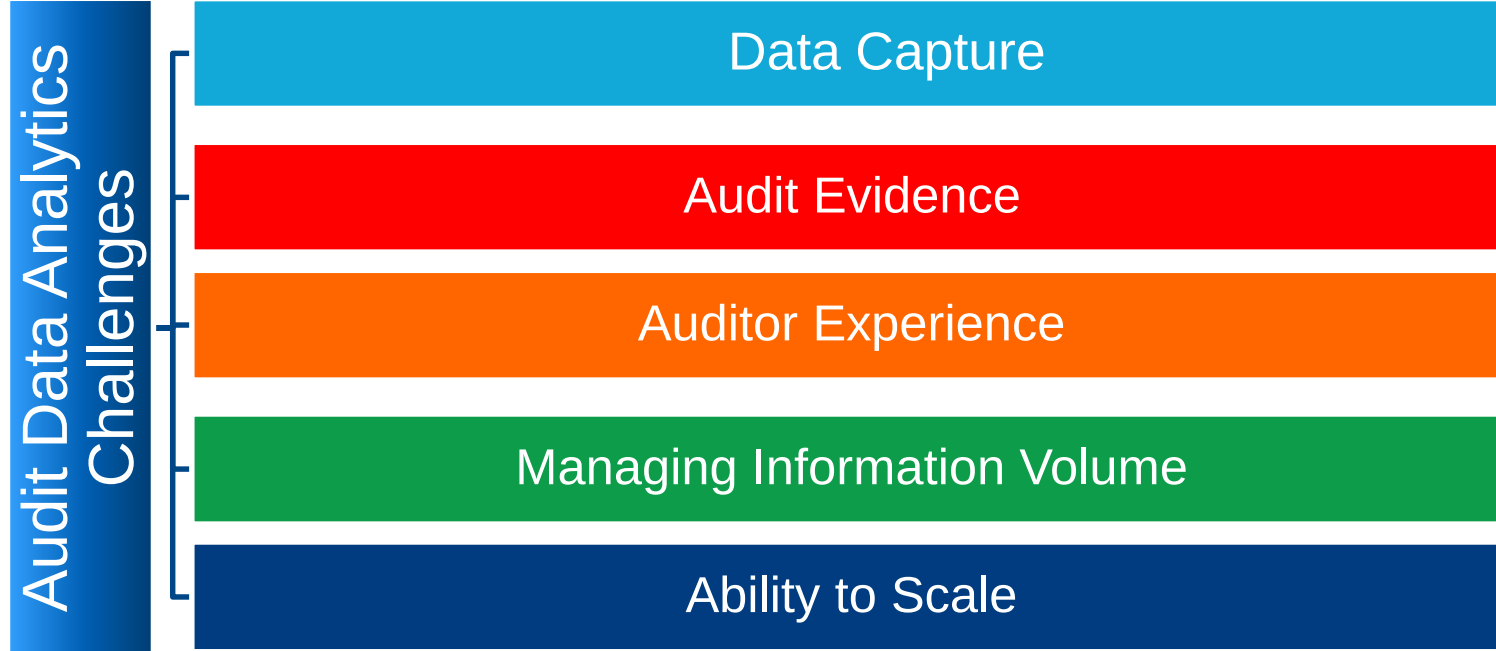
Enhanced Risk Focus and Insight

- Enabling top-down, risk based approach
- Better understanding of entity and its environment leading to enhanced risk assessment

Support professional skepticism

- Assess management's representations by analysis of financial transactions
- Opportunities for more fraud detection techniques?

Audit Data Analytics – Challenges to Adoption and Implementation



Working Group Planned Outreach

- Audit Firms – understand methodology developed
- National Standard Setters
- IFAC Member Bodies and Other Professional Organizations
- Academia, including Rutgers Business School – Continuous Auditing and Reporting Lab
- Financial reporting systems: ERP vendors and Audit and Risk Management Software vendors

Working Group Planned Outreach (continued)

- Those Charged with Governance
- COSO
- Internal Auditors
- ISO Technical Advisory Group
- Regulators (e.g., IFIAR and Securities and Exchange Commission)
- Taxing Authorities

Concluding Thought

“In medicine, physicians are expected to use better technologies as they come along if they significantly improve patient outcomes at reasonable cost. In auditing, professional standards should encourage auditors to consider and use technologies that increase assurance beyond the minimum required where economically feasible. Professional standards need to be technology agnostic, but that does not mean that they should not encourage auditors to make the best use of technology to perform the best possible economically viable audits.”

[AICPA White Paper – Reimagining Auditing in a Wired World \(August 2014\)](#)



www.iaasb.org

Meeting: IAASB
Meeting Location: New York
Meeting Dates: June 15–19, 2015

Agenda Item 3

Data Analytics Working Group

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - a) Inform the IAASB of the Data Analytics Working Group's ("Data Analytics WG's" or "the WG's") activity since its inception in early 2015;¹ and
 - b) Provide the IAASB with the WG's views of audit data analytics and obtain the IAASB's feedback on those views.

Data Analytics Working Group

2. The WG is comprised of the following members:
 - Bob Dohrer, IAASB Member and chair of the Data Analytics WG
 - Fiona Campbell, IAASB Member
 - Sue Almond, IAASB Technical Advisor
 - Peter Eimers, National Auditing Standard Setter (Netherlands) Representative
 - Alan Young, (Partner, Ernst and Young, United Kingdom)

Background

3. The Data Analytics WG has the remit to monitor and gather information on the various applications of data analytics and the relationship to the audit, such as the effect on risk assessments, testing approaches, analytical procedures and other audit evidence. The WG will make recommendations to the IAASB, including whether there is a need for a standard-setting response, based on the outcome of these monitoring and information gathering activities.
4. The relevance of developments in information technology (IT), including data analytics, to international standard setting has been addressed by the IAASB's stakeholders via different avenues,

¹ At its April 2013 meeting, the IAASB approved the [Terms of Reference](#) of the Innovation Working Group (previously the Innovation, Needs and Future Opportunities Working Group). The Innovation Working Group has the remit to explore emerging developments in the audit, assurance and related services fields for the purpose of assisting the IAASB in identifying opportunities for relevant and effective standard setting, or determining other potential actions, in a timely and informed manner. At its September 2014 meeting, the IAASB agreed, based on the Innovation Working Group's recommendation, to establish the Data Analytics WG.

including in responses to the December 2013 consultation paper on the *IAASB's Proposed Strategy for 2015–2019* and the *IAASB's Proposed Work Program for 2015–2016* (2015–2016 WP).

5. With regard to the 2015–2016 WP in particular, several respondents² mentioned the relevance of developments in IT, such as the use of data analytics, and their effect on the financial statement audit, and how these may affect the International Standards on Auditing (ISAs).
6. Also, responses received from National Audit Standard Setters (NSS) indicated the relevance of IT and, in particular, the enhanced possibilities involving data analytics. A survey was sent to the NSS in advance of the May 2014 meeting, to which a total of 15 responses (out of 17) were received. The survey included a question with regard to the relevance of topics (other than integrated reporting) initially identified by the Innovation Working Group as potential focus areas. Specifically, NSS were asked their views about the relevance of each topic to international standard setting. Together with sustainability reporting, data analytics was perceived as most relevant to international standard setting. Concerns were raised that the current suite of standards does not reflect the effects of developments in IT, in particular with regard to data analytics.

Preparation of the Materials

7. In preparing the materials, the WG has considered previous IAASB discussions on the topic of audit data analytics, input from NSS at the IAASB-NSS Liaison Group meeting in May 2015 and the results of further research and input from the WG members. See **Agenda Item 3-A**.

Activities since Last IAASB Discussion

8. The WG has held one teleconference to develop the material contained in these agenda papers.

Material Presented

Agenda Item 3-A

Presentation – Data Analytics Working Group Update

Matters for IAASB Consideration

The IAASB is asked to consider **Agenda Item 3-A** and related discussion at the IAASB June 2015 meeting and provide views on:

- (a) The WG's overview of audit data analytics as addressed in **Agenda Item 3-A**.
- (b) The groups and organizations with which outreach by the WG is planned and whether there are additional groups or organizations the WG should be considering.
- (c) Any additional matters the WG should be considering with respect to audit data analytics.

² AUASB, CNCC-CSOC, CPAA, EAIG, EYG, FEE, ICAA, KPMG, NBA, PWC, RSM

ISA 810, Engagements to Report on Summary Financial Statements – Issues and Drafting Team Recommendations

Summary of the IAASB's Discussions at Its March 2015 Meeting

The IAASB agreed in principle with Staff's recommendation as set out in Agenda Item 11-A¹ to develop limited conforming amendments to ISA 810 to address issues relating to going concern (GC) and other information (OI).² However, one IAASB member was of the view that taking an approach that involved making a narrow fix to address ISA 810, without addressing the other overarching issues that had been deliberated by the IAASB at previous meetings, may incorrectly implicitly suggest that ISA 810 as a whole is fit for purpose. In light of this view, this member suggested the IAASB might explore whether ISA 810 should be withdrawn, in light of the fact that the standard is not widely used, and even when it is being used, national auditing standard setters (NSS) have had to further tailor the standard in light of the environment in which such engagements are being conducted (e.g., to link to appropriate criteria).

In light of the IAASB's limited resources and other priorities, it was noted that any changes to ISA 810 should be truly conforming in nature at this stage and should not go beyond what was described in *The IAASB's Strategy for 2015–2019* and *The IAASB's Work Plan for 2015–2016*.

The IAASB agreed to seek feedback at its 2015 NSS meeting to confirm its approach, and take steps to emphasize the limited and conforming nature of the changes to ISA 810 when the Exposure Draft (ED) is issued.

IAASB Consultative Advisory Group (CAG) Chairman's Remarks

Ms. de Beer noted that the CAG was generally supportive of the Staff's recommendation to move forward with limited conforming amendments, but cautioned against giving an impression that no other changes to ISA 810 may be necessary. She disagreed with the suggestion made to withdraw ISA 810, noting that it is widely used in certain jurisdictions including South Africa, and that more stakeholder engagement would be needed before taking that decision.

¹ See Agenda Item 11-A, *Staff Review and Recommendations – ISA 810, Engagements to Report on Summary Financial Statements* of the March 2015 IAASB Meeting materials available at: <http://www.ifac.org/auditing-assurance/meetings/brussels-belgium-1>.

² Agenda Item 11-A explained that ISA 570 (Revised), *Going Concern*, and ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, now require separate sections in the auditor's report on the audited financial statements when a material uncertainty (MU) related to GC or a material misstatement of OI exists. Such information was previously required to be addressed in Emphasis of Matter (EOM) and Other Matter (OM) paragraphs, respectively, and, in accordance with paragraph 17 of extant ISA 810, would always be required to be highlighted in the ISA 810 report. Because extant ISA 810 does not refer to these new sections, without amendment to ISA 810 this new information would not be required to be addressed in the ISA 810 auditor's report, therefore resulting in an information gap.

Objectives of the IAASB Discussion

The objectives of the IAASB discussion at its June 2015 meeting are to:

- (a) Consider the Drafting Team's (DT-700's) recommendations for proposed limited conforming amendments to extant ISA 810 to address issues related to GC and OI, based on Staff's Technical Review of extant ISA 810.
- (b) Consider whether it would be appropriate to propose further changes to ISA 810 beyond those included in **Agenda Item 5-B**, taking into account the feedback received from the respondents to the ISA 800³ and ISA 805⁴ ED,⁵ as well as the feedback received from the NSS at the IAASB-NSS Liaison Group meeting in May 2015.
- (c) Subject to the outcome of the Board's considerations of (a) and (b) above, approve the proposed amendments to ISA 810 for exposure and agree to an appropriate exposure period.

Feedback Received to Date

1. At its March 2015 meeting, the CAG agreed with Staff's recommendation to make limited amendments to ISA 810 to address the information gap relating to auditor reporting on a MU related to GC or a material misstatement of OI that will arise when the new and revised Auditor Reporting standards become effective. Some CAG Representatives were of the view that investing additional time on a more fundamental consideration of ISA 810 would not be worthwhile in light of the Board's other priorities. A concern was also raised that criteria for such engagements do not exist on an international basis (e.g., within International Financial Reporting Standards) and, as such, it was acknowledged that NSS may be best placed to make further changes to ISA 810.
2. At its March 2015 meeting, the IAASB also agreed in principle with Staff's recommendation to develop limited conforming amendments, as noted above. The IAASB also suggested that feedback be sought from Forum of Firms (FoF), International Forum for Independent Regulators (IFIAR) and NSS in addition to the feedback from the ISA 800 and ISA 805 ED. Representatives at the April 2015 FoF and IFIAR Standards Coordination Working Group meetings did not raise exceptions to the IAASB's planned approach with respect to ISA 810.
3. The 30 of 43 respondents who responded to the question related to ISA 810 in the ISA 800 and ISA 805 ED expressed mixed views about next steps with respect to ISA 810 as follows:
 - (a) Eight respondents⁶ were of the view that conforming amendments are not needed to ISA 810 at this time. Two⁷ of these eight respondents were of the view that, prior to making any

³ ISA 800, *Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

⁴ ISA 805, *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

⁵ Question 4 of the ISA 800 and ISA 805 ED included a question soliciting views about the IAASB's planned approach with respect to ISA 810. There were 43 comment letters received in response to the ISA 800 and ISA 805 ED, of which 13 of the respondents provided no specific recommendation or provided no response to Question 4.

⁶ NSS: NBA, NZAuASB; *Accounting Firms*: BDO, DTT, KPMG, MNP; *Member Bodies and Other Professional Organizations*: AIA, ISCA

⁷ *Accounting Firms*: BDO, DTT

conforming amendments to extant ISA 810 to address the impact of the new and revised Auditor Reporting Standards, a more comprehensive revision of extant ISA 810 should be carried out to address what those two respondents viewed as fundamental issues with extant ISA 810.

- (b) Eight respondents⁸ expressed support for proposing limited conforming amendments to ISA 810 to address auditor reporting issues relating to MU related to GC or material misstatement of OI only.
- (c) Fourteen respondents⁹ were of the view that ISA 810 should be fully updated to align with the new and revised Auditor Reporting standards. This included respondents from four jurisdictions – South Africa, Canada, Malaysia and Hong Kong – where ISA 810 is currently used. Other respondents, in particular those from Australia and Europe, noted that the conforming amendments to align the ISAs were needed as a matter of principle to ensure consistency with the new and revised Auditor Reporting standards.

NSS raised views similar to those raised in the feedback from the ISA 800 and ISA 805 ED in responding to a request for input in advance of the May 2015 meeting.

- 4. In addition, some of those respondents described in paragraph 3(b) and 3(c), as well as some NSS at the May 2015 meeting, were of the view that there are more fundamental issues in ISA 810 (e.g., a lack of suitable accounting and financial reporting criteria at the international level for the preparation of summary financial statements) and that they should be addressed as part of a separate project with a different timeline.

DT-700 Recommendations

Proposed Conforming Amendments to Address GC, OI and Key Audit Matters (KAM) Section

- 5. DT-700 considered the feedback received and is of the view that, at a minimum, limited amendments to ISA 810 are necessary to address the information gap relating to auditor reporting on a MU related to GC or a material misstatement of OI that will arise when the new and revised Auditor Reporting standards become effective.
- 6. Taking into account the feedback from the respondents to the ISA 800 and ISA 805 ED and the intent of the enhancements to the Auditor Reporting standards, DT-700 recommends that further changes be proposed to ISA 810 as follows:
 - (a) Deleting the phrase “An introductory paragraph that:” in the requirements in paragraph 14(c) relating to the elements of an ISA 810 auditor’s report, thereby allowing auditors the option to position the auditor’s opinion first, which is consistent with ISA 700 (Revised).¹⁰

⁸ NSS: ASB (GC only), CAASB, IDW, JICPA (GC only); *Accounting Firms*: EYG, GTI, PWC; *Member Bodies and Other Professional Organizations*: SMPC

⁹ *Regulators and Oversight Authorities*: IRBA, MAOB, PAAB; NSS: AUASB, HKICPA, MAASB, ZAPB; *Accounting Firms*: RSM; *Member Bodies and Other Professional Organizations*: CAANZ, FEE, ICAEW, KICPA, MICPA, SAICA

¹⁰ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

- (b) A new requirement, when applicable, for the auditor's report on the summary financial statements to refer to the existence of a KAM section in the auditor's report on the audited financial statements.
 - (c) Re-ordering of the sections within the illustrations in ISA 810 to align them to the preferred presentation of the auditor's report in ISA 700 (Revised).
7. In developing the proposed changes set out below, DT-700 considered and took into account its initial proposals that were considered by the IAASB at its September 2014 meeting. The proposed changes to paragraph 17 of ISA 810 relating to including a reference to the auditor's report on the audited financial statements are also consistent with the approach taken in ISA 805 when a reference to the auditor's report on the complete set of financial statements is included in the auditor's report on the single financial statement or element.

Proposed Amendment to ISA 810–Requirements

Elements of the Auditor's Report

14. The auditor's report on summary financial statements shall include the following elements: (Ref: Para. A16~~5~~)

...

~~(c)~~—An introductory paragraph that:

~~(c)(i)~~ ~~Identifies~~Identification of the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements; (Ref: Para. A13)

~~(d)(ii)~~ ~~Identifies~~Identification of the audited financial statements; ~~;~~

~~(e)(iii)~~ ~~Refers~~Reference to the auditor's report on the audited financial statements, the date of that report, and, subject to paragraphs 17–18, the fact that an unmodified opinion is expressed on the audited financial statements; ~~;~~

~~(f)(iv)~~ If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, ~~states~~a statement that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements; ~~and~~

~~(g)(v)~~ A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.

~~(h)(d)~~ A description of management's¹¹ responsibility for the summary financial statements, explaining that management¹² is responsible for the preparation of the summary financial statements in accordance with the applied criteria.

¹¹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

¹² Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

- ~~(i)(e)~~ A statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by this ISA.
- ~~(j)(f)~~ A paragraph clearly expressing an opinion (see paragraphs 9–11).
- ~~(k)(g)~~ The auditor's signature.
- ~~(l)(h)~~ The date of the auditor's report. (Ref: Para. A14)
- ~~(m)(i)~~ The auditor's address.

...

~~Modifications to the Opinion, Emphasis of Matter Paragraph, or Other Matter Paragraph in Reference to the Auditor's Report on the Audited Financial Statements~~ (Ref: Para. A16~~5~~)

17. When the auditor's report on the audited financial statements contains:

- ~~(a)~~ A qualified opinion in accordance with ISA 705 (Revised);¹³
- ~~(b)~~ An Emphasis of Matter paragraph, or an Other Matter paragraph in accordance with ISA 706 (Revised);¹⁴
- ~~(c)~~ A Material Uncertainty Related to Going Concern section in accordance with ISA 570 (Revised);¹⁵
- ~~(d)~~ Communication of key audit matters in accordance with ISA 701;¹⁶ or
- ~~(e)~~ A statement that describes an uncorrected material misstatement of the other information in accordance with ISA 720 (Revised).¹⁷

but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 14:

- ~~(i)(a)~~ State that the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, ~~or~~ an Other Matter paragraph, a Material Uncertainty Related to Going Concern section, a Key Audit Matters section or a statement that describes an uncorrected material misstatement of the other information; and
- ~~(ii)(b)~~ Describe: (Ref: Para. A15)
 - ~~a.(i)~~ The basis for the qualified opinion on the audited financial statements, the basis thereof and the effect thereof, if any, on the summary financial statements ~~and that qualified opinion; or the Emphasis of Matter or the Other Matter paragraph in the auditor's report on the audited financial statements; and~~
 - ~~b.(ii)~~ The Emphasis of Matter paragraph, the Other Matter paragraph, the material uncertainty related to going concern, or the uncorrected material misstatement

¹³ ISA 705 (Revised), *Modifications to Opinion in Independent Auditor's Report*

¹⁴ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

¹⁵ ISA 570 (Revised), *Going Concern*, paragraph 22

¹⁶ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

¹⁷ ISA 720 (Revised), *The Auditor's Responsibilities Related to Other Information*, paragraph 22(e)(ii)

of the other information in the auditor's report on the audited financial statements and the effect thereof, if any, on the summary financial statements, if any.

Proposed Amendment to ISA 810 – Application and Other Explanatory Material

Introductory Paragraph Identification of the Summary Financial Statements (Ref: Para. 14(c)(4))

A13. When the auditor is aware that the summary financial statements will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers to identify the summary financial statements to which the auditor's report relates.

Date of the Auditor's Report (Ref: Para. 14(h), 16)

A14. The person or persons with recognized authority to conclude that the summary financial statements have been prepared and take responsibility for them depend on the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Reference to the Auditor's Report on the Audited Financial Statements (Ref: Para. 17(ii))

A15. Paragraph 17 of this ISA requires the auditor's report on the summary financial statements to include a reference to the existence of a Key Audit Matters section in the auditor's report on the audited financial statements, when applicable. The auditor is not required to describe the individual key audit matters in the auditor's report on the summary financial statements.

Reordering the Illustrations in ISA 810

8. Taking into account suggestions by those respondents to the ISA 800 and ISA 805 ED who supported conforming amendments to ISA 810 as a result of the new and revised Auditor Reporting standards, DT-700 is of the view that, as a matter of principle, the ISA 810 illustrative auditor's reports should align to the preferred presentation in ISA 700 (Revised) as illustrated in **Agenda Item 5-B**. However, DT-700 agreed that this would be done strictly for illustrative purposes and that:
 - (a) New requirements relating to the elements of an ISA 810 auditor's report were unnecessary. Therefore, there would be no change to ISA 810 to:
 - (i) Require the Opinion section to be positioned first.
 - (ii) Require a Basis for Opinion section that includes a statement about independence and other relevant ethical responsibilities.
 - (iii) Require the name of the engagement partner to be included for engagements to report on summary financial statements of listed entities.
 - (b) The names of titles of the headings of the sections in the ISA 810 illustrative reports would remain unchanged, except for the addition of a new (optional) heading "The Audited Financial Statements and Our Report Thereon" as illustrated in **Agenda Item 5-B**.
 - (c) The ordering of the requirements of the elements to be included in the ISA 810 auditor's report (i.e., paragraph 14) would remain unchanged and would not align to the ordering of the sections in the illustrative auditor's reports.

9. Proposed amendments to Illustration 1 in **Agenda Item 5-B** include example wording for how a reference to the existence of a MU related to GC and KAM in the auditor's report on the audited financial statements may be accomplished in the auditor's report on the summary financial statements. Specific to KAM, given that it is a relatively new concept, DT-700 believed that users of the ISA 810 auditor's report may also benefit from having some context about KAM, rather than a simple reference. Accordingly, though not required, Illustration 1 includes a description of the definition of KAM that would appear in the introductory language in the KAM section of the auditor's report on the audited financial statements as follows: "Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period."

In recommending these changes to the illustrations in ISA 810, DT-700 acknowledges that, although the revised presentation of the illustrative auditor's reports in ISA 810 would not be required, it may provide useful guidance to auditors, and would proactively address expectations of having them in the ISA 810 ED.

ISA 810 Auditor's Report and ISA 720 (Revised)

10. As a result of a conforming amendment to ISA 720 (Revised), changes were made to the existing requirement in ISA 810 that requires the auditor to "read the other information included in a document containing the summary financial statements and related auditor's report to consider whether there is a material inconsistency between the other information and the summary financial statements. If the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If the auditor becomes aware that the other information needs to be revised, the auditor shall discuss the matter with management."¹⁸
11. The application material to this requirement further notes that ISA 720 (Revised) contains requirements and guidance regarding the auditor's responsibilities relating to other information in a financial statement audit engagement. This guidance further explains that, "adapted as necessary in the circumstances...", these requirements and guidance may be helpful in applying the requirement in paragraph 24 of ISA 810. Importantly, the auditor is not required to describe the summary other information or the auditor's work thereon, or any uncorrected material misstatement of the summary other information in the ISA 810 report.
12. DT-700 is of the view that no further changes are needed in ISA 810 to address auditor reporting about other information (ISA 720 (Revised)).

Reference to the Auditor's Report on the Audited Financial Statements

13. Paragraph 14(c)(v) of extant ISA 810 requires the auditor to include the following in the ISA 810 report:

A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.

¹⁸ See final pronouncement of ISA 720 (Revised) dated April 2015, page 100.

14. At its September 2014 meeting, the IAASB considered whether the above statement could be expanded to state that, "...reading the summary financial statements and the auditor's report thereon is not a substitute for reading the audited financial statements and the auditor's report thereon." At that time, there was a view that requiring this expanded statement could be a useful way to signal and encourage readers of the ISA 810 report to read the report on the audited financial statements, thereby benefitting from the enhancements that would be included in the auditor's report on the audited financial statements (in particular, the communication of KAM).
15. In light of its recommendations to make limited amendments to ISA 810 as discussed above, DT-700 does not believe that requiring such a statement would be necessary. This is particularly because the recommended revisions to paragraph 17 of ISA 810 would already require the ISA 810 auditor's report to include communications of any "signals" (i.e., an EOM paragraph, an OM paragraph, a MU related to GC section, a statement describing an uncorrected material misstatement in the OI and a KAM section) that may be included in the auditor's report on the audited financial statements.
16. In the case when summary financial statements are prepared for an entity and KAM are communicated in the auditor's report on the audited financial statements, DT-700 is of the view that it would be helpful to highlight the existence of that communication in the ISA 810 report (see DT-700's recommendation to revise paragraph 17 in paragraph 7 above).

Exposure Period and Effective Date for Amendments to ISA 810

17. Due to their limited nature, DT-700 proposes that these amendments be exposed for a period of 90 days, to be issued as soon after the June 2015 IAASB meeting as practicable. This would allow for the IAASB to work towards finalization of the amendments in December 2015, so that they could become effective at the same time as the other new and revised Auditor Reporting standards (i.e., for audits of financial statements for periods ending on or after December 15, 2016).

Approach for More Fundamental Issues with ISA 810

18. The ISA 800 and ISA 805 ED noted that the IAASB agreed to further explore at a future date, possibly as part of developing its *Work Plan for 2017–2018*, whether a more holistic approach to revising extant ISA 810 may be necessary. Because of the limited use of ISA 810 in practice and the feedback that it is often tailored at the national level to take into account the applicable criteria and users of such reports, DT-700 continues to believe that the IAASB's planned approach to defer investing significant resources in a more fundamental consideration of ISA 810, including whether it is "fit for purpose", at this time is appropriate.
19. However, it may be useful for the Explanatory Memorandum (EM) to the ED of the proposed amendments to ISA 810 to explain the use of ISA 810 in practice as the IAASB understands it. In explaining the limited nature of the proposed changes and the IAASB's rationale for the scope of these changes, the EM could also ask respondents to provide more specific views if they believe that there are areas within ISA 810 that may warrant further attention in a future IAASB work plan and, if so, why, or if they believe that no standard such as ISA 810 is required at an international level and why. DT-700 is of the view that this information would be helpful for the IAASB in developing its consultations on its future Work Plans and assessing the relative priority of any possible additional efforts relating to ISA 810 against other priorities.

20. The post-implementation review of the new and revised Auditor Reporting standards will also afford the IAASB a further opportunity to understand from investors and others whether more widespread application of enhancements to the auditor's report are needed, including in relation to ISA 810 reports. This review is planned for two years after the new and revised Auditor Reporting standards become effective.

Matters for IAASB Consideration

The IAASB is asked for their views on DT-700 recommendations set out above, including:

1. The proposed limited amendment to extant ISA 810 to address GC and OI, and the manner in which reference to a KAM section in the auditor's report on the audited financial statements is proposed to be addressed.
2. Whether it would be appropriate to propose further changes to ISA 810 beyond those included in **Agenda Item 5-B**, taking into account the feedback from the respondents to the ISA 800 and ISA 805 ED as well as the feedback received from the NSS at the IAASB-NSS Liaison Group meeting in May 2015.
3. The appropriate exposure period for the conforming amendments to ISA 810.
4. Whether the EM to the ED of the proposed amendments to ISA 810 should seek views about areas within ISA 810 that may warrant further attention in a future IAASB work plan.

PROPOSED LIMITED CONFORMING AMENDMENTS TO **INTERNATIONAL STANDARD ON AUDITING 810** **ENGAGEMENTS TO REPORT ON SUMMARY** **FINANCIAL STATEMENTS**

(Effective for engagements for periods
~~ending beginning~~ on or after December 15, ~~2016~~2009)

CONTENTS

[Marked from Extant]

	Paragraph
Introduction	
Scope of this ISA	1
Effective Date	2
Objectives	3
Definitions	4
Requirements	
Engagement Acceptance	5–7
Nature of Procedures	8
Form of Opinion	9–11
Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements	12–13
Auditor's Report on Summary Financial Statements	14–19
Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting	20
Comparatives	21–22
Unaudited Supplementary Information Presented with Summary Financial Statements	23
Other Information in Documents Containing Summary Financial Statements	24
Auditor Association	25–26
Application and Other Explanatory Material	
Engagement Acceptance	A1–A7
Evaluating the Availability of the Audited Financial Statements	A8
Form of Opinion	A9
Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements	A10

Auditor's Report on Summary Financial Statements	A11–A165
Comparatives	A176–A187
Unaudited Supplementary Information Presented with Summary Financial Statements	A198
Other Information in Documents Containing Summary Financial Statements	A2019
Auditor Association	A210
Appendix: Illustrations of Reports on Summary Financial Statements	

Proposed International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs by that same auditor.

Effective Date

2. This ISA is effective for engagements for periods ~~ending~~^{beginning} on or after December 15, ~~2016~~²⁰⁰⁹.

Objectives

3. The objectives of the auditor are:
 - (a) To determine whether it is appropriate to accept the engagement to report on summary financial statements; and
 - (b) If engaged to report on summary financial statements:
 - (i) To form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and
 - (ii) To express clearly that opinion through a written report that also describes the basis for that opinion.

Definitions

4. For purposes of this ISA, the following terms have the meanings attributed below:
 - (a) Applied criteria – The criteria applied by management in the preparation of the summary financial statements.
 - (b) Audited financial statements – Financial statements¹ audited by the auditor in accordance with ISAs, and from which the summary financial statements are derived.
 - (c) Summary financial statements – Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time.² Different jurisdictions may use different terminology to describe such historical financial information.

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(f), defines the term "financial statements."

² ISA 200, paragraph 13(f)

Requirements

Engagement Acceptance

5. The auditor shall accept an engagement to report on summary financial statements in accordance with this ISA only when the auditor has been engaged to conduct an audit in accordance with ISAs of the financial statements from which the summary financial statements are derived. (Ref: Para. A1)
6. Before accepting an engagement to report on summary financial statements, the auditor shall: (Ref: Para. A2)
 - (a) Determine whether the applied criteria are acceptable; (Ref: Para. A3–A7)
 - (b) Obtain the agreement of management that it acknowledges and understands its responsibility:
 - (i) For the preparation of the summary financial statements in accordance with the applied criteria;
 - (ii) To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements); and
 - (iii) To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them.
 - (c) Agree with management the form of opinion to be expressed on the summary financial statements (see paragraphs 9–11).
7. If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management set out in paragraph 6(b), the auditor shall not accept the engagement to report on the summary financial statements, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this ISA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this ISA. The auditor shall include appropriate reference to this fact in the terms of the engagement. The auditor shall also determine the effect that this may have on the engagement to audit the financial statements from which the summary financial statements are derived.

Nature of Procedures

8. The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:
 - (a) Evaluate whether the summary financial statements adequately disclose their summarized nature and identify the audited financial statements.

- (b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
 - (i) From whom or where the audited financial statements are available; or
 - (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
- (c) Evaluate whether the summary financial statements adequately disclose the applied criteria.
- (d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be recalculated from the related information in the audited financial statements.
- (e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
- (f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
- (g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements. (Ref: Para. A8)

Form of Opinion

- 9. When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases: (Ref: Para. A9)
 - (a) The summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [the applied criteria]; or
 - (b) The summary financial statements are a fair summary of the audited financial statements, in accordance with [the applied criteria].
- 10. If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described in paragraph 9, the auditor shall:
 - (a) Apply the procedures described in paragraph 8 and any further procedures necessary to enable the auditor to express the prescribed opinion; and
 - (b) Evaluate whether users of the summary financial statements might misunderstand the auditor's opinion on the summary financial statements and, if so, whether additional explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding.
- 11. If, in the case of paragraph 10(b), the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this ISA. Accordingly, the auditor's report

on the summary financial statements shall not indicate that the engagement was conducted in accordance with this ISA.

Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements

12. The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. In such cases, the auditor's report on the summary financial statements shall state that the summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements that may require adjustment of, or disclosure in, the audited financial statements. (Ref: Para. A10)
13. The auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements, but of which the auditor previously was unaware. In such cases, the auditor shall not issue the auditor's report on the summary financial statements until the auditor's consideration of such facts in relation to the audited financial statements in accordance with ISA 560³ has been completed.

Auditor's Report on Summary Financial Statements

Elements of the Auditor's Report

14. The auditor's report on summary financial statements shall include the following elements:⁴ (Ref: Para. A1615)
 - (a) A title clearly indicating it as the report of an independent auditor. (Ref: Para. A11)
 - (b) An addressee. (Ref: Para. A12)
 - ~~(c) An introductory paragraph that:~~
 - ~~(c)(i) Identifies identification of the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements;~~ (Ref: Para. A13)
 - ~~(d)(ii) Identifies identification of the audited financial statements;~~
 - ~~(e)(iii) Refers reference to the auditor's report on the audited financial statements, the date of that report, and, subject to paragraphs 17–18, the fact that an unmodified opinion is expressed on the audited financial statements;~~
 - ~~(f)(iv) If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, states a statement that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements; and~~

³ ISA 560, *Subsequent Events*

⁴ Paragraphs 17–18, which deal with circumstances where the auditor's report on the audited financial statements has been modified, require additional elements to those listed in this paragraph.

- (g)(v) A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.
- (h)(d) A description of management's⁵ responsibility for the summary financial statements, explaining that management⁶ is responsible for the preparation of the summary financial statements in accordance with the applied criteria.
- (i)(e) A statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by this ISA.
- (j)(f) A paragraph clearly expressing an opinion (see paragraphs 9–11).
- (k)(g) The auditor's signature.
- (l)(h) The date of the auditor's report. (Ref: Para. A14)
- (m)(i) The auditor's address.
15. If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee. (Ref: Para. A12)
16. The auditor shall date the auditor's report on the summary financial statements no earlier than: (Ref: Para. A14)
- (a) The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognized authority have asserted that they have taken responsibility for them; and
 - (b) The date of the auditor's report on the audited financial statements.

~~Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in Reference to the Auditor's Report on the Audited Financial Statements~~ (Ref: Para. A16~~5~~)

17. When the auditor's report on the audited financial statements contains:
- (a) Aa qualified opinion in accordance with ISA 705 (Revised);⁷
 - (b) Aan Emphasis of Matter paragraph, or an Other Matter paragraph in accordance with ISA 706 (Revised);⁸
 - (c) A Material Uncertainty Related to Going Concern section in accordance with ISA 570 (Revised);⁹
 - (d) Communication of key audit matters in accordance with ISA 701;¹⁰ or

⁵ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

⁶ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

⁷ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁸ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

⁹ ISA 570 (Revised), *Going Concern*, paragraph 22

¹⁰ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

- (e) A statement that describes an uncorrected material misstatement of the other information in accordance with ISA 720 (Revised),¹¹

but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 14:

- ~~(i)(a)~~ State that the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, ~~or an Other Matter paragraph, a Material Uncertainty Related to Going Concern section, a Key Audit Matters section or a statement that describes an uncorrected material misstatement of the other information;~~ and

- ~~(ii)(b)~~ Describe: (Ref: Para. A15)

- ~~a.(i)~~ The ~~basis for the~~ qualified opinion on the audited financial statements, the basis thereof and the effect thereof, if any, on the summary financial statements~~that qualified opinion; or the Emphasis of Matter or the Other Matter paragraph in the auditor's report on the audited financial statements; and~~

- ~~b.(ii)~~ The Emphasis of Matter paragraph, the Other Matter paragraph, the material uncertainty related to going concern, or the uncorrected material misstatement of the other information in the auditor's report on the audited financial statements ~~and the effect thereof, if any, on the summary financial statements, if any.~~

18. When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 14:

- (a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;
- (b) Describe the basis for that adverse opinion or disclaimer of opinion; and
- (c) State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.

Modified Opinion on the Summary Financial Statements

19. If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements. (Ref: Para. A16~~15~~)

Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting

20. When distribution or use of the auditor's report on the audited financial statements is restricted, or the auditor's report on the audited financial statements alerts readers that the audited financial statements are prepared in accordance with a special purpose framework, the auditor shall include a similar restriction or alert in the auditor's report on the summary financial statements.

¹¹ ISA 720 (Revised), *The Auditor's Responsibilities Related to Other Information*, paragraph 22(e)(ii)

Comparatives

21. If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements. (Ref: Para. A1716)
22. If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that ISA 710 requires the auditor to include in the auditor's report on the audited financial statements.¹² (Ref: Para. A1817)

Unaudited Supplementary Information Presented with Summary Financial Statements

23. The auditor shall evaluate whether any unaudited supplementary information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited supplementary information is not clearly differentiated from the summary financial statements, the auditor shall ask management to change the presentation of the unaudited supplementary information. If management refuses to do so, the auditor shall explain in the auditor's report on the summary financial statements that such information is not covered by that report. (Ref: Para. A1918)

Other Information in Documents Containing Summary Financial Statements

24. The auditor shall read the other information included in a document containing the summary financial statements and related auditor's report to consider whether there is identify a material inconsistency, between the other information and if any, with the summary financial statements. ~~If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If, on reading the other information, the auditor becomes aware of an apparent material misstatement of fact, that the other information needs to be revised,~~ the auditor shall discuss the matter with management.[△] (Ref: Para. A2019)

Auditor Association

25. If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document. If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document. (Ref: Para. A2120)

¹² ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*

[△] This paragraph and the corresponding application material (in shaded text) reflects the conforming changes resulting from the recently released ISA 720 (Revised). Consequently, these changes are not subject to further discussion or comments.

26. The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:

- (a) The reference to the auditor is made in the context of the auditor's report on the audited financial statements; and
- (b) The statement does not give the impression that the auditor has reported on the summary financial statements.

If (a) or (b) are not met, the auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the related auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor. (Ref: Para. A2120)

Application and Other Explanatory Material

Engagement Acceptance (Ref: Para. 5–6)

- A1. The audit of the financial statements from which the summary financial statements are derived provides the auditor with the necessary knowledge to discharge the auditor's responsibilities in relation to the summary financial statements in accordance with this ISA. Application of this ISA will not provide sufficient appropriate evidence on which to base the opinion on the summary financial statements if the auditor has not also audited the financial statements from which the summary financial statements are derived.
- A2. Management's agreement with the matters described in paragraph 6 may be evidenced by its written acceptance of the terms of the engagement.

Criteria (Ref: Para. 6(a))

- A3. The preparation of summary financial statements requires management to determine the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements. Because summary financial statements by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when established criteria for the preparation of summary financial statements do not exist.
- A4. Factors that may affect the auditor's determination of the acceptability of the applied criteria include:
 - The nature of the entity;

- The purpose of the summary financial statements;
 - The information needs of the intended users of the summary financial statements; and
 - Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.
- A5. The criteria for the preparation of summary financial statements may be established by an authorized or recognized standards setting organization or by law or regulation. Similar to the case of financial statements, as explained in ISA 210,¹³ in many such cases, the auditor may presume that such criteria are acceptable.
- A6. Where established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry. Criteria that are acceptable in the circumstances will result in summary financial statements that:
- (a) Adequately disclose their summarized nature and identify the audited financial statements;
 - (b) Clearly describe from whom or where the audited financial statements are available or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, that law or regulation;
 - (c) Adequately disclose the applied criteria;
 - (d) Agree with or can be recalculated from the related information in the audited financial statements; and
 - (e) In view of the purpose of the summary financial statements, contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
- A7. Adequate disclosure of the summarized nature of the summary financial statements and the identity of the audited financial statements, as referred to in paragraph A6(a), may, for example, be provided by a title such as “Summary Financial Statements Prepared from the Audited Financial Statements for the Year Ended December 31, 20X1.”

Evaluating the Availability of the Audited Financial Statements (Ref: Para. 8(g))

- A8. The auditor’s evaluation whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty is affected by factors such as whether:
- The summary financial statements describe clearly from whom or where the audited financial statements are available;
 - The audited financial statements are on public record; or
 - Management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements.

¹³ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraphs A3 and A8–A9

Form of Opinion (Ref: Para. 9)

- A9. A conclusion, based on an evaluation of the evidence obtained by performing the procedures in paragraph 8, that an unmodified opinion on the summary financial statements is appropriate enables the auditor to express an opinion containing one of the phrases in paragraph 9. The auditor's decision as to which of the phrases to use may be affected by generally accepted practice in the particular jurisdiction.

Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements (Ref: Para. 12)

- A10. The procedures described in paragraph 8 are often performed during or immediately after the audit of the financial statements. When the auditor reports on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements since the summary financial statements are derived from the audited financial statements and do not update them.

Auditor's Report on Summary Financial Statements

Elements of the Auditor's Report

Title (Ref: Para. 14(a))

- A11. A title indicating the report is the report of an independent auditor, for example, "Report of the Independent Auditor," affirms that the auditor has met all of the relevant ethical requirements regarding independence. This distinguishes the report of the independent auditor from reports issued by others.

Addressee (Ref: Para. 14(b), 15)

- A12. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Introductory Paragraph Identification of the Summary Financial Statements (Ref: Para. 14(c)(~~4~~))

- A13. When the auditor is aware that the summary financial statements will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers to identify the summary financial statements to which the auditor's report relates.

Date of the Auditor's Report (Ref: Para. 14(~~14~~), 16)

- A14. The person or persons with recognized authority to conclude that the summary financial statements have been prepared and take responsibility for them depend on the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Reference to the Auditor's Report on the Audited Financial Statements (Ref: Para. 17(ii))

- A15. Paragraph 17 of this ISA requires the auditor's report on the summary financial statements to include a reference to the existence of a Key Audit Matters section in the auditor's report on the audited financial statements, when applicable. The auditor is not required to describe the individual key audit matters in the auditor's report on the summary financial statements.

Illustrations (Ref: Para.14, 17–18, 19)

A165. The Appendix to this ISA contains illustrations of auditors' reports on summary financial statements that:

- (a) Contain unmodified opinions;
- (b) Are derived from audited financial statements on which the auditor issued modified opinions; and
- (c) Contain a modified opinion.

Comparatives (Ref: Para. 21–22)

A176. If the audited financial statements contain comparatives, there is a presumption that the summary financial statements also would contain comparatives. Comparatives in the audited financial statements may be regarded as corresponding figures or as comparative financial information. ISA 710 describes how this difference affects the auditor's report on the financial statements, including, in particular, reference to other auditors who audited the financial statements for the prior period.

A187. Circumstances that may affect the auditor's determination whether an omission of comparatives is reasonable include the nature and objective of the summary financial statements, the applied criteria, and the information needs of the intended users of the summary financial statements.

Unaudited Supplementary Information Presented with Summary Financial Statements (Ref: Para. 23)

A198. ISA 700 (Revised)¹⁴ contains requirements and guidance to be applied when unaudited supplementary information is presented with audited financial statements that, adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph 23.

Other Information in Documents Containing Summary Financial Statements (Ref: Para. 24)

A2019. ISA 720 (Revised)¹⁵ contains requirements and guidance relating regarding the auditor's responsibilities relating to reading other information in a financial statement audit engagement included in a document containing the audited financial statements and related auditor's report, and responding to material inconsistencies and material misstatements of fact. Adapted as necessary in the circumstances, they may be helpful in applying the requirement in paragraph 24.[^]

Auditor Association (Ref: Para. 25–26)

A210. Other appropriate actions the auditor may take when management does not take the requested action may include informing the intended users and other known third-party users of the inappropriate reference to the auditor. The auditor's course of action depends on the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

¹⁴ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 5346–5447

¹⁵ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

Appendix

(Ref: Para. A16~~5~~)

Illustrations of Reports on Summary Financial Statements

- Illustration 1: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which summary financial statements are derived. The auditor's report on the audited financial statements includes a Material Uncertainty Related to Going Concern section and a Key Audit Matters section.
- Illustration 2: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An unmodified opinion is expressed on the audited financial statements.
- Illustration 3: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. A qualified opinion is expressed on the audited financial statements.
- Illustration 4: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An adverse opinion is expressed on the audited financial statements.
- Illustration 5: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.

Illustration 1:

Circumstances include the following:

- An unmodified opinion is expressed on the audited financial statements.
- Established criteria for the preparation of summary financial statements exist.
- The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- The auditor's report on the audited financial statements includes a Material Uncertainty Related to Going Concern section.
- The auditor's report on the audited financial statements includes a Key Audit Matters section.

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Opinion

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1. ~~We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X2. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.~~

In our opinion, the summary financial statements ~~derived from the audited financial statements of ABC Company for the year ended December 31, 20X1~~ are consistent, in all material respects, with (or a *fair summary of*) those audited financial statements, in accordance with [describe established criteria].
[Opinion paragraph and heading moved up from below]

The Audited Financial Statements and Our Report Thereon

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X2 [moved down from penultimate sentence in first paragraph above] and that report also includes:

- A Material Uncertainty related to Going Concern section that draws attention to Note 6 in the audited financial statements. Note 6 of the audited financial statements (which is also Note 6 of the summary financial statements) indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6,

indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

- The communication of key audit matters. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

The audited ~~These~~ financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on ~~these~~ the audited financial statements.
[moved from last sentence in first paragraph above]

Management's¹ Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with [describe established criteria].

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Opinion

~~In our opinion, the summary financial statements derived from the audited financial statements of ABC Company for the year ended December 31, 20X1 are consistent, in all material respects, with (or a fair summary of) those financial statements, in accordance with [describe established criteria].~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

[Date of the auditor's report]

¹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

Illustration 2:

Circumstances include the following:

- **An unmodified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Opinion

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1. ~~We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X2. In our opinion, the summary financial statements derived from the audited financial statements of ABC Company for the year ended December 31, 20X1 are consistent, in all material respects, with (or a fair summary of) those audited financial statements, on the basis described in Note X.~~ [Opinion paragraph and heading moved up from below]

The Audited Financial Statements and Our Report Thereon

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X2.² [moved from first paragraph above]

Management's³ Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note X.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

² When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements."

³ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

Opinion

~~In our opinion, the summary financial statements derived from the audited financial statements of ABC Company for the year ended December 31, 20X1 are consistent, in all material respects, with (or a fair summary of) those financial statements, on the basis described in Note X.~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

[Date of the auditor's report]

Illustration 3:

Circumstances include the following:

- **A qualified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Opinion

The accompanying summary financial statements, which comprise the summary statement of financial position as at December 31, 20X1, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1.⁴ We expressed a qualified audit opinion on those financial statements in our report dated February 15, 20X2 (see below).

In our opinion, the summary financial statements ~~derived from the audited financial statements of ABC Company for the year ended December 31, 20X1~~ are consistent, in all material respects, with (or *a fair summary of*) those audited financial statements, on the basis described in Note X. However, the summary financial statements are misstated to the equivalent extent as the audited financial statements of ABC Company for the year ended December 31, 20X1.

The Audited Financial Statements and Our Report Thereon

The misstatement of the audited financial statements is described in our qualified audit opinion in our report dated February 15, 20X2. Our qualified audit opinion is based on the fact that the company's inventories are carried in the statement of financial position in those financial statements at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from International Financial Reporting Standards. The company's records indicate that had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively. Our qualified audit opinion states that, except for the effects of the described matter, those financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards. [The second and third paragraphs are moved up from the Opinion section below]

⁴ When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements."

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

Management's⁵ Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note X.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Opinion

~~In our opinion, the summary financial statements derived from the audited financial statements of ABC Company for the year ended December 31, 20X1 are consistent, in all material respects, with (or a fair summary of) those financial statements, on the basis described in Note X. However, the summary financial statements are misstated to the equivalent extent as the audited financial statements of ABC Company for the year ended December 31, 20X1.~~

~~The misstatement of the audited financial statements is described in our qualified audit opinion in our report dated February 15, 20X2. Our qualified audit opinion is based on the fact that the company's inventories are carried in the statement of financial position in those financial statements at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from International Financial Reporting Standards. The company's records indicate that had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively. Our qualified audit opinion states that, except for the effects of the described matter, those financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

[Date of the auditor's report]

⁵ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

Illustration 4:

Circumstances include the following:

- **An adverse opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Denial of Opinion

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1.⁶

Because of the significance of the matter discussed ~~above~~below, it is inappropriate to express an opinion on the summary financial statements of ABC Company for the year ended December 31, 20X1. [The second and third paragraphs were moved from Denial of Opinion section below]

The Audited Financial Statements and Our Report Thereon

In our report dated February 15, 20X2, we expressed an adverse audit opinion on the audited financial statements of ABC Company for the year ended December 31, 20X1. The basis for our adverse audit opinion was [describe basis for adverse audit opinion]. Our adverse audit opinion stated that [describe adverse audit opinion].

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

Management's⁷ Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note X.

⁶ When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements."

⁷ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Denial of Opinion

~~In our report dated February 15, 20X2, we expressed an adverse audit opinion on the financial statements of ABC Company for the year ended December 31, 20X1. The basis for our adverse audit opinion was [describe basis for adverse audit opinion]. Our adverse audit opinion stated that [describe adverse audit opinion].~~

~~Because of the significance of the matter discussed above, it is inappropriate to express an opinion on the summary financial statements of ABC Company for the year ended December 31, 20X1.~~

~~[Auditor's signature]~~

~~[Date of the auditor's report]~~

~~[Auditor's address]~~

~~[Date of the auditor's report]~~

Illustration 5:

Circumstances include the following:

- **An unmodified opinion is expressed on the audited financial statements.**
- **Established criteria for the preparation of summary financial statements exist.**
- **The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Adverse Opinion

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1. ~~We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X2.~~

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section ~~paragraph~~, the summary financial statements referred to above are not consistent with (or a *fair summary of*) the audited financial statements of ABC Company for the year ended December 31, 20X1, in accordance with [describe established criteria]. [Moved up from the Adverse Opinion section below]

Basis for Adverse Opinion

[Describe matter that caused the summary financial statements not to be consistent, in all material respects, with (or a *fair summary of*) the audited financial statements, in accordance with the applied criteria.] [Moved up from the Basis for Adverse Opinion section below]

The Audited Financial Statements and Our Report Thereon

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

We expressed an unmodified audit opinion on those financial statements in our report dated February 15, 20X2.⁸ [moved from last sentence in first paragraph above]

⁸ When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: "Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements."

Management's⁹ Responsibility for the Summary Audited Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with [describe established criteria].

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

~~Basis for Adverse Opinion~~

~~[Describe matter that caused the summary financial statements not to be consistent, in all material respects, with (or a fair summary of) the audited financial statements, in accordance with the applied criteria.]~~

~~Adverse Opinion~~

~~In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the summary financial statements referred to above are not consistent with (or a fair summary of) the audited financial statements of ABC Company for the year ended December 31, 20X1, in accordance with [describe established criteria].~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

[Date of the auditor's report]

⁹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

Meeting: IAASB

Meeting Location: New York, USA

Meeting Date: June 15–19, 2015

Agenda Item 5

ISA 810, Engagements to Report on Summary Financial Statements – Issues and Drafting Team Recommendations

Objectives of Agenda Item

1. Consider the Drafting Team's (DT-700's) recommendations for proposed limited conforming amendments to extant ISA 810 to address issues related to Going Concern and Other Information, based on Staff's Technical Review of extant ISA 810.
2. Consider whether it would be appropriate to propose further changes to ISA 810 beyond those included in **Agenda Item 5-A** and **Agenda Item 5-B**, taking into account the feedback received from the respondents to the ISA 800¹ and ISA 805² exposure draft (ED),³ as well as the feedback received from the national audit standard setters (NSS) at the IAASB-NSS Liaison Group meeting in May 2015.
3. Subject to the outcome of the Board's considerations of 1. and 2. above, approve the proposed amendments to ISA 810 for exposure and agree to an appropriate exposure period.

Drafting Team Composition

4. DT-700 comprises:
 - Annette Köhler, Chair, IAASB Member
 - Brendan Murtagh, IAASB Member
 - Susan Jones, IAASB Technical Advisor
 - Denise Weber, IAASB Technical Advisor
 - Bruce Winter, Former IAASB Member
5. Technical advisors supporting DT-700 members on the project include Sue Almond (for Mr. Murtagh) and Wolfgang Böhm (for Ms. Köhler).

¹ Proposed ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

² Proposed ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

³ Question 4 of the ISA 800 and ISA 805 ED included a question soliciting views about the IAASB's planned approach with respect to ISA 810. There were 43 comment letters received in response to the ISA 800 and ISA 805 ED, of which 13 of the respondents provided no specific recommendation or provided no response to Question 4.

Activities since Last IAASB Discussion

6. The comment deadline for the ED was April 22, 2015. The Appendix to this paper includes a listing of the 43 respondents who responded to the ED, as well as an analysis by stakeholder group and geographic area. Only one Monitoring Group (MG) member submitted a comment letter. Staff has confirmed that other MG members, including the International Organization of Securities Commissions and the International Forum of Independent Audit Regulators (IFIAR), do not plan to submit a comment letter.
7. IAASB Chairman and Staff met with the following groups to obtain feedback to the IAASB's planned approach to ISA 810 as set out in the ISA 800 and ISA 805 ED and Agenda Item 11-A of the IAASB March 2015 agenda materials:
 - Forum of Firms and IFIAR Standards Coordination Working Group at their respective April 2015 meetings.
 - National auditing standard setters (NSS) at their May 2015 meeting.
8. The DT has held a physical meeting and two teleconferences to develop the material contained in these agenda papers.

Material Presented to the IAASB

Agenda Item 5-A	ISA 810, <i>Engagements to Report on Summary Financial Statements</i> – Issues and Drafting Team Recommendations
Agenda Item 5-B	ISA 810 (Marked from Extant)

Action Requested

9. The IAASB is asked to consider the agenda materials and provide feedback with a view to finalize and approve for exposure proposed conforming amendments to ISA 810 at its June 2015 meeting.

Appendix 1

List of Respondents to the Exposure Draft—Proposed Confirming Amendments to ISA 800 and 805

Note: Members of the MG are shown in bold below.

#	Abbrev.	Respondent (43)	Region
Regulators and Oversight Authorities (4)			
1.	IAIS	International Association of Insurance Supervisors	GLOBAL
2.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
3.	PAAB	Public Accountants and Auditors Board (Zimbabwe)	MEA
4.	MAOB	Audit Oversight Board, Securities Exchange Commission Malaysia	AP
National Auditing Standard Setters (11)			
5.	ASB	American Institute of Certified Public Accountants Auditing Standards Board	NA
6.	AUASB	Australian Auditing and Assurance Standards Board	AP
7.	CAASB	Canadian Auditing and Assurance Standards Board	NA
8.	CNCC	Compagnie Nationale des Commissaires aux Comptes	EU
9.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
10.	IDW	Institut der Wirtschaftsprüfer	EU
11.	JICPA	The Japanese Institute of Certified Public Accountants	AP
12.	MAASB	Auditing and Assurance Standards Board of Malaysian Institute of Accountants	AP
13.	NBA	Nederlandse Beroepsorganisatie van Accountants	EU
14.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
15.	ZAPB	Zimbabwe Accounting and Auditing Practices Board	MEA
Accounting Firms (8)⁴			
16.	BDO*	BDO International Limited	GLOBAL
17.	DTT*	Deloitte Touche Tohmatsu Limited	GLOBAL
18.	EYG*	Ernst & Young Global Limited	GLOBAL
19.	GTI*	Grant Thornton International Ltd	GLOBAL
20.	KPMG*	KPMG IFRG Limited (Network)	GLOBAL
21.	MNP	MNP LLP	NA

⁴ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

#	Abbrev.	Respondent (43)	Region
22.	PWC*	PricewaterhouseCoopers International Limited	GLOBAL
23.	RSM*	RSM International	GLOBAL
Public Sector Organizations (2)			
24.	GAO	United States Government Accountability Office	NA
25.	PAS	Provincial Auditor Saskatchewan	NA
Member Bodies and Other Professional Organizations (16)			
26.	ACCA	Association of Chartered Certified Accountants	GLOBAL
27.	AIA	Association of International Accountants	EU
28.	CAANZ	Chartered Accountants Australia and New Zealand (previously ICAA)	AP
29.	CPAA	CPA Australia	AP
30.	FEE	Fédération des Experts Comptables Européens - Federation of European Accountants	EU
31.	IBR-IRE	Institut des Réviseurs d'Entreprise/ Instituut van de Bedrijfsrevisoren	EU
32.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
33.	ICAI	Institute of Chartered Accountants of India	AP
34.	ICAP	The Institute of Chartered Accountants of Pakistan	AP
35.	ISCA	Institute of Singapore Chartered Accountants	AP
36.	IAA	Interamerican Accounting Association	SA
37.	KICPA	Korean Institute of Certified Public Accountants	AP
38.	MICPA	The Malaysian Institute of Certified Public Accountants	AP
39.	RCA	Russian Collegium of Auditors	EU
40.	SAICA	South African Institute of Chartered Accountants	MEA
41.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
Individuals and Others (2)			
42.	CBarnard	Chris Barnard (Affiliated with ESMA, Germany)	EU
43.	DJuvenal	Denise Silva Ferreira Juvenal	SA

The respondents to the ED comprised the following:

Category of Respondent	No.	Percentage
Investors and Analysts	0	0%
Those Charged with Governance (TCWG)	0	0%
Regulators and Audit Oversight Bodies	4	9%
National Standard Setters (NSS)	11	26%
Accounting Firms	8	18%
Public Sector Auditors	2	5%
Preparers	0	0%
Member Bodies and Other Professional Organizations	16	37%
Academics	0	0%
Individuals and Others	2	5%
Total	43	100%

Meeting: IAASB
Meeting Location: New York, USA
Meeting Dates: June 15–19, 2015

Agenda Item 6

Group Audits – Staff Audit Practice Alert

Objective of Agenda Item

1. The objective of this agenda item is to obtain final IAASB input on a revised draft Staff Audit Practice Alert, which is set out in **Agenda Item 6-A**.

Group Audits Working Group

2. The Group Audits Working Group (GAWG) is comprised of the following members:
 - Megan Zietsman, IAASB Member and Chair of the Working Group (supported by Dora Burzenski, Deloitte)
 - Robert Dohrer, IAASB Member
 - Brendan Murtagh, IAASB Member
 - Wolf Böhm, IAASB Technical Advisor
 - Josephine Jackson, IAASB Technical Advisor
 - Len Jui, National Standards Setters (China) Representative
 - Derek Broadley, National Standards Setters (Hong Kong) Representative

Other issues considered by the GAWG and presented for the IAASB's consideration at its March 2015 meeting are included as **Agenda Item 9**.

March 2015 Board Meeting Decision Summary

3. At the March 2015 Board meeting, the IAASB was asked to consider the GAWG's recommendation to issue a Staff Audit Practice Alert (SAPA or Alert) on the topic of the audit of “letterbox” companies. The Board's views on the proposal are summarized in the draft minutes as follows:

*[The draft minutes on the broader issues related to the Group Audits projects are included in **Agenda Item 9-A**.]*

Board members expressed reactions to the proposal for a Staff document to be prepared to specifically address the issues that have been raised by certain audit regulators in respect to “audits of letterbox companies”, noting in particular that the issues relating to such audits are complex and that they are not necessarily unique to these audits, but rather issues that have broader applicability to many other group audit situations. Certain Board members indicated that the term “audits of letterbox companies” was not consistently understood and that it also carried negative connotations. On balance however, the Board

understood that there was a need for short term action and the Working Group was asked to proceed with developing a brief Staff publication that, although non-authoritative and also not an interpretation of the ISAs, would nevertheless be a useful reminder to auditors of their responsibilities under the ISAs in the circumstances discussed. The Board also agreed that the draft Staff publication should provide information about the broader project that is underway. Some members cautioned that:

- Care would be needed to ensure that the staff document did not result in an interpretation of the existing standards that would go beyond just reminding auditors of the existing requirements and guidance.
- A staff alert may have little value and could run the risk of creating more issues in the area of group audits.

The Board agreed that issues pertaining to “audits of letterbox companies ” applied more broadly to group audits and were supportive of them being explored in more detail in the planned Discussion Paper; noting that the Discussion Paper would provide the opportunity for the complexities to be fully identified and understood.

Development of the Staff Practice Alert

4. In accordance with the process for the development of a staff publication,¹ the following steps have been undertaken since the IAASB commissioned the development of the SAPA at its March 2015 meeting:
 - At a physical meeting in April 2015, the GAWG held discussions with Staff to facilitate the development of an initial draft of the SAPA (including providing input on technical matters and drafting suggestions), and reviewed and commented on the draft publication. In particular, in providing input to and in developing the initial draft, the GAWG and Staff were mindful of the concerns raised by some IAASB members during the March 2015 Board Meeting discussions.
 - In May 2015, the IAASB was given an opportunity to consider and comment on the draft SAPA, with a focus in particular on providing views as to whether the draft Alert was consistent with, and did not extend beyond, the ISAs. Responses from Board members indicated varying levels of support for the draft and for its issuance as an Alert and raised a variety of issues with the SAPA as drafted, summarized as follows:
 - o Eleven members expressly supported the issuance of the draft Alert in the near term and either (i) indicated that they had no comments or concerns on the draft SAPA or (ii) provided constructive feedback on ways to improve the initial draft Alert.
 - o Three members recognized the likely need to publish such a document, but were not fully supportive of issuing an Alert at this stage, preferring the topic to be dealt with in the Discussion Paper that will be issued as part of the larger Group Audits project. These members also provided suggestions for improvement, the majority of which were consistent with comments raised by those who expressly supported issuing the Alert.
 - o One Board Member expressed significant concerns on both the content and the issuance of the Practice Alert in general.

¹ The process for developing a Staff Publication is described at:
<http://www.iaasb.org/system/files/callouts/Process%20for%20Developing%20a%20Staff%20Publication.pdf>.

- This feedback, as well as comments from Technical Advisors and numerous editorial comments, was taken into account and a revised draft of the Alert was discussed with the GAWG in its May 2015 teleconference. Many of the changes made to the draft initially circulated to the Board were made to provide a closer link to certain requirements in the ISAs, with the goal of stressing the applicability of ISA 220² to all audits conducted in accordance with ISAs. The GAWG also reflected again on the correspondence received from, and communications with, audit oversight bodies on the issue of audits of “letterbox” companies and issues relating to quality control more generally, and made further changes to more closely align with how the regulatory concerns had been described.
5. This revised draft of the Alert is presented as **Agenda Item 6-A**. Notwithstanding the substantive concerns raised by a few Board members about issuing the alert, the GAWG is of the view that the Alert would be a useful means of reminding auditors of their responsibilities under the ISAs and that as drafted, the revised Alert is not interpretive in nature, but is responsive to the calls of some stakeholders to take some action.
 6. In light of previous interactions on the topic, the Chair and Staff of the GAWG intend to discuss **Agenda Item 6-A** with the International Forum of Independent Audit Regulators’ Standards Coordination Working Group (IFIAR SCWG) and representatives from the Global Public Policy Committee (GPPC) to obtain their views on the usefulness and appropriateness of the draft Alert.
 7. To the extent that these discussions have taken place prior to the June IAASB meeting, the Chair of the GAWG will provide feedback during the Board’s discussions of this Agenda Item. The discussion will also provide an opportunity for IAASB to (i) consider and comment on how their concerns raised both at the March 2015 IAASB meeting and on the subsequently distributed draft Alert have been addressed by Staff in the revised draft; and (ii) provide any additional input, including views as to whether the SAPA should be issued..
 8. Should the Board continue to support its issuance, Staff in consultation with the GAWG, Technical Director and IAASB Chairman will then finalize the Alert. Depending on the nature and extent of the final changes, the SAPA may be circulated for a “fatal” flaw review subsequent to the June 2015 IAASB meeting, with the final Alert published on the IAASB’s website as soon as practicable.

Action Requested

9. The IAASB is asked to consider the draft SAPA presented in **Agenda Item 6-A** and provide input to enable the Staff to finalize it for issuance.

Material Presented

Agenda Item 6-A	[Draft] Staff Audit Practice Alert – Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work Is Performed

² ISA 220, *Quality Control for an Audit of Financial Statements*

[Draft] Staff Audit Practice Alert**Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work Is Performed**

This publication has been prepared by staff of the International Auditing and Assurance Standards Board® (IAASB). It does not constitute an authoritative pronouncement of the IAASB, nor does it amend or override the International Standards on Auditing™ (ISAs™). Further, this publication is not meant to be exhaustive. Reading this publication is not a substitute for reading the ISAs, the texts of which alone are authoritative.

This Staff Audit Practice Alert serves as an initial response to concerns raised by certain regulators and audit oversight bodies to audits in circumstances when the engagement partner is not located where the majority of the audit work is performed and reminds the auditors about how the ISAs address the responsibilities of the engagement partner in such circumstances.

Certain regulators and audit oversight bodies have expressed concerns related to audits in circumstances when the engagement partner is not located where the majority of the audit work is performed. In particular, the concerns expressed relate to how the engagement partner has taken responsibility for the direction, supervision, performance and review of the work, the adequacy of the audit documentation and whether, and how, the engagement partner has become satisfied that sufficient appropriate audit evidence has been obtained to enable the engagement partner to take responsibility for the auditor's report. These regulators and audit oversight bodies have suggested that the IAASB take action as a matter of priority to address their concerns so as to enhance audit quality in these circumstances.

The IAASB's Work Plan for 2015–2016 contemplates significant effort during the period on the topics of quality control and group audits more broadly. These topics have been identified as high priority projects relative to the IAASB's strategic objectives for 2015–2019, in particular with respect to ensuring that the ISAs "continue to form the basis for high-quality, valuable and relevant audits conducted worldwide by responding on a timely basis to issues noted in practice and emerging developments."

The IAASB therefore intends to seek further feedback on issues identified by regulators and audit oversight bodies during their inspections and about areas where auditors find it challenging to apply the ISAs, including further information about the circumstances addressed in this Staff Audit Practice Alert. Within the project on quality control, the IAASB will also explore how the engagement partner's responsibilities are articulated within the ISAs and whether these responsibilities may need clarification.

Accordingly, a Discussion Paper is planned for later in 2015 to explore more holistically what actions the IAASB and others could take to enhance audit quality, including identification of potential areas for improvement within the ISAs. Feedback from this consultation will be used to determine the scope of standard-setting projects, including informing the basis for changes to the ISAs or additional guidance that may be necessary. For more information on these projects, visit the IAASB's website at www.iaasb.org/quality-control and www.iaasb.org/group-audits.

BACKGROUND

The concerns of certain regulators and audit oversight bodies have largely been expressed in the context of some audits of financial statements of entities where the majority of the general and financial management of the entity and the majority of the business activities and related processing of transactions is located or undertaken in jurisdictions other than where the entity is registered or where the entity maintains a correspondence address or listing.ⁱ The structure of these entities may be driven by requirements of taxation or other laws and regulations, or may be designed for the purposes of being able to more effectively raise equity or debt capital. In some cases, there may be limited investments or operations in the jurisdiction of registration or listing, with the majority of management and business activities being located or taking place in other jurisdictions. In these circumstances, the engagement partner may be located in the jurisdiction of registration or listing, with the majority of the audit work being performed in the other jurisdiction(s) where general and financial management are located and where the business activities and related processing of transactions takes place. Because the engagement partner is not physically located where the audit work is being performed, accomplishing the objectives of the ISAs in these circumstances, including addressing the requirements for taking responsibility for the direction, supervision, performance and review of the audit engagement, can pose different challenges than in situations where the engagement partner is located where the majority of the audit work is being performed.

KEY MESSAGES

The responsibilities of the engagement partner as set out in the ISAs apply to all audits, including in circumstances when the engagement partner is not located where the majority of the audit work is performed. This Staff Audit Practice Alert is intended to remind practitioners of the responsibilities of the engagement partner in those circumstances by focusing on certain requirements in the ISAs.

When auditing entities of all different structures, the focus of the engagement team,ⁱⁱ including the engagement partner, is the performance of a quality audit in accordance with the ISAs that supports the auditor's conclusion that sufficient appropriate audit evidence has been obtained on which to base the auditor's opinion. How the ISAs (in particular, ISA 220,ⁱⁱⁱ ISA 230^{iv} and, when applicable, ISA 600^v) are applied to each audit engagement will vary based on the individual facts and circumstances due to the different structures of the entities whose financial statements are being audited.

- ❖ **ISA 220 applies to all audit engagements that are conducted in accordance with ISAs, and ISQC 1^{vi} applies to all firms conducting these engagements.**
- ❖ **For audits of group financial statements, ISA 600 indicates that the group engagement partner applies the requirements of ISA 220 regardless of whether the group engagement team^{vii} or a component auditor performs the work on the financial information of a component.^{viii} In a group audit situation, the group engagement partner is therefore required to take responsibility for the direction, supervision, performance and review of the group audit engagement and for being satisfied that sufficient appropriate audit evidence has been obtained on which to base the auditor's opinion on the group financial statements, regardless of whether the work is performed by the group engagement team or by a**

component auditor. ISA 600 assists the group engagement partner in meeting the requirements in ISA 220 where component auditors perform work on the financial information of the components.

❖ **Appropriate documentation provides evidence of:**

- **The direction, supervision, performance and review of the engagement as required by ISA 220.**
- **The involvement of the group engagement partner, as required by ISA 600 (for audits of group financial statements).**
- **The basis for the conclusion that sufficient appropriate audit evidence has been obtained on which to base the auditor's opinion.**

APPLICABILITY OF THE ISAS

QUALITY CONTROL

The requirements in ISA 220 apply to all engagements that are conducted in accordance with the ISAs, including audits of the financial statements of the entities described on page 1.

ISA 220 establishes requirements for the engagement partner that are designed to facilitate a quality audit, including, among others, requirements for:

- Taking responsibility for the overall quality on each audit engagement to which that engagement partner is assigned.^{ix}
- Being satisfied that appropriate procedures regarding the acceptance and continuance of client relationships have been followed and determining that conclusions reached in this regard are appropriate.^x
- Taking responsibility for (i) the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (ii) the auditor's report being appropriate in the circumstances.^{xi}
- Taking responsibility for reviews being performed in accordance with the firm's review policies and procedures.^{xii}
- Being satisfied, through a review of the audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.^{xiii}

Group Audits

ISA 600 deals with special considerations that apply to group audits, in particular those that involve component auditors. ISA 600 notes that various types of entity structures may constitute a group.^{xiv} When an engagement is a group audit as defined in ISA 600, the requirements in that ISA apply.^{xv}

ISA 600 assists the group engagement partner in meeting the requirements of ISA 220 in the context of a group audit.^{xvi}

ISA 600 explains that the group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances.^{xvii} ISA 600 also notes that, although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings, conclusions or opinions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.^{xviii}

In an audit of financial statements that are not group financial statements, but where other auditors are involved in the audit, ISA 600, adapted as necessary in the circumstances, may be useful to the engagement partner in planning and performing the audit in accordance with the requirements of the ISAs,^{xix} including meeting the requirements of ISA 220.

Documentation

ISA 230^{xx} requires that audit documentation be prepared that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements, with specific elements required to be documented;^{xxi}
- (b) The results of the audit procedures performed, and the audit evidence obtained; and
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Audit documentation provides evidence that the audit complies with the ISAs,^{xxii} including that the engagement partner and, as applicable, the group engagement partner, has taken responsibility for the direction, supervision, performance and review of the engagement as required by ISA 220.

ISA 600^{xxiii} includes specific documentation requirements for group audits, including documentation of an analysis of components and the type of work performed on the financial information of the components; the nature, timing and extent of the group engagement team's involvement in the work performed by the component auditors; and written communications between the group engagement team and the component auditors about the group engagement team's requirements.

Staff Audit Practice Alert
Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of
the Audit Work is Performed
IAASB Main Agenda (June 2015)

ENDNOTES

- i These entities have been referred to by some as “letterbox companies”.
- ii Paragraph 7(d) of ISA 220, *Quality Control for an Audit of Financial Statements*, defines the engagement team as “all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement...”
- iii ISA 220, *Quality Control for An Audit of Financial Statements*
- iv ISA 230, *Audit Documentation*
- v ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*
- vi International Standards on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*
- vii Paragraph 9(j) of ISA 600 defines the group engagement team as “partners, including the group engagement partner, and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements.”
- viii ISA 600, paragraph 5
- ix ISA 220, paragraph 8
- x ISA 220, paragraph 12
- xi ISA 220, paragraph 15
- xii ISA 220, paragraph 16
- xiii ISA 220, paragraph 17
- xiv ISA 600, paragraph A2
- xv ISA 600, paragraph 1
- xvi ISA 600, paragraph 5
- xvii ISA 600, paragraph 11
- xviii ISA 600, paragraph A8
- xix ISA 600, paragraph 2
- xx ISA 230, paragraph 8
- xxi ISA 230, paragraph 9
- xxii ISA 230, paragraph A7
- xxiii ISA 600, paragraph 50

Meeting: IAASB
Meeting Location: New York, USA
Meeting Dates: June 15–19, 2015

Agenda Item 7

Agreed-Upon Procedures

Objective of Agenda Item

1. The objectives of this agenda item are to:
 - Inform the Board about current practices on agreed-upon procedures (AUP) engagements.
 - Discuss issues that have been identified in applying ISRS 4400¹ and “hybrid engagements”.
 - Agree on the proposed way forward towards a project proposal.

Agreed-Upon Procedures Working Group

2. The AUP Working Group (WG) is comprised of the following members:
 - Ron Salole, IAASB Member and Chair of the WG
 - Katharine Bagshaw, IFAC Small and Medium Practices (SMP) Committee Representative
 - Ahava Goldman, IAASB Technical Advisor
 - Richard Mifsud, IAASB Technical Advisor (supported by Claire Grayston, National Standard Setter (NSS) (Australia) Representative)
 - Isabelle Tracq-Sengeissen, Compagnie Nationale des Commissaires aux Comptes (France) and former IAASB technical advisor.

Activities of the Working Group

3. During consultations on the IAASB’s 2015-2019 Strategy and the related 2015-2016 Work Plan, many stakeholders expressed the need for revisions to the AUP standard to meet the growing demand for such engagements. However, this view is not unanimous. Others have indicated that ISRS 4400 is not “broken” and that the IAASB should focus its efforts on addressing issues within the International Standards on Auditing (ISAs) before dealing with standards outside of the financial statements audit.
4. In response to the stakeholders’ comments, the IAASB established a WG to explore issues involving AUP engagements. Since its formation in early 2015, the WG has conducted preliminary research and consulted with the Small-Medium Practice Rapid Response Task Force, NSSs, the Fédération

¹ International Standards on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

des Experts-comptables Européens, and the European Commission and other parties on common practices and issues regarding AUP engagements.

5. The WG held a conference call on March 19, 2015 for preliminary discussions on current practices regarding AUP engagements and “hybrid engagements”, and issues related to such engagements. The WG held another conference call on May 21, 2015 to discuss feedback from the stakeholders consulted and to review the material for presentation to the IAASB.

Action Requested

6. The IAASB is asked to consider the views of the WG presented in **Agenda Item 7-A**, and to provide views on the Matters for Consideration therein.

Material Presented

Agenda Item 7-A

Agreed-Upon Procedures – Discussion

Discussion–Agreed Upon Procedures

I. Minutes – March IAASB Meeting

The Board received presentations from Mr. Vittorio Morelli, Mr. Villanueva Garcia Jorge and Mr. Dinos Alevizopoulos, representing the EC, and Ms. Hilde Blomme, representing Fédération des Experts-comptables Européens (FEE), about the EC's Horizon 2020 program ("Horizon 2020"), which is a major source of agreed-upon procedures (AUP) engagements in Europe. The EC representatives further explained the expectations of the EC in relation to auditors issuing reports of factual findings on "Horizon 2020" projects. Ms. Blomme updated the Board on the increasing importance of AUP engagements in Europe, and noted some of the issues practitioners may face when performing "Horizon 2020" engagements in accordance with ISRS 4400,¹ and possible solutions.

Following the presentations, the Board and the presenters discussed some specific challenges practitioners may face when performing AUP engagements.

Way Forward

The AUP WG will use the information obtained through these presentations as input to its information gathering activities, and will present information about the use of, and issues related to, ISRS 4400 to the Board later this year.

II. Background

1. The AUP Working Group (WG) has developed this paper to provide the IAASB with a basis for exploring the way forward on the AUP project.² This paper is intended to provide the IAASB with information about:
 - Section A — Existing practices regarding AUP engagements.
 - Section B — Issues relating to ISRS 4400.
 - Section C — Hybrid engagements.
 - Section D — WG's suggested way forward for this project.

A. Existing Practices Regarding AUP Engagements

Types of Agreed-Upon Procedures

2. Input from National Standard Setters (NSSs), members of the Small-Medium Practice Rapid Response Task Force and others suggest that AUP engagements are performed on both financial and non-financial information. For example:

¹ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

² The AUP initiative as described in the 2015-2016 Work Plan is set out in the appendix.

Primarily financial information	Primarily non-financial information
Eligibility of expenditures claimed from a funding program (e.g., Horizon 2020)	Internal controls over financial reporting
Comfort letter to a securities regulator on investment firm's fulfillment of its obligations to clients upon deregistration	Due diligence in a business acquisition
Report on revenues (e.g., for determining royalties, rent, franchise fees based on a % of revenues)	Compliance with "green packaging" requirements
Reconciliation between different financial reporting frameworks	Report on number of passengers to Civil Aviation Authority
Report on compliance with bank covenants	Report on greenhouse gas emissions
Report on capital adequacy ratio for regulatory authorities	Observation of destruction of fake or defective goods
Calculations of financial ratios of projected cash flows for reporting to tax authorities	Data generating process for national lottery draws

3. As indicated in the table above, there is a wide variety of AUP engagements. Some of these AUP engagements are highly regulated and may require specialized skills to perform.

National AUP Standards and Guidance

4. Our survey of NSSs suggests that many jurisdictions have national standards or guidance that is based on, or similar to, ISRS 4400.

AUP Standard	Jurisdictions
National standard that is adopted from, based on, or is similar to, ISRS 4400	Canada, China, France, Hong Kong, Netherlands, South Africa
No national standard. However, guidance issued by professional body is based on, or similar to, ISRS 4400	Germany, Japan, Mexico, New Zealand, United Kingdom
National standard that is significantly different from ISRS 4400	Australia, United States

5. With respect to jurisdictions that do not have a national AUP standard, the primary reason for not having a national AUP standard is that the NSS does not have the mandate to promulgate such a standard. However, the professional accounting bodies in many of these jurisdictions issue guidance that is based on ISRS 4400. In the WG's view, a revised AUP standard will benefit many jurisdictions around the world.

Matters for IAASB Consideration

1. Are there any other matters of significance that the IAASB believes are relevant to the background information on existing practices regarding AUP engagements?

B. Issues relating to ISRS 4400

Outdated Drafting

6. ISRS 4400 was issued before the clarity project and the drafting of the ISRS is outdated. For example, the ISRS uses terminology such as “auditor” and makes references to using the ISAs as guidance. Such terminology and references are no longer appropriate under the clarity convention for a non-assurance engagement standard. In the WG’s view, ISRS 4400 needs to be written in the clarity format to clearly set out the requirements and guidance relating to the practitioner’s work effort and reporting responsibilities when performing an AUP engagement.

Distinction Between an AUP engagement and an Assurance Engagement

7. An AUP engagement is premised upon:
 - the practitioner performing AUP and reporting on factual findings; and
 - the intended users assessing for themselves the procedures and findings reported, and drawing their own conclusions on the practitioner’s work.

This is in contrast to an assurance engagement when the practitioner performs procedures that the practitioner determines to be necessary to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the subject matter information.

8. Given the premise of an AUP engagement, the WG is of the view that there is a need for consistency regarding:
 - The role of professional judgment, professional competence and due care in an AUP engagement;
 - The practitioner’s objectivity in conducting an AUP engagement;
 - Performance of procedures normally associated with assurance engagements in an AUP engagement; and
 - Use of assurance terminology in an AUP report.

Professional Judgment, Professional Competence and Due Care

9. A practitioner may need to exercise considerable professional judgment in providing advice to the engaging party on the nature, timing and extent of procedures that should be included in certain types of AUP engagement. However, since only factual findings are included in the AUP report, the descriptions of the procedure need to be sufficiently specific so that little or no professional judgment is required to be exercised in the determination of the facts to be reported. Similarly, professional skepticism normally relates to the consideration of the sufficiency and appropriateness of evidence. Since the practitioner is not gathering evidence to support a conclusion, the concept of professional skepticism may not be relevant in an AUP engagement. However, the practitioner is

required to perform the engagement with professional competence and due care. For example, when adding the sales figure from a stack of sales invoices, the practitioner would need to possess the necessary professional competence and exercise due care in determining whether the documents in question are in fact sales invoices and which figures ought to be included in the addition. An issue is how to appropriately reflect the role of professional competence and due care (as opposed to professional judgment and professional skepticism) in the revised AUP standard.

Practitioner's Objectivity

10. Certain national AUP standards (e.g., Australia's ASRS 4400³ and the American Institute of Certified Public Accountants' (AICPA) proposed attestation standard on AUP) require the practitioner to be independent when performing an AUP engagement. Certain users may also require the practitioner to comply with the independence requirements when performing the AUP engagement (e.g., the European Commission's Horizon 2020 program requires the practitioner to comply with the independence requirements in the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA Code"), even though the independence requirements apply only to assurance engagements).
11. The IESBA Code requires a practitioner to be objective, but does not require the practitioner to be independent, when performing a non-assurance engagement. The WG does not intend to open up the question as to whether a practitioner should be independent when performing a non-assurance engagement. However, the issue of the role of objectivity (as opposed to independence) may need to be further explored in light of the approaches taken by various national AUP standards around the world and user needs.

Procedures Normally Associated with Assurance Engagements

12. Certain procedures such as the determination of materiality and the assessment of risk are normally associated with an assurance engagement. For example, establishing materiality may not be necessary in an AUP engagement as it is the responsibility of users to determine whether the subject matter information is free from material misstatement or non-compliance. Likewise, risk assessments may not be necessary as the nature, timing and extent of procedures to be performed are agreed with the engaging party, and are not determined by the practitioner in response to assessed risks. Some national AUP standards such as Australia's ASRS 4400 explicitly prohibit such procedures. ISRS 4400 is silent on whether such procedures are prohibited. The issue is whether the revised AUP standard should explicitly set out a position regarding whether procedures normally associated with assurance engagements could be performed in an AUP engagement.

Assurance Terminology

13. There is lack of clarity regarding the use of terminology that is normally associated with assurance in ISRS 4400. For example, the phrase "review" may be appropriate when read in the context of a layperson's understanding, but may be misinterpreted by others as limited assurance being provided on the subject matter information. In some cases, the use of such terminology is set out in law or regulation. Some national AUP standards (e.g., Australia's ASRS 4400 and the AICPA's

³ Australia Standard on Related Services (ASRS) 4400, *Agreed-Upon Procedures Engagements to Report Factual Findings*

proposed standard on AUP) explicitly prohibit the use of such terminology. The issue is whether the revised AUP standard should also prohibit the use of such terminology, and whether exceptions should be permitted when law or regulation mandates the use of such terminology.

Non-Financial Information

14. The scope of extant ISRS 4400 is limited to AUP on financial information. However, extant ISRS 4400 also states that ISRS 4400 “may provide useful guidance for engagements regarding non-financial information, provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base findings.”
15. Several national AUP standards include non-financial information within their scope (for example, the AICPA’s proposed standard on AUP engagement and Australia’s ASRS 4400). Given that AUP engagements are often performed on non-financial information, an issue to consider is whether the revised AUP standard should continue to focus on financial information only. In considering this issue, the WG notes that preliminary input from the SMP Rapid Response Task Force and a number of NSSs did not identify any specific issues with regard to applying ISRS 4400 to non-financial information.

Duty of Care

16. In some circumstances, a funder, regulator or other user of an AUP engagement may set out the procedures to be performed, but is not a party to the contractual agreement. This situation creates issues such as whether the practitioner should be required to:
 - Agree the terms of engagement with the intended users (or a representative of the intended user such as a regulator) or obtain evidence that the intended users (or their representative) would be amenable to the agreed terms of engagement between the practitioner and the contracting party before performing the engagement.
 - Obtain evidence that the intended users (or their representative) agree to an amended procedure before amending the procedure or whether the practitioner is permitted to amend a procedure during the course of the engagement by obtaining agreement with the contracting party.

At issue is how to appropriately balance the practical difficulties that may be created by such requirements with ensuring that intended users are able to take responsibility for drawing their own conclusions on the practitioner’s work.

The Agreed-Upon Procedures Report

17. ISRS 4400 requires that the practitioner’s report includes “a statement that the report is restricted to those parties that have agreed to the procedures to be performed.”⁴ This restriction is in place as parties other than those who have agreed to the procedures may be unaware of the reasons for the

⁴ ISRS 4400, paragraph 18(l). However, public sector perspective paragraph 1 provides guidance that a “report in a public sector engagement may not be restricted only to those parties that have agreed to the procedures to be performed, but made available also to a wider range of entities or people (for example, a parliamentary investigation about a specific public entity or governmental department).”

procedures and therefore, may misinterpret the results. The WG is aware that restrictions on distribution of the report has caused issues as the AUP report may be required to be provided to other parties either by law or regulation, or by contractual agreement. An issue arises as to whether it is appropriate to restrict the distribution of the report.

18. The WG is also aware of concerns that the AUP report does not adequately convey the value provided by practitioners. An AUP engagement is not an assurance engagement and the AUP report reflects this fact with the caveat that “no assurance is expressed.”⁵ However, users do take “comfort” from the fact that the procedures are performed, and the findings reported, by a practitioner who possesses professional competence and has undertaken the engagement with due care. At issue is how to word the report so that a layperson can understand the value provided by an AUP engagement derives from professional competence and due care that the practitioner exercises in conducting the procedures and reporting factual findings, rather than conveying any degree of assurance. This issue would need to be considered in conjunction with issues relating to use of assurance terminology in an AUP report as set out in paragraph 15 above.
19. Based on examples of AUP reports obtained by the WG, the WG notes that the “short-form” AUP report as set out in Appendix 2 of ISRS 4400 does not appear to be commonly used in practice. It would be useful for the illustrative AUP report in the revised ISRS to be more reflective of AUP reports issued in practice. More importantly, an examination of AUP reports might also show how they can be enhanced to communicate more effectively.

Relationship with ISA 600⁶

20. The WG is aware that there may be confusion as to whether specified procedures performed by component auditors under ISA 600 constitute AUP in accordance with ISRS 4400. On the one hand, “specified procedures” may be an analogous application of AUP. On the other hand, professional judgment is likely necessary in performing the specified audit procedures (e.g., in selecting samples for testing) and in considering the findings, which are not necessarily factual. In the view of the WG, the relationship between ISA 600 and the revised AUP standard may need to be clarified.

Matters for IAASB Consideration

2. Does the IAASB agree with the issues identified, and are there any other issues relating to ISRS 4400 that the IAASB believes the WG should further explore?

C. Hybrid Engagements

21. Input from NSSs, members of the SMP Rapid Response Task Force and other parties seem to indicate that there is no common understanding of what constitutes a hybrid engagement. Based on input received, it appears that hybrid engagements involving AUP generally fall under two categories:

⁵ ISRS 4400, paragraph 18(j)

⁶ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- Category 1 – Two or more separate engagements on the same or related subject matter information such as an audit of the financial statements and AUP on internal controls over financial reporting, or a review of the financial statements and AUP on certain elements within the financial statements.
 - Category 2 – Specified procedures that require the practitioner to provide a conclusion on subject matter information.
22. In the WG's preliminary view, category 1 hybrid engagements do not present performance issues, but there are reporting issues as to how to present the report or reports (i.e., two separate reports or one report with two separate sections). The key consideration is to how to clearly segregate the description of the assurance engagement from the AUP engagement so that users are not confused as to the nature of the work done and the conclusions or factual findings reached. A related reporting issue is whether the practitioner is permitted to issue an AUP report if the practitioner has previously issued an adverse opinion or disclaimed an opinion on the same or related subject matter information. The key consideration in this case is to avoid giving the impression of a "piecemeal opinion".
23. In the WG's view, category 2 hybrid engagements represent departure from ISRS 4400 or lack of understanding of the scope of the existing assurance and related services standards. This issue is related to the issues as described in paragraphs 9-15 above regarding the lack of distinction between an AUP engagement and an assurance engagement. In analyzing the issues relating to the lack of distinction between AUP engagements and assurance engagements, the WG may consider the implications arising from category 2 hybrid engagements. The WG may also consider the use of non-authoritative staff guidance or other educational tools to address hybrid engagement issues. However, at this time, the WG has not reached a conclusion on whether, and if so how, such engagements would be addressed.

Matters for IAASB Consideration

3. Is the IAASB's understanding of hybrid engagements consistent with that of the WG?
4. Does the IAASB agree with the WG's preliminary views regarding the issues related to hybrid engagements?

D. Proposed Way Forward

24. Through preliminary consultations with NSSs, members of the SMP Rapid Response task force, and other stakeholders, the WG has obtained a basic understanding of how AUP engagements are performed and some of the issues relating to such engagements. Given the wide spectrum of AUP engagements and the extensive issues relating to such engagements, the WG is of the view that a more in-depth understanding of how AUP engagements are performed and the related the issues are essential. The WG notes that the IAASB's recent experience has shown that obtaining appropriate information early in a project, in particular for purposes of scoping the project, benefits projects in the long term. Obtaining input from interested stakeholders at an early stage is also expected to help further inform the IAASB on the broad range of issues and potential actions to address them (e.g., whether standard-setting or other actions by the IAASB or others such as the development of non-authoritative guidance would be more appropriate), and to assist the IAASB in focusing its efforts on the most significant issues.

Development of a Discussion Paper

25. As an initial step, the WG recommends a Discussion Paper (DP) that outlines the issues identified for the purposes of:

- Validating the issues that have been identified; and
- Identifying any other issues including evolving challenges in practice.

The WG proposes to develop this DP with publication planned for after the March 2016 IAASB meeting. As the WG develops the DP, it will also advise the IAASB on its view as to whether interviews with selected stakeholder groups or other outreach activities would be worthwhile.

26. In order to develop a robust DP, the WG intends to more thoroughly explore some of the identified issues through various interactions with relevant stakeholders. This will include understanding:

Issues	Stakeholder groups
The pervasiveness of AUP engagements on non-financial information and issues specific to performing AUP engagements on non-financial information.	Practitioners and intended users (e.g., regulators and funders)
Practitioners' experiences and expectations regarding the role of professional judgment, professional competence and due care in an AUP engagement.	Practitioners
How extensive are procedures normally associated with assurance engagements (e.g., risk assessment, determination of materiality and obtaining management representation) being performed in practice, and the practitioners' objectives in performing those procedures.	Practitioners
Whether procedures that refer to assurance terminology are well understood.	Practitioners and intended users
Whether requests for practitioners to perform procedures that refer to assurance terminology are a result of legislative or other requirements.	Intended users
Issues related to "duty of care" in circumstances where the party that determines the procedures is not a party to the contractual agreement, and how those issues are resolved in practice.	Practitioners, intended users and contracting parties (if different from intended users)
Auditors' expectations as to whether assurance is provided by component auditors when requesting component auditors to perform specified procedures under ISA 600, and component auditors' expectations as to whether assurance is provided when performing specified procedures under ISA 600.	Practitioners who are also auditors
The level of understanding of users' responsibility in performing their own analysis of the results of the AUP report.	Intended users
Changes, if any, to the AUP report that would improve the clarity or otherwise enhance the usefulness of the report	Intended users

Issues	Stakeholder groups
Types of hybrid engagements and issues regarding such engagements	Practitioners and intended users

27. The feedback from the DP will be used as the basis for the project proposal. This will determine the standard-setting activities of the Board (or other activities as appropriate).

Suggested Approach to Moving Forward

28. The following sets out suggestions for the way forward to the expected project proposal:

Timing	Outline of WG / IAASB Discussion
June 2015 Board meeting	Information session about the issues relating to AUP and discussion on the way forward.
September 2015 CAG meeting	Information session for the CAG about the issues relating to AUP.
September 2015 Board meeting	Further discussions on issues identified as a basis for the development of the DP.
December 2015 Board meeting	Draft DP – 1st read.
March 2016 CAG meeting	Information session for the CAG about the issues relating to AUP as set out in the draft DP.
March 2016 Board meeting	Draft DP for Board approval (DP to be finalized by WG and released with a 90–120 day consultation period).
Spring/summer 2016 (Timing would need to be confirmed)	Possible interviews with selected stakeholder groups (or other format) to solicit additional input and feedback.
September 2016 CAG meeting	Discuss feedback on DP and project proposal.
September 2016 Board meeting	Discuss feedback on DP and project proposal for approval.

Matters for IAASB Consideration

5. The IAASB is asked for its views on the way forward. Specifically, does the IAASB agree with:
- (a) The WG's recommendation to develop a DP (with a decision about possible additional outreach activities at a later point in time)?
 - (b) The proposed timing of the activities until the planned project proposal?
 - (c) The proposed topics / areas for further information gathering set out in paragraph 28 above? Are there any other areas the Board believe the WG should consider exploring as part of its information gathering activities or stakeholders whose views should be solicited in advance of the DP?

Extract from the IAASB's Work Plan for 2015-2016

Agreed-upon Procedures – Revision of ISRS 4400 and Consideration of More Holistic Issues Involving Agreed-upon Procedures

Issues that may be addressed

In relation to agreed-upon procedures and the need to revise ISRS 4400—To respond to broad calls from SMPs and other stakeholders who have indicated that investors, banks and other providers of capital often request an entity to have agreed-upon procedures performed by a practitioner, either in lieu of an audit or in order to ensure that specific procedures are performed on key account balances, a project to revise this standard was planned for the 2012–2014 Strategy and Work Program. One of the main objectives of the planned project was to revise the standard in the Clarity format. However, the commencement of the project in the 2012–2014 period was delayed because of the acceleration of work on the Auditor Reporting project.

In relation to more holistic issues involving agreed-upon procedures and other similar engagements addressed by the IAASB's standards—As the IAASB contemplates work on the topic of agreed-upon procedures in the next Work Plan, it has been noted that “hybrid” engagements, using a combination of procedures derived from review, compilation and agreed-upon procedures engagements, are being performed in some jurisdictions as a means of meeting the emerging needs of SMEs, among others. Accordingly, wider consideration will be given to exploring these evolving types of engagements to consider whether standard-setting or other activities may be appropriate, in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards.

Standards that May Be Addressed

Revision of ISRS 4400, with conforming amendments to other standards as necessary.

Possible Other Outputs

A new standard or guidance that would address engagements where there is a combination of agreed-upon procedures and assurance (either reasonable or limited).

Preliminary Views on the Approach to the Project

Initial information gathering activities will include consideration of:

- a) The way forward with respect to the revision of ISRS 4400, taking into account the work of various NSS in this area.
- b) The evolving use of “hybrid” engagements, including what needs such engagements are intended to address and how such engagements are performed (e.g., how the concepts of reasonable assurance and limited assurance are combined with agreed-upon procedures).

IAASB discussions for this initiative are planned to commence in mid-2015 to allow sufficient time for understanding the market needs in this area and the underlying conceptual considerations for these new types of services. A project proposal for the revision of ISRS 4400 is expected at the end of 2015, with consideration to be given at that time as to whether actions are needed in relation to “hybrid” engagements.

Meeting: IAASB

Meeting Location: New York

Meeting Date: June 15–19, 2015

Agenda Item

8

Approach to the Combined Discussion Paper

Objective of Agenda Item

1. To highlight how information-gathering on the IAASB's key projects of quality control, group audits and special considerations in auditing financial institutions will be addressed in a combined Discussion Paper (DP).

Agenda Items 12, 6/9, and 11 will facilitate more in-depth discussions related to these projects respectively, and **Agenda Item 10** represents the IAASB's initial work on the topic of professional skepticism.

Audit Quality Enhancements Coordination Group (AQECG)

2. The AQECG comprises:
 - Megan Zietsman, Overall Chair and Chair of the Group Audits Working Group (GAWG)
 - Karin French, Chair of the Quality Control Working Group (QCQG)
 - Annette Köhler, Chair of the Professional Skepticism Working Group (PSWG)
 - Rich Sharko, Chair of the Financial Institutions Working Group (FIWG)
 - Brendan Murtagh, IAASB Member, serving as the Liaison to the International Ethics Standards Board for Accountants (IESBA) and the IFAC Small and Medium Practices (SMP) Committee
 - Correspondent Member: Merran Kelsall, IAASB Member, currently the Audit Quality Liaison as a former member of the Audit Quality Task Force
3. The purpose of this group is to develop the “forepart” of the DP and overarching questions, as explained in more detail in paragraph 5 of this paper, and to coordinate the various inputs to the DP developed at the individual working group (WG) level. The AQECG has also developed a draft outline of the DP, which is included in the Appendix to this paper. The AQECG does not intend to override the decisions of the individual WGs in terms of recommendations for matters to include in the DP as they relate to specific topic-related issues, but rather intends to analyze the individual issues and take a holistic approach as to how the matters are presented in the DP. This approach is intended to demonstrate the extent to which there is commonality across or crossover between WGs or topics, thereby enabling respondents to the DP to understand such connections and to comment more effectively.

Proposed Approach to the Discussion Paper

4. Following a brief discussion at its March 2015 meeting, the IAASB discussed the proposed coordinated approach to consultation to the DP at its April 2015 meeting and agreed that there is merit in such a coordinated approach to consultation in relation to a number of key projects on the Board's agenda. The AQECG was therefore formed and one teleconference has been held to discuss the matters in this paper, in particular the proposed approach to, and form and content of, the DP.
5. The AQECG proposes that the DP be organized primarily in two sections:
 - (i) The forepart, which is intended to be a user-friendly, relatively brief summary of the broad overarching audit quality-related issues that have been identified individually and collectively by the various WGs, as well as proposals for the possible ways in which these issues could be addressed by the IAASB, and others as necessary. Initial views as to the possible approach to the forepart of the paper, including the areas for inclusion, are set out in the Appendix.
 - (ii) The second part, which will likely be divided into different sub-sections that include a more detailed analysis of issues relating to the three key projects, including:
 - a. Details of the IAASB's understanding of the most significant issues that have been identified to date and considered by the IAASB—including issues identified through the ISA Implementation Monitoring project, inspection findings, other outreach activities (including meetings of the National Auditing Standards Setters (NSS) and the IAASB Consultative Advisory Group (CAG)), and WG and Board discussions. Stakeholders will be requested to confirm that all relevant issues have been identified, and that all relevant aspects of those issues have been considered.
 - b. A description about how the existing ISAs are relevant to the identified issues—intended to effectively facilitate the solicitation of feedback from stakeholders on actual or perceived gaps in the ISAs in the areas affected by the issues identified.
 - c. The IAASB's views about possible actions that could be taken to address the issues identified and thereby enhance audit quality—including presenting actions the IAASB believes may be appropriate, or necessary for others to take. The DP will solicit stakeholder views on these possible actions, and the IAASB will use the input as the basis for scoping the project proposals¹ for the individual projects and assessing the relative prioritization of the projects and the issues identified in relation to them.
 - d. A call for respondents to share views to assist the IAASB in understanding the “root causes” of the underlying issues—to help the IAASB weigh the necessary actions in the public interest and determine whether the standards themselves need to be revised

¹ The IAASB considers possible areas on which standard-setting may be an appropriate response in developing its Work Plans. As noted in the IAASB's Due Process, a proposal to start a new project is prepared based on research and appropriate consultation (e.g., feedback from a DP), with consideration given to the costs and benefits of the anticipated output of the proposed project. Project proposals identify the objectives of the project and explain how achievement of those objectives would serve the public interest. The IAASB CAG comments on project proposals and the IAASB approves project proposals. The approval of a project proposal marks the commitment of the IAASB to a standard-setting project, and the project proposal serves as the basis for the future ED.

to provide greater clarity (including through strengthened or clarified requirements or additional guidance) or whether other actions (such as the development of non-authoritative material) by the IAASB or others may be more effective in enhancing auditor performance.

The Appendix provides more detail about possible areas that could be included in both sections of the DP. Soliciting feedback through the DP will help the IAASB confirm its understanding of the issues, its views about possible ways to address the issues and its understanding of the underlying causal factors, which will help the IAASB affirm whether its preliminary thinking about how to address the issues is workable and responsive.

6. Both sections would include specific questions for respondents, although those in the forepart would be at a higher level and could also be specifically tailored or directed to particular stakeholder groups. The AQECG is of the view that it should be made clear in the DP that respondents are welcome to respond to any of the questions where they have relevant input to provide. It might also be useful within the DP to explain how specific questions may be relevant to the individual WGs.
7. This proposed organization of the DP intentionally recognizes the concern that a combined DP may be too unwieldy to navigate and therefore may not result in effective responses from a wide range of stakeholders. Equally, it is important that sufficient details and targeted questions are provided within the forepart to provide respondents with a sufficient basis on which to provide informed responses, i.e., rather than simply providing feedback based on perceptions of problems within the ISAs or with auditor behavior generally. Notwithstanding the concerns about the overall length of the DP, the AQECG continues to believe that a coordinated approach to consultation is preferable, rather than an approach involving multiple DPs from individual WGs that would be issued concurrently or shortly following one another.
8. The DP is expected to be issued in December 2015, with a 150-day comment period.

Professional Skepticism

9. In finalizing the *Work Plan for 2015–2016*, the IAASB acknowledged that further consideration of the topic of professional skepticism was needed, i.e., to enable the IAASB to further explore what could be done in this area before committing to a standard-setting project on the topic. It was also agreed that initially this topic would also be explored through the planned projects on quality control, group audits and financial institutions rather than as a separate and discrete project. At the June 2015 IAASB meeting, the IAASB will commence its work on the topic, with a panel session focused on exploring views as to how professional skepticism can be enhanced in an audit of financial statements (see **Agenda Item 10**).²
10. Accordingly, the AQECG is of the view that the DP also provides an opportunity for the Board to set forth initial views on the topic of professional skepticism, by (i) explaining the underlying expectation of the ISAs with respect to professional skepticism; (ii) highlighting the more behavioral aspects; and (iii) summarizing the feedback from the panel presentation.

² A Working Group comprised of representatives from the IAASB, the IESBA, and the International Accounting Education Standards Board (IAESB) has been formed to explore the topic of professional skepticism, enabling the three Boards to consider what actions may be appropriate within their collective Standards and other potential outputs to strengthen auditor behavior and enhance professional skepticism.

Financial Institutions

11. The AQECG also recognizes that the FIWG is exploring a wide range of issues, some of which are quite specific to the financial institutions industry, and also matters where the IAASB is being encouraged to take action as quickly as possible. The AQECG and the FIWG acknowledge that the combined DP will likely not be the most effective means to adequately address all the issues related to audits of financial institutions, in particular the demands for the IAASB to consider the implications on IFRS 9³ on an accelerated basis (see **Agenda Item 11**). Rather, in relation to financial institutions, the AQECG believes that the DP should focus more on the topics initially identified by the Basel Committee on Banking Supervision that are likely to be relevant for a wider range of entities (see [Agenda Item 5-B](#) from the March 2015 IAASB meeting), and may also be topics where it would be relevant to seek input about the implications for group audits or even all audits more generally. In particular, the AQECG is of the view that the DP could usefully highlight potential areas for improvement within ISA 540⁴ relating to auditing fair values, including recognizing the increasing significance of using auditor's experts, the approaches to auditing management's estimates, and situations when estimation uncertainty may be multiples of audit materiality.

Matter for IAASB Consideration

1. The IAASB is asked for its views on the matters set out above and the outline in the Appendix.

Outreach

12. Initial discussions with the Steering Committee and the IAASB have highlighted the need for outreach on the combined DP, as well as more targeted discussions with certain stakeholder groups. The IAASB's experience from an event held in April 2015 with audit committee members suggests that more targeted meetings (maximum of 15–20 participants) generally provide a greater opportunity to probe specific issues with certain stakeholder groups. Equally, it is often helpful for stakeholders of differing views to have an opportunity to interact.
13. The AQECG is therefore of the view that "roadshows" could be quite useful as a means of soliciting feedback on the DP and standard-setting projects throughout 2016. The intent would be that a consistent format could be developed, using the questions in the forepart of the DP, for a group of no more than 20 participants. However, variability could be useful depending on the jurisdiction and attendees (e.g., a roadshow for audit committee members, a financial institutions roadshow (which could explore issues beyond the DP), an SMP roadshow, a country roadshow with a diverse group of participants etc.). These events could be organized / co-hosted with other organizations or in coordination with other planned events to leverage travel.
14. The DP would also be used as the basis for discussions with the IAASB Consultative Advisory Group and the IAASB-NSS Liaison Group, more recurring-type outreach events,⁵ such as annual

³ International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

⁴ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

⁵ Including meetings of the International Organization of Securities Commissions' (IOSCO) Committee 1 and its Auditing Subcommittee, the International Forum of Independent Audit Regulators (IFIAR) and its Standards Coordination Working Group, the European Audit Inspections Group, the Forum of Firms, the IFAC Small and Medium Practices Committee, the

meetings of regulators and audit oversight bodies, firms, IFAC Boards and Committees and, where possible, as the focus of speaking engagements for which the IAASB would seek to be invited (see paragraph 16).

15. The following represents the AQECG's high-level view of a possible program of events already anticipated in 2015 and future IAASB "roadshows" to be planned:

- June – November 2015:
 - o Board member and Technical Advisor outreach with stakeholders at the jurisdiction level using a standardized slide deck. These activities would also serve to identify participants for events planned in 2016.
 - o Roundtables with audit committee members in Toronto and Singapore on the topics of Auditor Reporting and Audit Quality
 - o Presentation at the PIOB 10th Anniversary Seminar on the topic of "Standard Setting in the Public Interest" in Madrid, Spain
 - o IAASB leadership visits to India, Nordic Federation, Turkey, Japan, Russia, South Korea, Australia and New Zealand, including presentations at external events in these countries
- January – May 2016 to solicit feedback on the DP:
 - o Roadshows in Latin America and South America (in coordination with CReCER or former CReCER participants)
 - o Roadshow in Paris at the Organisation for Economic Co-Operation and Development (OECD)⁶
 - o Other roadshows in Europe in connection with NSS, regulators and others (e.g., Copenhagen, Netherlands, UK)
 - o Roadshows and other stakeholder meetings in Africa (to be coordinated with Pan African Federation of Accountants' Annual Meeting)
 - o Meetings with the Global Public Policy Committee (GPPC)
- Events planned after the close of the DP, aimed at validating feedback thereon and commencing the standard-setting projects (for which project proposals will be put forth to the IAASB in September 2016):
 - o Roadshow(s) in North America, potentially in coordination with the PCAOB, CPAB, CAASB, and CAQ
 - o Roadshow in Abu Dhabi or other location in the Middle East
 - o Roadshow or other outreach events in Hong Kong and possibly other areas in Asia

IFAC Professional Accountants in Business Committee, the IFAC Board and Council, and events of NSS and professional accountancy organizations at the regional and national level.

⁶ The OECD is currently conducting a [review of its Corporate Governance Principles](#) to ensure their continuing high quality, relevance and usefulness, taking into account recent developments in the corporate sector and capital markets. The review is scheduled for release in September 2015.

- o Roadshow in coordination with the IFAC Board and Council meetings in Brazil
16. The AQECG is of the view that, where possible, the IAASB should also seek to participate in annual events held by significant stakeholders, e.g., CFA Institute, the International Corporate Governance Network, United Nations Conference on Trade and Development / Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, Fédération des Experts Comptables Européens, Financial Industry Regulatory Authority, World Bank, International Monetary Fund and others.

Matters for IAASB Consideration

2. The IAASB is asked to share views about the planned outreach plan, on outreach activities that may be useful and in particular, the proposal to hold roadshows. The AQECG is also interested to learn about recurring events at which the IAASB should seek to present its views on enhancements to audit quality.

Appendix

Draft Outline of the DP – Responding to Calls to Enhance Audit Quality

The purpose of this Discussion Paper is to explore how the IAASB might best respond in the public interest to calls to enhance audit quality, in particular to respond to:

- Inspection findings highlighted by regulators and audit inspection bodies; and
- Developments and practical challenges noted by accounting firms, including small and medium practices (SMPs) and others.

It builds upon the topics set out in the *IAASB's Work Plan for 2015–2016*, in support of the IAASB's strategic objective to ensure that International Standards on Auditing (ISAs) continue to form the basis for high-quality, valuable, and relevant audits conducted worldwide by responding on a timely basis to issues noted in practice and emerging developments. It also recognizes the input factors set out in the IAASB's *Framework for Audit Quality* (the Framework), and the possibility of more closely aligning the International Standards with the Framework.

Forepart

I. Message from the Chairman

- Explain that the key projects identified in the DP are as a result of the findings from the IAASB's ISA Implementation Monitoring project, input from regulators and audit oversight bodies, and others (such as firms and national standard setters), and from outreach
- Highlight why the Board has considered it appropriate to issue a combined DP, and briefly explain the overall approach taken (i.e., use of a forepart together with a second part for more detailed and topic-specific questions).
- Explain the outreach that had been conducted to date that supports this approach
- Encourage respondents to provide detailed comments and input to all matters that are relevant to them

II. Why are Enhancements Needed to Audit Quality?

- Explain the IAASB's role as a global standard setter and our focus on audit quality
- Mention the IFIAR inspection findings, specifically the IFIAR view that there are persistent deficiencies in important aspects of audits and that there is a basis for ongoing concerns about audit quality, as well as the encouragement for evaluation of whether and how the IAASB's standards could be enhanced and therefore contribute to reducing the level of recurring inspection findings
- Also note the need for a continued focus, primarily by audit inspection bodies and firms, on understanding the "root causes" of inspection findings – including whether this suggests further changes are needed to the standards (in the form of clarification or strengthening of requirements and guidance, or whether other actions by the IAASB (or others) are needed to facilitate effective, high-quality implementation of the standards in order to achieve their intended effects

- Briefly highlight ISA Implementation Monitoring project and link to the reports, explaining that this was the basis for the focus in the strategy and the prioritization of topics in the first WP in the 5-year strategy
- III. Where Could the IAASB Take Steps to Strengthen its Standards or Provide More Relevant Guidance to Enhance AQ?
- An important theme coming out of the inspection findings globally is the view that auditors are not exercising sufficient professional skepticism. What does this actually mean? Summarize views from June 2015 discussions and highlight components of definition/guidance in ISA 200⁷
 - Flag actions that could be helpful, for example, the manner in which specific requirements in key standards are drafted (e.g., by suggesting that more needs to be done to challenge management's judgments rather than seek to corroborate them, considering alternative sources of evidence or contradictory evidence or more independent development of estimates by specialists or experts)
 - A firm's system of quality control is at the heart of a high-quality audit, but important also for quality at the engagement level – Explain how the ISAs address responsibilities at all levels and the need therefore to look holistically across quality control requirements at the firm, engagement, engagement partner and engagement quality control reviewer (e.g., by summarizing key recommendations from the detailed analysis of the paper)
 - Explain the evolving world of business and the fact that the IAASB needs to ensure the ISAs remain fit for purpose – Raise the question of whether the standards need to recognize these developments more or whether more guidance is needed to acknowledge these developments (bring up key recommendations from the detailed analysis of the paper)

Detailed Analysis

The AQECG believes the work by the QC group will likely serve as the basis for the overarching messaging in the detailed analysis of the paper. Outreach to date has confirmed that this approach resonates with stakeholders in terms of the various interactions in audit quality.

This section will include issues and analysis related to:⁸

- Roles and responsibilities of the engagement partner, as the person taking responsibility for the overall quality of the audit
- Engagement quality control reviews (EQCRs) / engagement quality control reviewers and their role in audit quality. This may also include questions about special considerations for group audits, as well as audits of financial institutions
- The role of the firm in audit quality, both at the engagement and firm levels (includes “tone at the top,” monitoring of firms quality control policies and procedures and firm governance)

⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁸ Agenda Papers for the IAASB's June 2015 meeting for individual projects more fully describe these matters: Quality Control (Agenda Item 12), Group Audits (Agenda Item 9) and Update on Financial Institutions (Agenda Item 11).

- Involvement of others in performing or supporting the audit engagement, including the effects on audit quality. This section may include:
 - o Exploring what enhancements may be needed to strengthen or supplement the existing ISAs, including ISA 220,⁹ ISA 600,¹⁰ and ISA 540
 - o Describing the way in which audits may be conducted in a global business environment, including the various audit delivery models used to perform audits
 - o Discussion of the evolving need for specialists or experts in particular areas such as increasingly complex financial instruments
 - o Obtaining sufficient appropriate audit evidence and documenting conclusions to support the opinion on the financial statements This includes exploring whether improvements are needed related to:
 - Planning and executing group audits, including aspects of component materiality and the approach to a group audit, the procedures performed by the group engagement team in relation to the component auditor, communications with component auditors, and the group engagement team's evaluation of the work of the component auditor
 - Auditing fair values, expected losses, other estimates

Within these topics, the paper will explore the issues and their underlying causes, as well as a discussion about the existing requirements and guidance in the ISAs relating to the issue. The paper will also include specific considerations that may be particularly relevant to:

- SMPs, in light of the need to consider how possible changes to the ISAs may affect them, including the ability for any changes to be applied on a proportionate basis
- Public sector
- Financial institutions, in light of their importance to global financial stability

The DP will also set out possible actions for stakeholder views, which may include:

- Changes to the ISAs or ISQC may be needed (whether in the form of new Standards, or strengthened requirements or additional guidance in existing Standards).
- Other outputs (e.g., an International Practice Note) or activities that may be appropriate to enhance audit quality in relation to the key topics explored in the paper.
- Activities that may be needed by others in coordination with the IAASB's possible actions (e.g., enhanced role of audit committees, areas of improvement in financial reporting standards, efforts by other independent SSBs, etc.)

The IAASB will also be interested in respondents' views as to the relative prioritization of the topics addressed in this paper.

⁹ ISA 220, *Quality Control for an Audit of Financial Statements*

¹⁰ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Meeting: IAASB
Meeting Location: New York, USA
Meeting Dates: June 15–19, 2015

Agenda Item 9

Group Audits

Objective of Agenda Item

1. The objective of this agenda item is to obtain IAASB views on the matters set out in Agenda Item 9-A to assist the Group Audits Working Group in developing the group audit-related content of the Discussion Paper (see Agenda Item 8).

Group Audits Working Group

2. The Group Audits Working Group (GAWG) is comprised of the following members:
 - Megan Zietsman, IAASB Member and Chair of the GAWG (supported by Dora Burzenski, Deloitte)
 - Robert Dohrer, IAASB Member
 - Brendan Murtagh, IAASB Member
 - Wolf Böhm, IAASB Technical Advisor
 - Josephine Jackson, IAASB Technical Advisor
 - Len Jui, National Standards Setters (China) Representative
 - Derek Broadley, National Standards Setters (Hong Kong) Representative

Activities of the Working Group

3. Since the March 2015 Board meeting, the GAWG has held a physical meeting in April and two teleconferences in May. Matters addressed by the GAWG included:
 - Providing input to the draft Staff Audit Practice Alert that was discussed at the March 2015 Board meeting as a possible interim step to responding to some specific concerns of audit regulators regarding “audits of letterbox companies,”¹ and,
 - Further discussion and analysis of issues relating to group audits and development of preliminary GAWG views on how these issues might be addressed, with the objective of developing appropriate group audit-related content for the Discussion Paper.

¹ The draft Staff Audit Practice Alert is discussed in Agenda Item 6

Action Requested

4. The IAASB is asked to consider the issues identified and the preliminary views of the GAWG concerning these issues (including how these issues might be presented in the Discussion Paper) as presented in **Agenda Item 9-A**, and to provide views on the Matters for Consideration therein.

Material Presented

Agenda Item 9-A

Group Audits — Issues and Working Group Recommendations

Group Audits – Issues and Working Group Recommendations

Objectives of the Discussion

The objective of the discussion is to obtain Board input on the matters addressed herein to inform the development of the group audit-related content of the Discussion Paper (DP) by the Group Audits Working Group (GAWG), through:

- (a) Obtaining further input about the issues that have been raised relating to audits of group financial statements, taking into account existing requirements and guidance in the International Standards on Auditing (ISAs), and including input as to whether there are other issues not summarized herein; and
- (b) Discussing Board views on the matters set forth herein, including the GAWG's preliminary views on possible ways to address the relevant issues.

In particular, IAASB views on the topics within this paper will be used by the GAWG as the basis for:

- How group-audit related matters will be described in the DP; and
- Developing the questions for respondents to be included in the DP.

March 2015 Group Audits [Draft] Minutes

The Board generally supported soliciting further input on the Group Audits project by means of a DP. Specifically, the Board:

- Suggested that consideration of the results of academic research should be considered in drafting the DP.
- Recommended considering the impact of relevant accounting standards (i.e., those that have a direct impact on entities that are considered groups), as well as monitoring the results of developments in the accounting standards, and considering the impact that these developments may have on the audits of group financial statements.
- Raised the issue of the ability of the auditor of the group financial statements to more directly use or rely on a component auditor's report, including making reference to such report in the group auditor's report. Discussed that the Group Audit WG might potentially consider exploring the issue further (including analyzing the related issues and considering what might be an appropriate the level of work to be performed by the group auditor in such circumstances), and seek further input in the DP.
- Recommended that the Group Audit WG continue to focus its information gathering on understanding the root cause of inspection findings and on formulating preliminary views as to whether issues that have been noted might be best addressed through standard setting or whether they are more related to auditor performance.
- Cautioned against the potential of diminishing the auditor's responsibilities with respect to group audits, noting the requirement to obtain a reasonable level of assurance to support the opinion on the group financial statements, which is considered to be a high level of assurance.
- Considered whether it might be useful to provide examples of how group audit issues could

become key audit matters (KAM) to be communicated in the auditor's report in accordance with ISA 701.¹

Board members expressed mixed reactions to the proposal for a Staff document to be prepared to specifically address the issues that have been raised by certain audit regulators in respect to “audits of letterbox companies”, noting in particular that the issues relating to such audits are complex and that they are not necessarily unique to these audits, but rather are issues that have broader applicability to many other group audit situations. The Board also suggested that a different term should be used to describe the audits that are the subject of the regulator's concerns, given the inconsistency in the understanding of the term “audits of letterbox companies” and the perceived negative connotations. On balance however, the Board understood the need for a shorter-term action, and supported the WG's recommendation to develop a brief Staff publication to remind auditors of their obligations in these circumstances and also indicate that a broader project is underway. Some members cautioned that:

- Care would be needed to ensure that the staff document did not result in an interpretation of the existing standards that would go beyond just reminding auditors of the existing requirements and guidance.
- A staff alert may have little value and could run the risk of creating more issues in the area of group audits.

The Board agreed that issues pertaining to “audits of letterbox companies” apply more broadly to group audits and should be explored in more detail in the planned DP, which would provide the opportunity for the complexities to be fully identified and understood.

IAASB CONSULTATIVE ADVISORY GROUP (CAG) CHAIRMAN'S REMARKS

Ms. de Beer noted the CAG was supportive of the proposed approach for the Group Audits project, including the proposal to publish a Staff document reminding auditors what is required by the ISAs in situations where the engagement partner is located in a different location than where the work is being performed, noting that inconsistent practices in the application of the ISAs in these situations could be damaging to the reputation of the ISAs. She noted the CAG's discussions focused on the difficulties of identifying components in the public sector, issues with access to component auditor working papers and issues with the determination of component materiality. Ms. de Beer also noted that the CAG had recommended consideration of the results of academic studies in determining the population of group audit issues.

WAY FORWARD

Staff, in coordination with the WG, will develop a draft Staff publication on the topic of audits of letterbox companies to clarify the application of the ISAs in such situations. The Group Audit WG will continue to explore and understand the issues pertaining to group audits, incorporating the feedback from the Board and the CAG, and present further matters for the IAASB's consideration at its June 2015 meeting.

Background

1. The International Auditing and Assurance Standards Board's (IAASB) [Strategy for 2015–2019](#) acknowledges the IAASB's strong commitment to meeting the expectations of stakeholders regarding the application of the ISAs. Accordingly, the IAASB has agreed to focus on certain ISAs in 2015–

¹ ISA 701, *Communication of Key Audit Matters in the Independent Auditor's Report*

2016, including planned efforts on group audits that commenced with forming a Working Group in 2014 (the GAWG).

2. The GAWG commenced its work and held an initial discussion with the Board at its March 2015 meeting about issues and concerns that have been identified related to the implementation and use of ISA 600² in group audits and the history of the development of ISA 600, including significant decisions that were made in revising and redrafting the standard during the clarity project. Separately the GAWG has also held two discussions with the Board on the topic of “audits of letterbox companies” (at the December 2014 and March 2015 Board meetings). See **Agenda Item 6** for further discussion of the GAWG’s activities related to this topic. The GAWG has developed this paper to describe its further analysis of the issues related to ISA 600 and to provide its views on the way forward.
3. At the March 2015 meeting, the IAASB agreed with the GAWG’s proposal that formal public consultation on the matters identified relating to group audits would be appropriate in order to inform a future project proposal to amend the ISAs. In addition, the IAASB concurred that a DP was an appropriate mechanism for performing this public consultation. The DP will contain a description of issues identified, together with the IAASB’s views about how the issues might best be addressed, including whether and if so, how the requirements and guidance in the ISAs should be amended. The objective of this public consultation, using the DP as a means of communication to interested stakeholders (see further information about the DP in **Agenda Item 8**), will be to:
 - Confirm that the issues identified in the DP are complete, including that all relevant aspects of those issues have been highlighted and obtain views about the relative significance or importance of the issues with respect to their effect on audit quality.
 - Obtain input about the IAASB’s views as to how the issues could be addressed effectively, including through changes to the standards or through other appropriate action by the IAASB or other stakeholders.³ Input requested would include stakeholder views as to:
 - (i) Whether the issues identified apply equally to all entities (i.e., entities of different sizes and complexity, different industries, and across jurisdictions), or whether there are specific considerations for particular circumstances (e.g., an issue may be identified as specific to a particular type of entity or may be more acute within a particular jurisdiction).
 - (ii) The appropriateness of the proposed actions, including whether alternative actions should be considered. If the proposed actions to address issues identified are not within the IAASB’s mandate, stakeholder views about those actions that may be appropriate for someone other than the IAASB could also be solicited, including views about the role that the IAASB might play with respect to such actions.

As described in **Agenda Item 8**, the DP will contain specific questions related to Group Audits. The responses to the DP in general, as well as the GADP, will assist the IAASB in developing the project proposal relating to group audits (and other projects as relevant), specifically informing the areas to

² ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

³ The IAASB may also consider those matters that will require collaboration or cooperation with other stakeholders for an effective solution and engage with them as relevant.

be pursued (see further discussion about potential actions that the IAASB may undertake in paragraphs 22–23).⁴

Introduction

4. In commencing its discussions and analysis of the issues related to group audits, the GAWG notes that when planning and performing an audit of group financial statements, the nature, timing and extent of the audit work required and the nature of the judgments involved will vary, potentially significantly, given the wide variety and complexity of the way in which entities producing group financial statements are structured. The assessment of what comprises “sufficient appropriate audit evidence” in the circumstances will therefore likely be a matter involving the exercise of significant professional judgment, reflecting the nature and complexity of the entity, as well as the auditor’s identification and assessment of the risks that the group financial statements prepared by management could be materially misstated, and the auditor’s assessment as to whether sufficient appropriate audit evidence can be reasonably expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the audit opinion. This will also include the auditor’s determination that such risks have been properly addressed by the audit evidence obtained. Perspectives of different stakeholders about the sufficiency and appropriateness of audit evidence in certain group audit situations may therefore vary.
5. In order to facilitate the development of the GADP, the GAWG has considered issues that have been identified relating to audits of group financial statements, predominantly those identified by the IAASB’s ISA Implementation Monitoring project⁵ and from outreach with stakeholders, including regulators and audit oversight bodies and firms.
6. The IAASB’s [Framework for Audit Quality](#) sets out the interactions of the various elements for planning and performing a “quality audit” using principles-based standards. In this context, there are many variables which can lead to a breakdown in audit quality in an audit performed in accordance with the ISAs – ranging from the performance (or lack thereof) of auditors, to contextual factors (including the clarity and robustness of the ISAs). In order to obtain a thorough understanding of the issues that have been identified as impacting the audit quality of group audits and as a basis for formulating preliminary views on how such issues might be addressed, the work of the GAWG to date has included identifying and attempting to obtain an understanding of the causal factors underpinning the issues that have been identified. This understanding is intended to assist the GAWG in identifying, on a preliminary basis, what might be appropriate action(s) to address the issues identified. In some cases, more information gathering will be necessary to further understand the issues.
7. To enhance the value of the input that will ultimately be received in response to the GADP, it is very important that the issues are well described so that respondents are appropriately informed when providing their input.

⁴ The IAASB’s [Work Plan for 2015–2016](#) identified Group Audits as a priority project in the 2015–2016 period. It was agreed that the individual working groups would more fully consider the underlying issues and recommend further actions for the IAASB’s consideration. The DP will be used as part of the GAWG’s considerations about future potential actions to recommend.

⁵ See the final report on the findings from the IAASB’s post-implementation review [here](#).

Overarching Issues

Applicability of the ISAs

8. As further information is gathered, and changes to ISA 600 (and potentially other ISAs) are contemplated, the GAWG will be mindful of emphasizing the application of the relevant ISAs when performing audits of group financial statements.
9. As highlighted in the Introduction to ISA 600, paragraph 1, and the [Draft] Staff Audit Practice Alert (see Agenda Item 6) (Staff Alert), all of the ISAs (including ISA 220⁶) apply to all audit engagements that are conducted in accordance with the ISAs, and ISQC 1⁷ applies to all firms conducting these engagements.⁸ ISA 600 was developed to assist auditors with applying the requirements of the ISAs in group situations and accordingly sets out *the special considerations* that apply to group audits, in particular those that involve component auditors.
10. Audits are adapted according to the facts and circumstances of each audited entity, and the nature, timing and extent of involvement or use of other auditors may vary for each group entity. The auditor is obliged to comply with the requirements and guidance in ISA 600 when the audit meets the definition of a group audit in ISA 600 (i.e., a group audit⁹). Even if an audit is not a group audit, there may be circumstances when performing the engagement includes involving other auditors. Although ISA 600 does not apply to these situations, paragraph 2 of ISA 600 indicates that “the auditor may find this ISA, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location.” As part of the considerations to revise ISA 600, the GAWG believes it may be useful to clarify paragraph 2 by explaining when ISA 600 could be applied to audits that are not group audits and how it could or should be applied.

Auditor Performance Issues and the Role of Audit Documentation

11. The GAWG notes that the concerns of audit regulators are based on inspection findings related to auditor performance issues. In its deliberations, the GAWG has however been mindful of, and alert to, the possibilities that some auditor performance issues may be addressed through clarification or strengthening of existing requirements or guidance; however the GAWG notes that not all issues are necessarily capable of being addressed through standard setting or through standard setting alone.
12. Reflecting on all of the issues that have been highlighted, the GAWG has considered that inadequate audit documentation may be a contributing factor, or may be the basis for some of the issues and concerns noted. Inadequate audit documentation may result from an auditor performance issue (i.e.,

⁶ ISA 220, *Quality Control for an Audit of Financial Statements*

⁷ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁸ The [draft] Staff Alert was developed to remind readers of the application of the ISAs, including ISA 220, to situations where the engagement partner is in a certain location, but all of the general and financial management and most of the business activity is undertaken elsewhere, and where more than one auditor is involved. These situations may be group audits, but might also be audits of entities that do not prepare consolidated financial statements.

⁹ A group audit is defined as “the audit of group financial statements” (ISA 600, paragraph 9(f)). A group is defined as “all the components whose financial information is included in the group financial statements. A group always has more than one component” (ISA 600, paragraph 9(e)).

failing to prepare documentation that complies with the requirements of the ISAs)¹⁰ or may be due to the specific documentation requirements in the ISAs (including ISA 600) not being sufficiently robust, or may be a combination of these two factors. Accordingly, as each issue was debated by the GAWG, consideration was given to the possibility that the issue may, at a minimum, be the result of inadequate audit documentation being included in the audit file, which may suggest that further consideration should be given to strengthening the documentation requirements relating to group audits, both generally and in relation to some specific areas (as explained in the tables below).

Crossover Issues with Other IAASB Projects

Quality Control

13. In some cases, although primarily identified as an issue relating to group audits, certain issues may also have aspects relating to other ISAs that may be more appropriately addressed in those ISA(s) rather than in ISA 600. For example, although aspects of the issue of alternative audit delivery models (sometimes referred to as ‘outsourcing’ or ‘distributed engagement teams’) may relate to group audits, the issues raised would also relate to audits of financial statements that are not group financial statements. This would appear to more fundamentally address the quality control aspects of the audit (i.e., direction, supervision, performance and review) and therefore might be better addressed in ISA 220. The GAWG will therefore continue to work closely with the Quality Control Working Group (QCWG) in formulating the most appropriate way forward on the crossover issues that have been identified.

Disclosures in the Group Financial Statements

14. In the recently completed Disclosures project, it was identified that the ISAs needed to specifically address the group engagement team’s considerations of the impact of component financial statement information on the disclosures in the group financial statements (i.e., that ISA 600 needed to be strengthened in this regard). As the project proposal for addressing issues identified in group audits is developed from the responses to the GADP, consideration will be given to the need to specifically address consideration of group financial statement disclosures in all aspects of ISA 600 (i.e., in a similar approach to how changes to the ISAs were considered during the Disclosures project).

Professional Skepticism

15. The findings from the IAASB’s ISA Implementation Monitoring project and inspection reports from audit regulators include identified issues about the level, and consistency, of professional skepticism and professional judgment being applied in audits; and about the documentation of the auditor’s considerations around professional skepticism and professional judgment relative to the sufficiency and appropriateness of audit evidence being obtained to support the auditor’s opinion on the financial statements. A Working group to explore the topic of Professional Skepticism has been set up, with a panel discussion on professional skepticism planned for the June 2015 IAASB meeting (see **Agenda Item 10**). The GAWG’s work will include consideration of the activities and outputs from the Professional Skepticism Working Group.

¹⁰ In addition to the specific documentation requirements in paragraph 50 of ISA 600, any audit performed using the ISAs would also need to comply with the documentation requirements in ISA 230, *Audit Documentation*, which deals with the auditor’s responsibility to prepare audit documentation for an audit of financial statements.

16. The IAASB's *Framework for Audit Quality* emphasizes that professional skepticism is an attitude that includes the application of a questioning mindset in the context of obtaining an appropriate understanding of the entity and the environment in which it operates, including its internal control. This understanding, together with more general business acumen and experience, are foundational to the auditor's identification and assessment of the risks of material misstatement in an entity's financial statements, the planning and performance of further audit procedures, the assessment of the sufficiency and appropriateness of audit evidence, and the basis for reaching appropriate conclusions.
17. The GAWG agrees that professional skepticism is the foundation to the performance of high quality group audits, and therefore an essential aspect when the group engagement team is performing audit procedures, and evaluating whether sufficient appropriate audit evidence has been obtained. Accordingly, as further consideration is given to revising ISA 600 (and potentially other ISAs) to improve audit quality of group audits, the GAWG believes that further reflection about how to foster a more questioning mindset in the audit process should be undertaken; bearing in mind however, that changes to auditing standards alone are unlikely to be effective in responding to the challenges related to professional skepticism. The GAWG also recognizes that professional skepticism can be interpreted or applied in many different ways, and may be affected by the customs, culture or laws in each jurisdiction.

Consideration of Work of Others

18. Consideration of the activities of other standard setters with relevant active projects (e.g., the Public Company Accounting Oversight Board (PCAOB) in the U.S.)¹¹ will also be monitored for changes that may inform the work of the IAASB. The GAWG will also continue to monitor the activities of national standard setters (NSS) in this area.
19. Further, the GAWG will also seek to advance its understanding of jurisdictional differences (where they exist) with respect to how ISA 600 is adopted nationally or implemented in practice.

Matter for IAASB Consideration

1. The IAASB is asked for its views on the matters noted in paragraphs 1–19 above.

Description of Issues and Development of Working Group Recommendations

20. Overall, the GAWG believes the basic principles underpinning ISA 600 remain sound. However, the GAWG is of the view that consideration should be given to understanding, in more depth, the issues that have been identified and assessing whether and if so, how, the issues that have been identified may be addressed through strengthened or clarified requirements, through enhancements or clarification to the application material or alternatively whether other courses of action might be more effective.

¹¹ For example, the PCAOB currently has a project on the "Supervision of Other Auditors and Multi-location Audit Engagements" underway. Observations from the PCAOB's oversight activities illustrate the need for improvement in audit procedures performed by the lead auditor with respect to the work performed by other auditors. The PCAOB's current standard setting agenda indicates that staff is drafting, for its Board's consideration, a proposal that would address this need by improving the auditing standards that govern planning, supervising, and performance of audits including other auditors and multi-location audit engagements.

21. As a starting point, the GAWG considered the extant ISA requirements and application material relevant to the issues highlighted to identify gaps that may warrant further IAASB consideration. The GAWG focused firstly on the requirements and application guidance within ISA 600, but also included the other relevant ISAs¹² in its overall analysis.
22. The GAWG notes that the majority of the requirements in the ISAs either provide a framework for decisions to be made in an audit, which involve the application of professional judgment for them to be properly made. In some cases, further guidance in the application material may help explain what a requirement means or is intended to cover, or may include additional examples of procedures that may be appropriate in the circumstances. In reflecting on possible gaps in the ISAs (as described in the tables below), the GAWG believes that there may be opportunities to clarify or supplement the existing requirements and application material and in so doing, enhance audit quality and improve the overall consistency in practice. Clarifying the ISAs in this way may include the elevation of existing application material to requirements, or drafting new or revised requirements and application material.
23. However, there may also be some issues, which due to their underlying nature, are unlikely to be able to be addressed, or fully addressed, by changes to the standards. Such issues include, for example, those driven by:
- Increasing complexity and variability of group structures.
 - Differing laws and regulations applying to group entities and the component entities within the group structure, for example matters such as differing ethical requirements for the auditors of group and component entities.
 - Matters relating to the ability of the group auditor to obtain access to component management or component auditors, including potentially access to component auditor working papers.
 - Differing degrees of centralization and commonality of systems and processes within group entities, including for example, increased and varying use of shared services centers or use of differing systems and processes by entities within group environments.

In relation to these matters, consideration could also be given to whether other IAASB actions, such as additional guidance (e.g., in a non-authoritative Staff publication) may provide further support to auditors when applying the requirements and guidance of the ISAs to different situations. Such other actions may be contemplated instead of or in addition to amending requirements or guidance in the ISAs (i.e., to provide additional implementation support and demonstrate application of the ISAs in particular circumstances).

24. The GAWG's preliminary views on each of the issues that have been identified are noted in the tables below, including suggestions on how the issues might be addressed. In some cases the GAWG is of the view that further analysis of the factors is needed to further understand an issue before suggesting a view as to the nature of the issue and how it might be addressed, for example, the issue may be one of the auditor's performance, opposed to one that is contextual (e.g., a "gap" in the ISAs). It is intended that the Board's views on the matters in the tables below, together with the issues and applicable ISA requirements and application material, will form the basis for the description of the

¹² ISA 600 contains special considerations in relation to audits of group financial statements, and does not replace the application of all the other applicable ISAs, as noted in paragraph 1 of ISA 600.

matters in the GADP. The table also incorporates the requirements and application material in extant ISA 600 considered by the GAWG as part of its deliberations, as well as relevant information about the development of the relevant requirements and guidance, for informational purposes.

Acceptance / Continuation of the Engagement

25. Acceptance of the Group Audit Engagement	
Development of ISA 600 ¹³	Significant changes were proposed in the initial draft relating to ISA 600 in 2003 (ED 2003) which called for more work to be done by the group engagement team at the acceptance and continuance stage, including requirements to obtain a preliminary understanding of the group engagement team's ability to participate appropriately in the work of the component auditor, thereby emphasizing the group engagement partner's responsibility for the group audit. Initially, ED 2003 suggested that it would be unusual for the group engagement team to accept an engagement to audit group financial statements where the group engagement team did not directly perform work on more than 50% of the group assets, liabilities, cash flows, profit, or turnover, unless the group engagement team was able to participate appropriately in the work of the other auditor. ED 2005 and ED 2006 progressed this by eliminating the required % of work to be performed by the group engagement team, focusing instead on the consideration by the group engagement team of being able to obtain sufficient appropriate audit evidence on which to base the group audit opinion, by the group engagement team performing work on significant components, or being involved in the work of other auditors performing work on significant components.
Issues Identified	- Inadequate consideration of matters relevant to the acceptance and continuance of group audit engagements,¹⁴ for example, the ability to have necessary access to financial information at the component level. (<i>Audit Oversight Bodies</i>)¹⁵ - Insufficient specificity about how to determine when the group engagement team is entitled to act as auditor of the group financial statements (e.g. if a significant portion of the consolidated information is audited by component auditors and, in addition to other factors,¹⁶ the component auditors are from another firm that does not have common policies and procedures with those of the group engagement team in performing the work including: common policies and procedures for performing the work (audit methodologies); common quality control policies and procedures; and common monitoring

¹³ Hereon after, the three exposure drafts are referred to as: ED 2003 (exposure draft issued in 2003); ED 2005 (exposure draft issued in 2005) and ED 2006 (exposure draft issued in 2006)

¹⁴ This may also be linked to access issues below.

¹⁵ All references hereafter that refer to views expressed by audit oversight bodies do not infer that (a) all audit inspection bodies have these views; and (b) the issues arise in all audits inspected; rather the issues noted would appear to be relatively common findings from a number of inspectors from some audit files inspected as part of their periodic inspections.

¹⁶ See ISA 600 paragraph A33

	policies and procedures (hereafter referred to as common policies and procedures). (<i>ISA Implementation Monitoring</i>)¹⁷
Relevant ISA References	<u>ISA 600</u> <i>Requirements</i> ... Acceptance and Continuance 12. In applying ISA 220, the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. For this purpose, the group engagement team shall obtain an understanding of the group, its components, and their environments that is sufficient to identify components that are likely to be significant components. Where component auditors will perform work on the financial information of such components, the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A10–A12) 13. If the group engagement partner concludes that: (a) it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and (b) the possible effect of this inability will result in a disclaimer of opinion on the group financial statements,¹⁸ the group engagement partner shall either: (a) in the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw from the engagement, where withdrawal is possible under applicable law or regulation; or (b) where law or regulation prohibits an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A13–A19)

¹⁷ The [findings](#) from the ISA Implementation Monitoring project summarize the views from a broad range of stakeholders, including regulators and audit inspection bodies, national standard setters, firms, public sector auditors, IFAC member bodies and individuals. Throughout this document, the GAWG has made some additions or provided additional clarification to the ISA Implementation Monitoring findings based on additional input or further discussion.

¹⁸ ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

	<i>Application Material</i> ... <i>Expectation to Obtain Sufficient Appropriate Audit Evidence</i> (Ref: Para. 13) A13. A group may consist only of components not considered significant components. In these circumstances, the group engagement partner can reasonably expect to obtain sufficient appropriate audit evidence on which to base the group audit opinion if the group engagement team will be able to: (a) Perform the work on the financial information of some of these components; and (b) Be involved in the work performed by component auditors on the financial information of other components to the extent necessary to obtain sufficient appropriate audit evidence.
Preliminary Views of the GAWG	With regard to inadequate consideration of matters relevant to the acceptance and continuance of group audit engagements raised by audit oversight bodies as an issue, the GAWG believes more information is needed to clearly identify which areas are not specifically being complied with. In doing so, the GAWG will also explore whether this is a performance issue of the auditor, a gap in the standard, or a combination of these. In relation to the specificity of the requirements and guidance addressing when the group auditor is entitled to act as auditor of the group financial statements, the GAWG is of the preliminary view that the issue has been raised in reference to specific situations, for example in situations where the engagement partner is not located where the majority of the audit work is performed, i.e., audits of financial statements of entities where the majority of the general and financial management of the entity and the majority of the business activity and related processing of transactions is undertaken in jurisdictions other than where the entity is registered or where the entity maintains a correspondence address or listing¹⁹ or where the group auditor may not have sufficient access to component management or the component auditors, and therefore would be unable to be sufficiently involved to the extent necessary to obtain sufficient appropriate audit evidence (note: access issues are discussed separately below). The GAWG suggests that additional guidance about relevant considerations for the auditor to address when accepting or continuing a group engagement in different circumstances, would be helpful. The GAWG does not propose revisiting previous Board decisions about using explicit benchmarks in evaluating the group auditor's ability to accept or continue a group engagement. Instead, because of the wide diversity of situations that exist in practice, the GAWG believes that further guidance for auditors, either in the application material or in a Staff publication, may be helpful.

¹⁹ This would also include consideration of those situations where the audit is not a group audit but where multiple auditors are involved, and which may also impact other ISAs, including ISA 220 and ISA 230

	In addition, strengthening the requirements for the necessary documentation by the auditor to evidence the judgments made when accepting or continuing an engagement may also be beneficial. The GADP will then seek to obtain additional perspectives about the issues that have been identified, including stakeholder views about the most appropriate actions to address them.
Further Information Needed	Audit oversight bodies: To the extent available, any additional information about the nature of the issues being raised in relation to acceptance or continuation of group audit engagements.
26. Access Issues	
Development of ISA 600	All three exposure drafts in revising ISA 600 (i.e., ED 2003, ED 2005 and ED 2006) reflected the IAASB's view that a restriction on the group engagement team's access to relevant information is a scope limitation, which would affect the group audit opinion (and may result in a qualified or disclaimer of opinion). The requirements note that the group engagement partner should, in the case of a new engagement, not accept an engagement where a scope limitation would result in a disclaimer, or should resign from the engagement if it is concluded that it will not be possible to obtain sufficient appropriate audit evidence. In addition, it was agreed that a requirement not to accept the engagement would be limited to cases where restrictions were imposed by group management.²⁰
Issues identified	- Insufficient guidance about what to do when the group engagement team does not have access to the information necessary to be able to obtain sufficient appropriate audit evidence to support the audit opinion (particularly in cases where the management of the group entity does not have the ability to direct management of the component to cooperate with the group engagement team or the group engagement team's ability to interact with the component auditor is restricted, such as the case may be with non-controlled entities²¹ (e.g., investments accounted for in accordance with the equity method); or where the laws and regulations of a jurisdiction prohibit the necessary access). (<i>ISA Implementation Monitoring</i>) - Insufficient focus by auditors on access issues such as when the component is in a foreign jurisdiction in which access issues typically arise or the component is an equity method investee (including documentation of judgments made and rationale for approach taken). (<i>Audit Oversight Bodies</i>)

²⁰ ISA 600, paragraphs 13 and A16–A18

²¹ Non-controlled entities could also meet the definition of a component—an entity or business activity for which group or component management prepares financial information that should be included in the group financial statements (ISA 600, paragraph 9(a)).

Relevant ISA References	<u>ISA 600:</u> <i>Requirements</i> ... 13. If the group engagement partner concludes that: (a) it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and (b) the possible effect of this inability will result in a disclaimer of opinion on the group financial statements, the group engagement partner shall either: (a) in the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw from the engagement, where withdrawal is possible under applicable law or regulation; or (b) where law or regulation prohibits an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A13–A19) <i>Application Material</i> ... <i>Access to Information</i> (Ref: Para. 13) A14. The group engagement team's access to information may be restricted by circumstances that cannot be overcome by group management, for example, laws relating to confidentiality and data privacy, or denial by the component auditor of access to relevant audit documentation sought by the group engagement team. It may also be restricted by group management. A15. Where access to information is restricted by circumstances, the group engagement team may still be able to obtain sufficient appropriate audit evidence; however, this is less likely as the significance of the component increases. For example, the group engagement team may not have access to those charged with governance, management, or the auditor (including relevant audit documentation sought by the group engagement team) of a component that is accounted for by the equity method of accounting. If the component is not a significant component, and the group engagement team has a complete set of financial statements of the component, including the auditor's report thereon, and has access to information kept by group management in relation to that component, the group engagement team may conclude that this information constitutes sufficient appropriate audit evidence in relation to that component. If the component is a significant component, however, the group engagement team will not be able to comply with the requirements of this ISA relevant in the circumstances of the group audit. For example, the group engagement team will not be able to comply with the

	requirement in paragraphs 30–31 to be involved in the work of the component auditor. The group engagement team will not, therefore, be able to obtain sufficient appropriate audit evidence in relation to that component. The effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is considered in terms of ISA 705. A16. The group engagement team will not be able to obtain sufficient appropriate audit evidence if group management restricts the access of the group engagement team or a component auditor to the information of a significant component. A17. Although the group engagement team may be able to obtain sufficient appropriate audit evidence if such restriction relates to a component considered not a significant component, the reason for the restriction may affect the group audit opinion. For example, it may affect the reliability of group management's responses to the group engagement team's inquiries and group management's representations to the group engagement team. A18. Law or regulation may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, this ISA still applies to the group audit, and the effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is considered in terms of ISA 705. A19. Appendix 1 contains an example of an auditor's report containing a qualified opinion based on the group engagement team's inability to obtain sufficient appropriate audit evidence in relation to a significant component accounted for by the equity method of accounting, but where, in the group engagement team's judgment, the effect is material but not pervasive.
Preliminary Views of the GAWG ²²	Situations where there is restricted access have been contemplated in paragraphs A14-A19 of ISA 600 as guidance for the requirement in paragraph 13 relating to the acceptance and continuance of the audit engagement where the group engagement partner concludes that restricted access will impact the ability to obtain sufficient appropriate audit evidence to support the audit opinion. This application material covers both situations where the restrictions are imposed because of circumstance and where the component auditor refuses to provide access to relevant audit documentation sought by the group engagement team. In light of the existing requirements and guidance, the GAWG suggests that more information about the access issues is solicited from both the audit oversight bodies, firms (through firm Board members and GPPC representatives) and others (e.g., NSS) to help understand where the application guidance is inadequate, in order to assist the GAWG formulate a more directed suggested approach to addressing the access issues that have been identified. In particular, the GAWG suggests obtaining

²² See also discussion about the definition of a component in paragraph 28 below.

	further information about the pervasiveness of access issues related to investments accounted for in accordance with the equity method of accounting (and similarly where components are not controlled by the group), to understand if these are the same issues that were raised on initial implementation of the revised standard.²³ Further information gathering will also help inform the GAWG as to the current nature and pervasiveness of the access issues related to non-controlled group entities, including whether the issues are more prevalent in particular jurisdictions, whether different jurisdictions face different issues or whether the issues are broadly similar and relatively pervasive across jurisdictions. The GAWG remains mindful that certain access issues will likely not be able to be addressed by changes to the standards, but the GAWG will seek to further understand the situations where access issues occur, and how firms are currently dealing with them. In addition, to focus auditors on the requirements relating to acceptance or continuance of the group engagement where access issues are anticipated or experienced, the GAWG proposes that stakeholder views be solicited in the GADP about clarifying and elevating the application material in paragraph A16 to the requirements to clarify the situation where the group engagement team will not have sufficient access due to restrictions imposed by group management, component management or the component auditor, and therefore that the engagement should not be accepted or continued, and whether a similar requirement may be needed for access issues related to the entity's circumstances. The GAWG also notes that there is no explicit requirement in the standard as to what relevant audit documentation is needed to support the group engagement partner's judgment²⁴ about acceptance or continuance of a group audit engagement where access issues are being encountered and proposes that further consideration be given to whether requirements or application guidance addressing the documentation for the requirements for acceptance and continuance need to be made more specific or robust.
Further Information Gathering Needed	From firms and others (e.g., NSS): • To further understand both the nature and the pervasiveness of access issues. • To understand the pervasiveness of issues around the access to component management and component auditors of non-controlled investments. • To further explore how access issues are currently being dealt with. From audit oversight bodies: • Any additional information that can be provided to better understand the expectations of audit oversight bodies as to the extent of access to component auditors that, in their view, is required, in order to address the requirements and guidance in ISA 600.

²³ See the [report](#) on Phase I from the ISA Implementation Monitoring project.

²⁴ Paragraph 8(c) of ISA 230 requires that "significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions" be documented.

Matters for IAASB Consideration

2. The IAASB is asked to consider the GAWG views presented in paragraphs 25–26, and provide its views on the matters noted.
3. The IAASB is asked whether there are any other matters relating to the acceptance or continuation of the engagement as it relates to group audits that the GAWG should further consider.

Planning the Group Audit

27. Group Engagement Team's' Understanding of the Component Auditor

Development of ISA 600	The requirements and guidance in relation to the group engagement team's understanding of the component auditor were strengthened with each ED. In finalizing the standard, and to address concerns about the extent of evidence and documentation necessary to demonstrate compliance with the requirement, the IAASB restructured and amended the application material to explain that the nature, timing and extent of the group engagement team's procedures to obtain an understanding of the component auditor are affected by factors such as: • Previous experience with or knowledge of the component auditor: • The degree to which the group engagement team and the component auditor: - o Use common audit methodologies; - o Are subject to common policies and procedures; - o Are subject to a common legal system, language, education, external quality assurance, culture, etc.²⁵ Issues around this area, and using the terms 'related auditors' and 'other auditors' were heavily debated with various iterations proposed until the appropriate language around factors such as 'common policies and procedures' was agreed upon. Guidance was also developed for obtaining the necessary understanding of component auditors in the first year and updating the understanding in subsequent years.²⁶
Issues Identified	• More clarity needed about the required understanding by the group engagement team about: - o The competence of each component auditor, in particular for component auditors that do not share common policies and procedures with the group engagement team, or are in a different jurisdiction with the concomitant legal, oversight, language and cultural issues; and - o The independence requirements of the group audit versus those required at the component level. <i>(ISA Implementation Monitoring)</i>

²⁵ ISA 600, paragraphs A33–A34

²⁶ ISA 600, paragraph A35

	• Insufficient assessment of competence of component auditors by the group engagement team, including: - o Failure to adequately evaluate whether component auditors have the required skills and expertise for performing the necessary work at the component. - o For component auditors within the same firm or network, failure to (or inability to) adequately understand and evaluate quality control monitoring results, and for component auditors outside the same firm or network, the results, failure or inability to consider the results of any external quality reviews. - o Failure to adequately understand the laws and regulations around the necessary licensing requirements applicable to the component auditor, if any, and how this may affect the component auditor's competence. <i>(Audit Oversight Bodies)</i>
Relevant ISA References	<u>ISA 600</u> <i>Requirements</i> ... Understanding the Component Auditor 19. If the group engagement team plans to request a component auditor to perform work on the financial information of a component, the group engagement team shall obtain an understanding of the following: (Ref: Para. A32–A35) (a) Whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit and, in particular, is independent. (Ref: Para. A37) (b) The component auditor's professional competence. (Ref: Para. A38) (c) Whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence. (d) Whether the component auditor operates in a regulatory environment that actively oversees auditors. (Ref: Para. A36) <i>Application Material</i> ... <i>Group Engagement Team's Procedures to Obtain an Understanding of the Component Auditor and Sources of Audit Evidence</i> (Ref: Para. 19) A33. The nature, timing and extent of the group engagement team's procedures to obtain an understanding of the component auditor are affected by factors such as previous experience with or knowledge of the component auditor, and the degree to which the group engagement team and the component auditor are subject to common policies and procedures, for example:

	• Whether the group engagement team and a component auditor share: ◦ Common policies and procedures for performing the work (for example, audit methodologies); ◦ Common quality control policies and procedures; or ◦ Common monitoring policies and procedures. • The consistency or similarity of: ◦ Laws and regulations or legal system; ◦ Professional oversight, discipline, and external quality assurance; ◦ Education and training; ◦ Professional organizations and standards; or ◦ Language and culture. A34. These factors interact and are not mutually exclusive. For example, the extent of the group engagement team's procedures to obtain an understanding of Component Auditor A, who consistently applies common quality control and monitoring policies and procedures and a common audit methodology or operates in the same jurisdiction as the group engagement partner, may be less than the extent of the group engagement team's procedures to obtain an understanding of Component Auditor B, who is not consistently applying common quality control and monitoring policies and procedures and a common audit methodology or operates in a foreign jurisdiction. The nature of the procedures performed in relation to Component Auditors A and B may also be different. A35. The group engagement team may obtain an understanding of the component auditor in a number of ways. In the first year of involving a component auditor, the group engagement team may, for example: • Evaluate the results of the quality control monitoring system where the group engagement team and component auditor are from a framework that operates under and complies with common monitoring policies and procedures; • Visit the component auditor to discuss the matters in paragraph 19(a)–(c); • Request the component auditor to confirm the matters referred to in paragraph 19(a)–(c) in writing. Appendix 4 contains an example of written confirmations by a component auditor; • Request the component auditor to complete questionnaires about the matters in paragraph 19(a)–(c); • Discuss the component auditor with colleagues in the group engagement partner's firm, or with a reputable third party that has knowledge of the component auditor; or • Obtain confirmations from the professional body or bodies to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties.

	In subsequent years, the understanding of the component auditor may be based on the group engagement team's previous experience with the component auditor. The group engagement team may request the component auditor to confirm whether anything in relation to the matters listed in paragraph 19(a)–(c) has changed since the previous year. A36. Where independent oversight bodies have been established to oversee the auditing profession and monitor the quality of audits, awareness of the regulatory environment may assist the group engagement team in evaluating the independence and competence of the component auditor. Information about the regulatory environment may be obtained from the component auditor or information provided by the independent oversight bodies. <i>Ethical Requirements that Are Relevant to the Group Audit</i> (Ref: Para. 19(a)) A37. When performing work on the financial information of a component for a group audit, the component auditor is subject to ethical requirements that are relevant to the group audit. Such requirements may be different or in addition to those applying to the component auditor when performing a statutory audit in the component auditor's jurisdiction. The group engagement team therefore obtains an understanding whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit, sufficient to fulfill the component auditor's responsibilities in the group audit. <i>The Component Auditor's Professional Competence</i> (Ref: Para. 19(b)) A38. The group engagement team's understanding of the component auditor's professional competence may include whether the component auditor: • Possesses an understanding of auditing and other standards applicable to the group audit that is sufficient to fulfill the component auditor's responsibilities in the group audit; • Possesses the special skills (for example, industry specific knowledge) necessary to perform the work on the financial information of the particular component; and • Where relevant, possesses an understanding of the applicable financial reporting framework that is sufficient to fulfill the component auditor's responsibilities in the group audit (instructions issued by group management to components often describe the characteristics of the applicable financial reporting framework).
Preliminary Views of the GAWG	The GAWG is of the preliminary view that the requirements about the understanding of the competence and independence of the component auditor are clear. However, in recognition of the issues that have been identified, the GAWG believes that greater clarity in the application material in ISA 600 in relation to how to assess the competence and independence²⁷ of the component auditor may be beneficial. In

²⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, includes a new requirement for auditors to identify the jurisdiction of origin of the relevant ethical requirements to increase transparency relating to the particular audit engagement.

	particular such guidance might more clearly address the situation when the group engagement team does not have previous experience with the component auditor by addressing the consideration of the common policies and procedures applying to the group engagement team and to component auditors, and the impact of other relevant factors in this context when judging the nature and extent to which the group engagement team can use the work of the component auditor. Specifically, adding examples, to paragraph A38, such as: understanding and evaluating quality control monitoring results or the results of external quality reviews for component auditors; or consideration of the effect on the assessment of the competence of the component auditor if there are different or no national or jurisdictional licensing requirements, could be explored. Stakeholder views thereon could be obtained through the GADP. In addition, the GAWG believes that additional input from audit oversight bodies may be useful to better inform the understanding of the issues, including views as to the possible role of clearer or stronger documentation requirements or guidance in improving audit quality in this area.
Further Information Gathering Needed	From firms: Further understanding of the independence issues relating to group audits, in particular the practical challenges that auditors are facing in situations where the independence requirements at the group level differ from those applicable in jurisdictions where component auditors are performing work. From audit oversight bodies: To the extent available, any additional information to inform a better understanding of the underlying inspection concerns, including views as to whether enhanced documentation requirements or guidance might be a factor in improving auditor performance.
28. Identifying Components, including Significant Components (Definition)	
Development of ISA 600	The definition of a component was strongly debated during the project to develop ISA 600, and various changes made as the ED's progressed. The IAASB revised the definition and added application material explaining that the structure of a group affects how components are identified, and includes consideration of both the legal and organizational structure (i.e., how the group financial reporting system is structured).²⁸ Application material was added in paragraph A5 of ISA 600 providing an example of a quantitative benchmark (currently 15% of a chosen benchmark) for the identification of a significant component.
Issues Identified	• Different interpretations about what comprises a component based on the application of the definition. (<i>ISA Implementation Monitoring</i>) • Issues with not properly identifying significant components. (<i>Audit Oversight Bodies</i>)

²⁸ ISA 600, paragraphs A11–A12

Relevant ISA References	Definitions 9. For purposes of the ISAs, the following terms have the meanings attributed below: (a) Component – An entity or business activity for which group or component management prepares financial information that should be included in the group financial statements. (Ref: Para. A2–A4) ... (m) Significant component – A component identified by the group engagement team (i) that is of individual financial significance to the group, or (ii) that, due to its specific nature or circumstances, is likely to include significant risks of material misstatement of the group financial statements. (Ref: Para. A5–A6) <i>Application Material</i> Definitions <i>Component</i> (Ref: Para. 9(a)) A2. The structure of a group affects how components are identified. For example, the group financial reporting system may be based on an organizational structure that provides for financial information to be prepared by a parent and one or more subsidiaries, joint ventures, or investees accounted for by the equity or cost methods of accounting; by a head office and one or more divisions or branches; or by a combination of both. Some groups, however, may organize their financial reporting system by function, process, product or service (or by groups of products or services), or geographic locations. In these cases, the entity or business activity for which group or component management prepares financial information that is included in the group financial statements may be a function, process, product or service (or group of products or services), or geographic location. A3. Various levels of components may exist within the group financial reporting system, in which case it may be more appropriate to identify components at certain levels of aggregation rather than individually. A4. Components aggregated at a certain level may constitute a component for purposes of the group audit; however, such a component may also prepare group financial statements that incorporate the financial information of the components it encompasses (that is, a subgroup). This ISA may therefore be applied by different group engagement partners and teams for different subgroups within a larger group. <i>Significant Component</i> (Ref: Para. 9(m)) A5. As the individual financial significance of a component increases, the risks of material misstatement of the group financial statements ordinarily increase. The group engagement team may apply a percentage to a chosen benchmark as an aid to identify components that are of individual financial significance. Identifying a benchmark and determining a percentage to be applied to it involve the exercise of professional judgment. Depending on the nature and

	circumstances of the group, appropriate benchmarks might include group assets, liabilities, cash flows, profit or turnover. For example, the group engagement team may consider that components exceeding 15% of the chosen benchmark are significant components. A higher or lower percentage may, however, be deemed appropriate in the circumstances. A6. The group engagement team may also identify a component as likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances (that is, risks that require special audit consideration²⁹). For example, a component could be responsible for foreign exchange trading and thus expose the group to a significant risk of material misstatement, even though the component is not otherwise of individual financial significance to the group.
Preliminary Views of the GAWG	There are no specific requirements related to the determination of components and significant components in ISA 600,³⁰ rather the determination is implicit in applying the definitions to the requirements in the standard about the nature of the work required to be designed and performed around the components. Therefore not properly identifying the components, in particular the significant components, impacts the evidence obtained and the sufficiency and appropriateness of that evidence to support the group audit opinion. The GAWG is of the preliminary view that the issues that have been identified are likely auditor performance issues as the application material provided to support the definition of a component and significant component appears sufficiently detailed to provide a basis for applying the principles in various circumstances. (Also see linked discussion about identifying significant risks at the group and component level below). However, in its deliberations, the GAWG has identified related issues that in its view should be considered further: • The need to revisit some of the application guidance in light of current accounting standards. For example, in paragraph A2, as it relates to investments accounted for at cost and whether they should be considered components. • Whether clarification is needed about the meaning of “consolidation process” in paragraph 10 and how its meaning affects the identification of components, as defined, as opposed to other situations that might be covered by paragraph 2 of ISA 600. The GAWG also notes that complexity arises when “sub-consolidations” are involved. The GAWG proposes that the GADP seek views on the adequacy of the definitions, and their related application material.

²⁹ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs 27–29

³⁰ ISA 600 paragraph 50(a) requires the group engagement team to document an analysis of components, indicating those that are significant.

Further Information Gathering Needed	From firms: Further understanding of the difficulties experienced in the interpretation and practical application of the definitions specific to Group Audits.
29. Component Materiality	
Development of ISA 600	In finalizing the standard, different views were expressed by IAASB members about the different levels of materiality that were being proposed, in particular in relation to the need for the amount(s) lower than component materiality as this may lead to excessive work, especially where the audit was being performed only for the purpose of the group audit. Accordingly the concept of requiring the group auditor to establish an amount lower than component materiality was deleted from the proposals, ³¹ but the application material was expanded to emphasize that the component auditor should comply with the requirements and guidance in ISA 320 ³² when seeking to address aggregation risk at a component level for an audit of the financial information of a component.
Issues identified	• Significant variation in practice in relation to the determination of component materiality. (<i>ISA Implementation Monitoring</i>) • Materiality to be used by component auditors when performing work at selected components not appropriately determined, therefore aggregation risk not properly addressed. (<i>Audit Oversight Bodies</i>)
Relevant ISA References	<u>ISA 600</u> Definitions For purposes of the ISAs, the following terms have the meanings attributed below: ... (d) Component materiality – The materiality for a component determined by the group engagement team. Requirements ... Materiality 21. The group engagement team shall determine the following: (Ref: Para. A42) (a) Materiality for the group financial statements as a whole when establishing the overall group audit strategy. (b) If, in the specific circumstances of the group, there are particular classes of transactions, account balances or disclosures in the group financial statements for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be

³¹ Consideration of performance materiality at the component level is addressed in paragraphs 22 and 23 of ISA 600, consistent with ISA 320.

³² ISA 320, *Materiality in Planning and Performing an Audit*

	expected to influence the economic decisions of users taken on the basis of the group financial statements, the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (c) Component materiality for those components where component auditors will perform an audit or a review for purposes of the group audit. To reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality shall be lower than materiality for the group financial statements as a whole. (Ref: Para. A43–A44) (d) The threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. (Ref: Para. A45) <i>Application Material</i> ... Materiality (Ref: Para. 21–23) A42. The auditor is required:³³ (a) When establishing the overall audit strategy, to determine: (i) Materiality for the financial statements as a whole; and (ii) If, in the specific circumstances of the entity, there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures; and (b) To determine performance materiality. In the context of a group audit, materiality is established for both the group financial statements as a whole, and for the financial information of the components. Materiality for the group financial statements as a whole is used when establishing the overall group audit strategy. A43. To reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality is set lower than materiality for the group financial statements as a whole. Different component materiality may be established for different components. Component materiality need not be an arithmetical portion of the materiality for the group financial statements as a whole and, consequently, the aggregate of component materiality for the different components may exceed the

³³ ISA 320, paragraphs 10–11

	materiality for the group financial statements as a whole. Component materiality is used when establishing the overall audit strategy for a component. A44. Component materiality is determined for those components whose financial information will be audited or reviewed as part of the group audit in accordance with paragraphs 26, 27(a) and 29. Component materiality is used by the component auditor to evaluate whether uncorrected detected misstatements are material, individually or in the aggregate. A45. A threshold for misstatements is determined in addition to component materiality. Misstatements identified in the financial information of the component that are above the threshold for misstatements are communicated to the group engagement team. A46. In the case of an audit of the financial information of a component, the component auditor (or group engagement team) determines performance materiality at the component level. This is necessary to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial information of the component exceeds component materiality. In practice, the group engagement team may set component materiality at this lower level. Where this is the case, the component auditor uses component materiality for purposes of assessing the risks of material misstatement of the financial information of the component and to design further audit procedures in response to assessed risks as well as for evaluating whether detected misstatements are material individually or in the aggregate.
Preliminary Views of the GAWG	Many of the issues related to component materiality are intrinsically linked to the requirements and guidance in ISA 320. In its Disclosures project, the IAASB has acknowledged that work currently being undertaken by the International Accounting Standards Board (IASB) may give rise to further implications to the ISAs relating to materiality. The IAASB will continue to monitor the IASB's developments, and in conjunction with its planned consultation on the Work Plan 2017–2018, determine the need for a more holistic review of ISA 320.³⁴ Therefore any work done in terms of this group audits project should not pre-judge the outcomes of those efforts. However, the GAWG is of the view that further consideration on the certain aspects that are specifically relevant to the determination and application of component materiality in the context of group audits is appropriate, including in relation to the concept of aggregation risk and how to consider and address it. The GAWG is also open to the possibility of developing more topic-specific guidance in this area, however without infringing on the basic principles in ISA 320 until a more holistic review of that standard has been undertaken. For example, the GADP could explore stakeholder perspectives on areas where some guidance may be helpful, such as: • How different components might warrant different levels of component materiality (and component performance materiality); • Guidance about the concept of aggregation risk and the group auditor's consideration of how aggregation risk is addressed in the context of the

³⁴ As ISA 320 is revised, changes to ISA 450, *Evaluation of Misstatements Identified during the Audit*, will also likely be required.

	established levels of component materiality and performance materiality for the work done relating to significant components within the group, as well as non-significant components that may be significant in the aggregate; and Determining and applying component materiality to work performed on investments accounted for in accordance with the equity method of accounting. In its deliberations, the GAWG has also identified the need to better understand how materiality is applied in situations where specified audit procedures are performed (i.e., relating to the likely risks of material misstatement in terms of paragraph 27(c) of ISA 600). Views from stakeholders on this matter will be sought in the GADP.
30. The Group Engagement Team's Understanding of the Component	
Development of ISA 600	Understanding of a group's components, as part of obtaining an understanding of the entity and its environment as required by ISA 315 (Revised), was debated with other parts of the standard in the revision and development of ISA 600, but not specifically as a topic in its own right.
Issues Identified	- More clarity in the standards needed about the understanding needed as it relates to a group's components, as part of obtaining an understanding of the entity and its environment, e.g., business practices, legal structures, laws and regulations, customs (<i>ISA Implementation Monitoring</i>) - Auditors not obtaining a sufficient understanding of the components to effectively "drive" the group audit (<i>Audit Oversight Bodies</i>)
Relevant ISA References	<u>ISA 600:</u> <i>Requirements</i> ... Understanding the Group, Its Components, and Their Environments 17. The auditor is required to identify and assess the risks of material misstatement through obtaining an understanding of the entity and its environment. The group engagement team shall: (a) Enhance its understanding of the group, its components, and their environments, including group-wide controls, obtained during the acceptance or continuance stage; and (b) Obtain an understanding of the consolidation process, including the instructions issued by group management to components. (Ref: Para. A23–A29) 18. The group engagement team shall obtain an understanding that is sufficient to: (a) Confirm or revise its initial identification of components that are likely to be significant; and

	(b) Assess the risks of material misstatement of the group financial statements, whether due to fraud or error.³⁵ (Ref: Para. A30–A31) <i>Application Material</i> ... Understanding the Group, Its Components, and Their Environments <i>Matters about Which the Group Engagement Team Obtains an Understanding</i> (Ref: Para. 17) A23. ISA 315 (Revised) contains guidance on matters the auditor may consider when obtaining an understanding of the industry, regulatory, and other external factors that affect the entity, including the applicable financial reporting framework; the nature of the entity; objectives and strategies and related business risks; and measurement and review of the entity's financial performance.³⁶ Appendix 2 of this ISA contains guidance on matters specific to a group, including the consolidation process. ... <i>Discussion among Group Engagement Team Members and Component Auditors Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud</i> (Ref: Para. 17) A28. The key members of the engagement team are required to discuss the susceptibility of an entity to material misstatement of the financial statements due to fraud or error, specifically emphasizing the risks due to fraud. In a group audit, these discussions may also include the component auditors.³⁷ The group engagement partner's determination of who to include in the discussions, how and when they occur, and their extent, is affected by factors such as prior experience with the group. A29. The discussions provide an opportunity to: • Share knowledge of the components and their environments, including group-wide controls. ... <i>Risk Assessment</i> (Ref: Para. 18) A31. The group engagement team's assessment at group level of the risks of material misstatement of the group financial statements is based on information such as the following: • Information obtained from the understanding of the group, its components, and their environments, and of the consolidation process, including audit evidence obtained in evaluating the design and implementation of group-wide controls and controls that are relevant to the consolidation.

³⁵ ISA 315 (Revised)

³⁶ ISA 315 (Revised), paragraphs A24–A48

³⁷ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 15; ISA 315 (Revised), paragraph 10

	- Information obtained from the component auditors. [In addition, there are further matters for consideration about the auditor's understanding of the component on acceptance of an engagements as follows:] <i>Obtaining an Understanding at the Acceptance or Continuance Stage</i> (Ref: Para. 12) A10. In the case of a new engagement, the group engagement team's understanding of the group, its components, and their environments may be obtained from: - Information provided by group management; - Communication with group management; and - Where applicable, communication with the previous group engagement team, component management, or component auditors. A11. The group engagement team's understanding may include matters such as the following: - The group structure, including both the legal and organizational structure (that is, how the group financial reporting system is organized). - Components' business activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place. - The use of service organizations, including shared service centers. - A description of group-wide controls. - The complexity of the consolidation process. - Whether component auditors that are not from the group engagement partner's firm or network will perform work on the financial information of any of the components, and group management's rationale for appointing more than one auditor. - Whether the group engagement team: (a) Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management, component information, and the component auditors (including relevant audit documentation sought by the group engagement team); and (b) Will be able to perform necessary work on the financial information of the components. A12. In the case of a continuing engagement, the group engagement team's ability to obtain sufficient appropriate audit evidence may be affected by significant changes, for example: - Changes in the group structure (for example, acquisitions, disposals, reorganizations, or changes in how the group financial reporting system is organized).

	• Changes in components' business activities that are significant to the group. • Changes in the composition of those charged with governance of the group, group management, or key management of significant components. • Concerns the group engagement team has with regard to the integrity and competence of group or component management. • Changes in group-wide controls. • Changes in the applicable financial reporting framework. <u>ISA 315 (Revised)</u> <i>Requirements</i> ... <i>The Entity and Its Environment</i> 11(a) The auditor shall obtain an understanding of the following: (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Ref: Para. A24–A29) (b) The nature of the entity, including: (i) its operations; (ii) its ownership and governance structures; (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and (iv) the way that the entity is structured and how it is financed, to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. (Ref: Para. A30–A34) <i>Application Material</i> ... Regulatory Factors A26. 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. Examples of matters the auditor may consider include: • Accounting principles and industry-specific practices. • Regulatory framework for a regulated industry. • Legislation and regulation that significantly affect the entity's operations, including direct supervisory activities. • Taxation (corporate and other). • 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 restrictions policies. • Environmental requirements affecting the industry and the entity's business. ISA 250 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.³⁸
Preliminary Views of the GAWG	Although certain aspects (as identified in the issues noted above) of the required understanding of the entity and its environment are not specifically covered in ISA 600 (for example, relevant industry, regulatory, and other external factors including the applicable financial reporting framework), the requirement in paragraph 17(a) as well as the overarching requirement in paragraphs 11(a) and A26 of ISA 315 (Revised) would adequately, in the view of the GAWG, require auditors to obtain the necessary understanding of the entity and its environment in order to perform their risk assessments. The issues relating to the group auditor's understanding of the component as noted in the issues identified above are therefore not, in the view of the GAWG, seen as something specifically due to the requirements being inadequate or lacking. However, the GAWG is of the view that more specificity through relevant examples of areas to consider when obtaining an understanding of the entity may be helpful to the group engagement team to explain more precisely what the required understanding entails. There could for example, be a more direct link to the relevant paragraphs in ISA 315 (Revised) to reinforce that the understanding of the components in a group audit builds upon the requirements of ISA 315 (Revised). Stakeholder views on these matters will be sought in the GADP. In deliberating the issues related to the group engagement team's understanding of the component within a group, the GAWG also identified a few related areas where further understanding would be helpful: • How the group engagement team may be able to use the work of component auditors with differing levels of involvement, for example, when the component auditor is from a firm that does not have the same policies and procedures or is in a different jurisdiction, the nature and extent of the group engagement team's understanding of the component may need to be greater and the work of the component auditor may be used to a different extent than when the component auditor is from the same firm as the group auditor and in the same jurisdiction. • The issues that are encountered by group auditors in practice when gaining an understanding of the components. • How firms are dealing with issues where components within the entity have non-coterminous year ends.

³⁸ ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 12

	The GAWG believes it would be useful to further explore whether guidance relating to these issue could or should be developed, either for inclusion as application material or in a Staff publication.
Further Information Gathering Needed	From firms Further exploring the impact on the group engagement team’s understanding of the component when, for example, what the implications might be when the component auditor is from a firm that has common policies and procedures or is from the same jurisdiction and when the component auditor does not have common policies and procedures or is from a different jurisdiction; and understanding how firms deal with components with non-coterminous year ends. From audit oversight bodies: To the extent available, any additional information to assist in the understanding of their views on different levels of involvement in the work on the component auditor.
31. Identifying Significant Risks in the Context of a Group Audit	
Development of ISA 600	Identifying significant risks in the context of a group audit was not an area heavily debated by the Board.
Issues Identified	• More guidance needed on meaning of ‘significant risks’ in a group context. (<i>ISA Implementation Monitoring</i>) • Issues identified with assessing the risks of the group engagement, including risks that are specific to individual components that may be a risk for the overall group or other components in the group. (<i>Audit Oversight Bodies</i>)
Relevant ISA References	ISA 600 does not contain specific guidance on assessing significant risks in a group context, although the group engagement team is expected to consider significant risks relevant to the group financial statements in determining significant components.³⁹ <u>ISA 315 (Revised)</u> Definitions 1. For purposes of the ISAs, the following terms have the meanings attributed below: ... (e) Significant risk – An identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration.

³⁹ Although no specific reference to identifying significant risks, work related to significant risks can be found in ISA 600, paragraph 27(c), which requires the auditor to perform specified audit procedures for significant risks.

	Requirements ... Risks that Require Special Audit Consideration 28. As part of the risk assessment as described in paragraph 25, the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk. 29. In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following: (a) Whether the risk is a risk of fraud; (b) Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention; (c) The complexity of transactions; (d) Whether the risk involves significant transactions with related parties; (e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and (f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. (Ref: Para. A132–A136) Application Material ... Significant Risks Identifying Significant Risks (Ref: Para. 28) A132. Significant risks often relate to significant non-routine transactions or judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty. Routine, non-complex transactions that are subject to systematic processing are less likely to give rise to significant risks. A133. Risks of material misstatement may be greater for significant non-routine transactions arising from matters such as the following: • Greater management intervention to specify the accounting treatment. • Greater manual intervention for data collection and processing. • Complex calculations or accounting principles. • The nature of non-routine transactions, which may make it difficult for the entity to implement effective controls over the risks.

	A134. Risks of material misstatement may be greater for significant judgmental matters that require the development of accounting estimates, arising from matters such as the following: - Accounting principles for accounting estimates or revenue recognition may be subject to differing interpretation. - Required judgment may be subjective or complex, or require assumptions about the effects of future events, for example, judgment about fair value. A135. ISA 330⁴⁰ describes the consequences for further audit procedures of identifying a risk as significant.⁴¹ Significant risks relating to the risks of material misstatement due to fraud A136. ISA 240 provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.⁴²
Preliminary Views of the GAWG	Notwithstanding that ISA 600 does not contain guidance relating to the identification of significant risks in a group context, the requirements to do so are included within ISA 315 (Revised) as detailed above, and would also be applicable to group audits. The GAWG is of the preliminary view that the requirements in ISA 315 (Revised) are sufficiently robust as they relate to identification and assessment of risks for all audits conducted in accordance with the ISAs, including significant risks. The GAWG suggests however that consideration be given to possibly clarifying requirements in or adding guidance to ISA 600 to help better support the application of the principles in ISA 315 (Revised) in group audit situations, e.g., how the significant risks identified in respect of the group financial statements can and should be considered and addressed when performing work at the component level. The GAWG also suggests that further consideration be given to enhancing the standard (either through clarification or additions to the requirements or application material) to emphasize that significant risks identified by component auditors for a specific component should also be considered at the group level to determine whether the risks identified may apply more broadly to some or all of the other components (i.e., where the component auditors at other components may not necessarily have identified the same risk, but the facts and circumstances would appear to be similar) or for the group overall. Identification and assessment of significant risks is also linked to the identification of significant components (i.e., components where significant risks have been identified are considered significant components for the purposes of the standard) and strengthening the standard in this area may also help address the related issues as described above. The intention is to obtain stakeholder views about the matters set out above through the GADP.

⁴⁰ ISA 330, *The Auditor's Responses to Assessed Risks*

⁴¹ ISA 330, paragraphs 15 and 21

⁴² ISA 240, paragraphs 25–27

32. Planning for the Group Engagement Team's Involvement in the Work of Component Auditors	
Development of ISA 600	The necessary involvement of the group engagement team in the work of component auditors was an issue that was heavily debated throughout the development of ISA 600. ED 2006 contained requirements detailing procedures to be performed by the group engagement team. Concern was expressed about the prescriptiveness of the requirements and also that not all of the requirements detailed applied in virtually all circumstances. To address this concern the requirements relating to the group engagement team's involvement in general was moved to application material.⁴³ However, the IAASB agreed that the requirement for the group engagement team to be involved in the work of the component auditor be retained, but allowed flexibility as to the nature, timing and extent of the involvement based on the circumstances. In particular, the application material in paragraph A47 in relation to the requirements for determining the type of work performed on the financial information of components, including the nature and extent of the group engagement team's involvement in the work of the component auditor, identifies the factors that affect the type of work and the nature and extent of involvement. One of these factors is the group engagement team's understanding of the component auditor, which in turn depends upon the factors in paragraph A33.
Issues Identified	• More clarity needed on the group engagement team's documentation about the planned nature and extent of involvement in the work of the component auditors, and why such involvement can be considered appropriate in light of supporting the conclusion that sufficient appropriate audit evidence has been obtained. (<i>ISA Implementation Monitoring</i>) • More clarity needed about the extent to which the group engagement team specifies and/or communicates risks to component auditors. (<i>ISA Implementation Monitoring</i>) • Inadequate planning for sufficient involvement in the work of the component auditor (e.g., planned site visits and plans for adequate reviews.) (<i>Audit Oversight Bodies</i>)
Relevant ISA References	Requirements ... Responding to Assessed Risks 24. The auditor is required to design and implement appropriate responses to address the assessed risks of material misstatement of the financial statements. The group engagement team shall determine the type of work to be performed by the group engagement team, or the component auditors on its behalf, on the financial information of the components (see paragraphs 26–29). The group engagement team shall also determine the nature, timing and extent of its involvement in the work of the component auditors (see paragraphs 30–31).

⁴³ ISA 600, paragraph A55

	Involvement in the Work Performed by Component Auditors (<i>Ref: Para. A54–A55</i>) Significant Components—Risk Assessment 30. If a component auditor performs an audit of the financial information of a significant component, the group engagement team shall be involved in the component auditor's risk assessment to identify significant risks of material misstatement of the group financial statements. The nature, timing and extent of this involvement are affected by the group engagement team's understanding of the component auditor, but at a minimum shall include: (a) Discussing with the component auditor or component management those of the component's business activities that are significant to the group; (b) Discussing with the component auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and (c) Reviewing the component auditor's documentation of identified significant risks of material misstatement of the group financial statements. Such documentation may take the form of a memorandum that reflects the component auditor's conclusion with regard to the identified significant risks. Documentation 50. The group engagement team shall include in the audit documentation the following matters:⁴⁴ (a) An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components. (b) The nature, timing and extent of the group engagement team's involvement in the work performed by the component auditors on significant components including, where applicable, the group engagement team's review of relevant parts of the component auditors' audit documentation and conclusions thereon. (c) ... Application Material ... Understanding the Component Auditor (<i>Ref: Para. 19</i>) <i>Group Engagement Team's Procedures to Obtain an Understanding of the Component Auditor and Sources of Audit Evidence</i> (<i>Ref: Para. 19</i>) A33. The nature, timing and extent of the group engagement team's procedures to obtain an understanding of the component auditor are affected by factors such as previous experience with or knowledge of the component auditor, and the degree to which the group engagement team and the component auditor are subject to common policies and procedures, for example: • Whether the group engagement team and a component auditor share:

	○ Common policies and procedures for performing the work (for example, audit methodologies); ○ Common quality control policies and procedures; or ○ Common monitoring policies and procedures. ● The consistency or similarity of: ○ Laws and regulations or legal system; ○ Professional oversight, discipline, and external quality assurance; ○ Education and training; ○ Professional organizations and standards; or ○ Language and culture. Responding to Assessed Risks <i>Determining the Type of Work to Be Performed on the Financial Information of Components</i> (Ref: Para. 26–27) A47. The group engagement team's determination of the type of work to be performed on the financial information of a component and its involvement in the work of the component auditor is affected by: (a) The significance of the component; (b) The identified significant risks of material misstatement of the group financial statements; (c) The group engagement team's evaluation of the design of group-wide controls and determination whether they have been implemented; and (d) The group engagement team's understanding of the component auditor. The diagram shows how the significance of the component affects the group engagement team's determination of the type of work to be performed on the financial information of the component. <i>Involvement in the Work Performed by Component Auditors</i> (Ref: Para. 30–31) A54. Factors that may affect the group engagement team's involvement in the work of the component auditor include: (a) The significance of the component; (b) The identified significant risks of material misstatement of the group financial statements; and (c) The group engagement team's understanding of the component auditor. In the case of a significant component or identified significant risks, the group engagement team performs the procedures described in paragraphs 30–31. In the case of a component that is not a significant component, the nature, timing and extent of the group engagement team's involvement in the work of the component auditor will vary based on the group engagement team's

⁴⁴ ISA 230 paragraphs 8–11, and A6

	understanding of that component auditor. The fact that the component is not a significant component becomes secondary. For example, even though a component is not considered a significant component, the group engagement team nevertheless may decide to be involved in the component auditor's risk assessment, because it has less than serious concerns about the component auditor's professional competency (for example, lack of industry specific knowledge), or the component auditor does not operate in an environment that actively oversees auditors. A55. Forms of involvement in the work of a component auditor other than those described in paragraphs 30–31 and 42 may, based on the group engagement team's understanding of the component auditor, include one or more of the following: (a) Meeting with component management or the component auditors to obtain an understanding of the component and its environment. (b) Reviewing the component auditors' overall audit strategy and audit plan. (c) Performing risk assessment procedures to identify and assess the risks of material misstatement at the component level. These may be performed with the component auditors, or by the group engagement team. (d) Designing and performing further audit procedures. These may be designed and performed with the component auditors, or by the group engagement team. (e) Participating in the closing and other key meetings between the component auditors and component management. (f) Reviewing other relevant parts of the component auditors' audit documentation.
Preliminary Views of the GAWG	The GAWG is of the preliminary view that consideration should be given to strengthening ISA 600 in this area, by potentially clarifying the requirements and application material to more explicitly explain the interactions between the group engagement team and the component auditor as it relates to the involvement of the group engagement team in work done by component auditors. In particular, revisions could include the need for more focus on the significant judgments⁴⁵ that need to be made about the nature and extent of the involvement of the group engagement team in work done by component auditors, and importantly the need for adequate documentation thereof. In addition, the GAWG is of the view that more guidance clarifying the interrelationships between paragraphs 24, 30, A47, A54, and A33 of ISA 600 may assist auditors in applying professional judgment in determining the nature, timing and extent of their involvement and in reminding them of the fact that involvement of group engagement team's in the work of component auditors may involve significant judgments relevant to a significant matter that would need to be documented pursuant to ISA 230 paragraph 8(c).

⁴⁵ ISA 230, paragraph A8 is intended to set out the documentation of significant matters and related significant professional judgments of the auditor

	The broad range of circumstances around the group engagement team's involvement in the work of the component auditor is not explicitly set out in the extant standard. For example, in some cases the component auditor may be a firm that has the same policies and procedures as the group engagement team, or may be from the same jurisdiction as the group engagement team, such that the group engagement team may therefore be able to use the work of the component auditor with a different nature and extent of involvement than in those situations in which the component auditor is from a firm that does not have the same policies and procedures or is from a different jurisdiction (i.e., the nature and extent of the group engagement team's involvement in the work performed by that auditor would likely need to be greater). The GAWG also notes that this may be an area where a Staff Publication may be useful to illustrate the links and clarify the relationship between various paragraphs in the standard as described above, and also provide some additional illustrations of the broad range of circumstances that may exist. For example, the nature, timing and extent of the involvement of the group engagement team in the work of the component auditor depends on various circumstances, and the group engagement team would need to consider paragraphs 19, 24, A33, A47 and A54(c) of ISA 600 when determining the extent of their involvement. The GADP will seek stakeholder perspectives on these issues and the possible ways of addressing them.
33. Audit Procedures at the Component	
Development of ISA 600	Respondents to ED 2006 expressed concern about the lack of explicit requirements directed at component auditors. The IAASB had the view that the ISA addresses the responsibilities of the group engagement team and therefore the standard did not contain requirements directed at component auditors. ED 2006 also included lists of types of work to be performed on the financial information of components that were determined to be significant and the work to be performed on components that were determined not to be significant. Respondents to the ED felt that these lists should be moved to application material, however the IAASB was of the view that the types of work should be retained to ensure consistent application of the requirements. The related application material to these requirements was developed to address concerns on how to determine the type of work to be performed, but did not include discussion on the meaning of each type of work.
Issues Identified	Insufficient guidance about what the audit of a component's financial information means (e.g., do <i>all</i> ISAs apply if it is not an audit for statutory purposes).⁴⁶ (<i>ISA Implementation Monitoring</i>)

⁴⁶ For example, should ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, apply when auditing one or more account balances, classes of transactions or disclosures? Likewise, does ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*, apply in its entirety for a "review of component financial information"?

	• More guidance needed about what ‘specified audit procedures’⁴⁷ means. (<i>ISA Implementation Monitoring</i>)
Relevant ISA References	<u>ISA 600</u> <i>Requirements</i> ... <i>Determining the Type of Work to Be Performed on the Financial Information of Components (Ref: Para. A47)</i> Significant Components 26. For a component that is significant due to its individual financial significance to the group, the group engagement team, or a component auditor on its behalf, shall perform an audit of the financial information of the component using component materiality. 27. For a component that is significant because it is likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances, the group engagement team, or a component auditor on its behalf, shall perform one or more of the following: (a) An audit of the financial information of the component using component materiality. (b) An audit of one or more account balances, classes of transactions or disclosures relating to the likely significant risks of material misstatement of the group financial statements. (Ref: Para. A48) (c) Specified audit procedures relating to the likely significant risks of material misstatement of the group financial statements. (Ref: Para. A49) <i>Components that Are Not Significant Components</i> 28. For components that are not significant components, the group engagement team shall perform analytical procedures at group level. (Ref: Para. A50) 29. If the group engagement team does not consider that sufficient appropriate audit evidence on which to base the group audit opinion will be obtained from: (a) the work performed on the financial information of significant components; (b) the work performed on group-wide controls and the consolidation process; and (c) the analytical procedures performed at group level, the group engagement team shall select components that are not significant components and shall perform, or request a component auditor to perform, one or more of the following on the financial information of the individual components selected: (Ref: Para. A51–A53) • An audit of the financial information of the component using component materiality.

⁴⁷ ISA 600, paragraph 27(c)

	• An audit of one or more account balances, classes of transactions or disclosures. • A review of the financial information of the component using component materiality. • Specified procedures. The group engagement team shall vary the selection of components over a period of time. <i>Application Material</i> ... <i>Determining the Type of Work to Be Performed on the Financial Information of Components</i> (Ref: Para. 26–27) A47. The group engagement team's determination of the type of work to be performed on the financial information of a component and its involvement in the work of the component auditor is affected by: (a) The significance of the component; (b) The identified significant risks of material misstatement of the group financial statements; (c) The group engagement team's evaluation of the design of group-wide controls and determination whether they have been implemented; and (d) The group engagement team's understanding of the component auditor. The diagram shows how the significance of the component affects the group engagement team's determination of the type of work to be performed on the financial information of the component. [Diagram omitted] Significant Components (Ref: Para. 27(b)–(c)) A48. The group engagement team may identify a component as a significant component because that component is likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances. In that case, the group engagement team may be able to identify the account balances, classes of transactions or disclosures affected by the likely significant risks. Where this is the case, the group engagement team may decide to perform, or request a component auditor to perform, an audit of only those account balances, classes of transactions or disclosures. For example, in the situation described in paragraph A6, the work on the financial information of the component may be limited to an audit of the account balances, classes of transactions and disclosures affected by the foreign exchange trading of that component. Where the group engagement team requests a component auditor to perform an audit of one or more specific account balances, classes of transactions or disclosures, the communication of the group engagement team (see paragraph 40) takes account of the fact that many financial statement items are interrelated. A49. The group engagement team may design audit procedures that respond to a likely significant risk of material misstatement of the group financial statements.

	For example, in the case of a likely significant risk of inventory obsolescence, the group engagement team may perform, or request a component auditor to perform, specified audit procedures on the valuation of inventory at a component that holds a large volume of potentially obsolete inventory, but that is not otherwise significant. Components that Are Not Significant Components (Ref: Para. 28–29) A50. Depending on the circumstances of the engagement, the financial information of the components may be aggregated at various levels for purposes of the analytical procedures. The results of the analytical procedures corroborate the group engagement team’s conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components. ... A52. A review of the financial information of a component may be performed in accordance with International Standard on Review Engagements (ISRE) 2400⁴⁸ or ISRE 2410,⁴⁹ adapted as necessary in the circumstances. The group engagement team may also specify additional procedures to supplement this work.
GAWG Views	The work performed at the component will depend on the circumstances under which the component auditor is performing the audit (e.g., it may be for group audit purposes only, or in addition may also be for statutory purposes with an auditor’s report on the separate financial statements of the component being issued), which may result in different considerations about how the component auditors plan and perform their work in order to address the requirement to perform an audit of a significant component for the purposes of the group audit. Examples of differences in the audit procedures may include: • That materiality for the component would likely be higher if not issuing an auditor’s report on the statutory financial statements. • That certain audit procedures may be performed centrally where a separate audit opinion is not being expressed on the component, for example the identification of, and procedures performed on litigation and claims or other account balances and disclosures; written representations may also be obtained for the group as whole rather than at the component level. • When the only reporting on the component is to the group auditor (for example through a clearance memo), the component auditor may not apply the ISA reporting standards. The GAWG is of the preliminary view that making the distinction between work done for the purposes of the group audit and work done to support a stand-alone opinion at the component level more clear, and providing more guidance on relevant considerations for the auditor in the different circumstances (for example clarifying

⁴⁸ ISRE 2400, *Engagements to Review Financial Statements*

⁴⁹ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

	that an audit of the financial information of a component may not necessarily mean applying <i>all</i> ISAs in <i>all</i> circumstances, or possibly even changing the term from “audit” to another term), may be helpful in addressing the issues that have been identified. The GAWG also notes that there are instances where some balances are audited centrally or in the aggregate and ‘pushed’ down to the component (as described above). Additional guidance about the implications for the work being performed by the component auditor in these circumstances may also be beneficial, including when standalone opinions are also required at the component level. <i>Audit Client’s Use of a Shared Service Centre</i> The GAWG notes that in the current environment, many entities are increasingly operating in integrated structures, such as situations where the transactions for all or many ‘components’ are processed centrally, e.g., through a shared service center. In such circumstances, different interpretations of what a ‘component’ is in relation to ISA 600 have resulted in inconsistent application of ISA 600. In addition, it has been noted that the use of shared service centers also gives rise to other challenges in a number of areas, including whether and how to treat the shared service center as a component, how to scope audit procedures to be performed at the shared service center, how these procedures can be integrated into the work performed by the group engagement team and the component auditor(s), and the form and extent of communication between the engagement team responsible for the work being done at the shared service center, the group engagement team and the component auditor(s). In practice, there is inconsistency in the work effort in these situations, sometimes depending on whether or not the shared service center has been separately identified as a component. The GAWG is of the view that further consideration is needed as to how to better address the use of shared service centers in ISA 600, and to potentially consider enhancing the requirements of providing additional guidance for such situations. The GAWG is generally of the preliminary view that more clarity in the standard around the work of component auditor(s) is needed, including work effort on evolving group structures, and would look to stakeholders responding to the GADP to provide further views on these matters.
34. Audit Approach Where there are Only Non- Significant Components, or a Large Number of Non-Significant Components	
Development of ISA 600	During the development of the standard the requirements in respect of non-significant components were updated to require the variation in the selection of components over time based on the concern that without such a requirement some components may not be subject to audit procedures for a long period of time, which may result in increased audit risk over time. In addition, to address comments around the types of procedures to be performed on non-significant components, the application material was expanded. However, a situation where a large number of non-significant components existed was not explicitly considered in the standard.

Issues Identified	More guidance needed for scoping the audit when there are only a few or no significant components, but also for a significant number of non-significant components. (<i>ISA Implementation Monitoring</i>)
Relevant ISA References	<u>ISA 600</u> <i>Requirements</i> ... <i>Components that Are Not Significant Components</i> 28. For components that are not significant components, the group engagement team shall perform analytical procedures at group level. (Ref: Para. A50) 29. If the group engagement team does not consider that sufficient appropriate audit evidence on which to base the group audit opinion will be obtained from: (a) the work performed on the financial information of significant components; (b) the work performed on group-wide controls and the consolidation process; and (c) the analytical procedures performed at group level; the group engagement team shall select components that are not significant components and shall perform, one or more of the following on the financial information of the individual components selected: (Ref: Para. A51—A53) • An audit of the financial information of the component using component materiality. • An audit of one or more account balances, classes of transactions or disclosures. • A review of the financial information of the component using component materiality. • Specified procedures. The group engagement team shall vary the selection of components over a period of time. <i>Application Material</i> ... <i>Expectation to Obtain Sufficient Appropriate Evidence</i> (Ref: Para. 13) A13. A group may consist of components not considered significant components. In these circumstances, the group engagement partner can reasonably expect to obtain sufficient appropriate evidence on which to base the group audit opinion if the group engagement team will be able to: (a) Perform the work on the financial information of some of these components; and (b) Be involved in the work performed by the component auditors on the financial information of other components to the extent necessary to obtain sufficient appropriate audit evidence.

	Components that Are Not Significant Components (Ref: Para. 28–29) A50. Depending on the circumstances of the engagement, the financial information of the components may be aggregated at various levels for purposes of the analytical procedures. The results of the analytical procedures corroborate the group engagement team’s conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components. A51. The group engagement team’s decision as to how many components to select in accordance with paragraph 29, which components to select, and the type of work to be performed on the financial information of the individual components selected may be affected by factors such as the following: • The extent of audit evidence expected to be obtained on the financial information of the significant components. • Whether the component has been newly formed or acquired. • Whether significant changes have taken place in the component. • Whether the internal audit function has performed work at the component and any effect of that work on the group audit. • Whether the components apply common systems and processes. • The operating effectiveness of group-wide controls. • Abnormal fluctuations identified by analytical procedures performed at group level. • The individual financial significance of, or the risk posed by, the component in comparison with other components within this category. • Whether the component is subject to audit required by statute, regulation or for another reason. Including an element of unpredictability in selecting components in this category may increase the likelihood of identifying material misstatement of the components’ financial information. The selection of components is often varied on a cyclical basis. A52. A review of the financial information of a component may be performed in accordance with International Standard on Review Engagements (ISRE) 2400 or ISRE 2410, adapted as necessary in the circumstances. The group engagement team may also specify additional procedures to supplement this work. A53. As explained in paragraph A13, a group may consist only of components that are not significant components. In these circumstances, the group engagement team can obtain sufficient appropriate audit evidence on which to base the group audit opinion by determining the type of work to be performed on the financial information of the components in accordance with paragraph 29. It is unlikely that the group engagement team will obtain sufficient appropriate audit evidence on which to base the group audit opinion if the group engagement

	team, or a component auditor, only tests group-wide controls and performs analytical procedures on the financial information of the components.
Preliminary Views of the GAWG	In the preliminary view of the GAWG, the requirements of the standard with respect to performing work on “residual balances” (i.e., those pertaining to components that are not significant and not otherwise selected for testing) are not sufficiently clear or robust. Although paragraph 29 of ISA 600 requires consideration of additional work if the group engagement team does not consider that sufficient appropriate audit evidence will be obtained without also performing work at non-significant components, the standard does not require that in making this assessment, the group engagement team should consider whether risks of material misstatement remain that are not addressed by work done on significant components and at the group level. This issue is particularly relevant where there are a large number of entities, none of which are significant individually but that in aggregate represent risks of material misstatement. Therefore the GAWG suggests that the GADP explore stakeholder views about strengthening the requirements (with related application material) to address the auditor’s considerations about the work to be done on non-significant components, in addition to the work to be done on significant components. The GAWG is interested in learning more about how firms address these situations and whether NSS have any supplemental requirements or guidance. The GAWG notes that paragraph A53 of ISA 600 touches upon the situation where a group may be comprised of components that are not significant components, however, there is limited guidance on how the group engagement team would determine which components would require procedures and how to determine when a sufficient number of components have been selected for the performance of procedures. Further exploration of these issues in the GADP to seek stakeholder views will help in determining the need for and nature of potential changes to the standard in this area.
Further Information Gathering Needed	From firms: Obtaining an understanding of firm guidance developed internally to address situations where the group consists entirely or largely of non-significant components to further understand how this is being dealt with in practice. From others: Obtain any guidance or standards⁵⁰ that have been developed by others (e.g., by NSS) in this area to understand current practices and to provide input for an appropriate way forward.

⁵⁰ For example, PCAOB Auditing Standard 9 paragraphs 11-13 include factors to be considered by the group engagement team in determining the components at which to perform audit procedures, the nature, timing and extent of those procedures and the factors relevant to the assessment of the risk of material misstatement associated with a particular component and the determination of necessary audit procedures

Matters for IAASB Consideration

4. The IAASB is asked to consider the GAWG views presented in paragraphs 27–34, and provide its views on the matters noted.
5. The IAASB is asked whether there are any other matters relating to planning an audit of group financial statements that the GAWG should further consider.

Performing the Audit

35. <i>The Group Engagement Team's Involvement in the Consolidation Process</i>	
Development of ISA 600	ED 2006 explained that before accepting or continuing a group audit engagement, the group engagement team should have a reasonable expectation of obtaining sufficient appropriate audit evidence in relation to the consolidation process, which it was felt could be achieved by the group engagement team performing work on the consolidation process. This issue was not however a heavily debated area in the development of ISA 600.
Issues Identified	• More clarity needed for the group auditor's work on the consolidation process. (<i>ISA Implementation Monitoring</i>) • Concerns about overreliance on the component auditor for procedures over the consolidation. (<i>Audit Oversight Bodies</i>)
Relevant ISA References	<u>ISA 600</u> Definitions 9. For the purposes of the ISAs, the following terms shall have the meanings attributed below: ... (i) Group engagement team—Partners, including the group engagement partner, and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements. Requirements ... Understanding the Group, Its Components, and Their Environments 17. The auditor is required to identify and assess the risks of material misstatement through obtaining an understanding of the entity and its environment. The group engagement team shall: (a) Enhance its understanding of the group, its components, and their environments, including group-wide controls, obtained during the acceptance or continuance stage; and

	(b) Obtain an understanding of the consolidation process, including the instructions issued by group management to components. (Ref: Para. A23–A29) Responding to Assessed Risks 24. The auditor is required to design and implement appropriate responses to address the assessed risks of material misstatement of the financial statements. The group engagement team shall determine the type of work to be performed by the group engagement team, or the component auditors on its behalf, on the financial information of the components (see paragraphs 26–29). The group engagement team shall also determine the nature, timing and extent of its involvement in the work of the component auditors (see paragraphs 30–31). 25. If the nature, timing and extent of the work to be performed on the consolidation process or the financial information of the components are based on an expectation that group-wide controls are operating effectively, or if substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, the group engagement team shall test, or request a component auditor to test, the operating effectiveness of those controls. Consolidation Process 32. In accordance with paragraph 17, the group engagement team obtains an understanding of group-wide controls and the consolidation process, including the instructions issued by group management to components. In accordance with paragraph 25, the group engagement team, or component auditor at the request of the group engagement team, tests the operating effectiveness of group-wide controls if the nature, timing and extent of the work to be performed on the consolidation process are based on an expectation that group-wide controls are operating effectively, or if substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. 33. The group engagement team shall design and perform further audit procedures on the consolidation process to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include evaluating whether all components have been included in the group financial statements. 34. The group engagement team shall evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and shall evaluate whether any fraud risk factors or indicators of possible management bias exist. (Ref: Para. A56) 35. If the financial information of a component has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group engagement team shall evaluate whether the financial

	information of that component has been appropriately adjusted for purposes of preparing and presenting the group financial statements. 36. The group engagement team shall determine whether the financial information identified in the component auditor's communication (see paragraph 41(c)) is the financial information that is incorporated in the group financial statements. 37. If the group financial statements include the financial statements of a component with a financial reporting period-end that differs from that of the group, the group engagement team shall evaluate whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework. <i>Application Material</i> ... A11. The group engagement team's understanding may include matters such as the following: • The group structure, including both the legal and organizational structure (that is, how the group financial reporting system is organized). • Components' business activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place. • The use of service organizations, including shared service centers. • A description of group-wide controls. • The complexity of the consolidation process. (See also Appendix 2 for matters that may be considered when understanding the consolidation process and consolidation adjustments)
Preliminary Views of the GAWG	The GAWG is of the preliminary view that ISA 600 includes appropriate requirements and application material addressing the understanding and evaluation of the consolidation process at the overall group level. However, the GAWG believes it would be helpful for the GADP to seek additional perspectives about whether more guidance could be included in the standard about consideration of internal control relevant to the audit and the entity's financial reporting process used to prepare the consolidated financial statements. This could be done by more explicitly linking to the relevant requirements and guidance in ISA 315 (Revised), which requires the auditor to obtain an understanding of internal control relevant to the audit and the financial reporting process used to prepare the entity's financial statements,⁵¹ and adding more guidance to ISA 600 to explain how this might apply in the context of a group audit. Consideration of changes in this area made by the recently completed Disclosures project may influence the approach taken. Also as part of understanding the entity, the group engagement team would need to determine whether consolidations of financial information take place at levels lower

⁵¹ ISA 315 (Revised), paragraph 18

	than the overall group level (i.e., sub-consolidations). The GAWG notes that there is no guidance on the group engagement team's expected involvement in any sub-consolidation processes, and consideration of the provision of such guidance may be appropriate. For example, such guidance could include a recognition that component auditors will likely not have the "full picture" of the group that the group engagement team has, and therefore may not be in a position to properly evaluate the completeness and accuracy of all consolidation adjustments at the sub-consolidation level. This additional guidance could include links to, or build on, the requirements and guidance in ISA 220 in respect of the engagement partner's responsibilities for the direction, supervision, performance and review of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In addition, the GADP could explore stakeholder views about whether some aspects of the examples of matters to consider when understanding the consolidation process currently contained in Appendix 2 of ISA 600 could be considered for elevation in status to application material or to requirements, encompassing both the overall group consolidation level and any sub-consolidation levels.
Further Information Gathering Needed	From firms More information about the issues and challenges that are being experienced in practice by group auditors relating to sub-consolidations will need to be explored to understand the nature of such issues and challenges, and therefore determine an appropriate way forward. From audit oversight bodies To the extent available, any additional information that may be helpful to the GAWG in further understanding the issues relating to perceived deficiencies in auditing the consolidation process (including whether the issues is at the sub-consolidation level), as well as views about whether clarifying or strengthening the requirements or developing additional application material for the necessary documentation by the auditor to evidence the judgments made in relation to the consolidation process (or sub-consolidation as applicable) would also be beneficial.

Matters for IAASB Consideration

6. The IAASB is asked to consider the GAWG views presented in paragraph 35, and provide its views on the matters noted.
7. The IAASB is asked whether there are any other matters relating to the performance of procedures by the group engagement team as it relates to group audits that the GAWG should further consider.

Review and Evaluation of the Work of Component Auditors

36. The Group Engagement Team's Review of the Work of the Component Auditor	
Development of ISA 600	In developing the standard, there was significant discussion around the nature, timing and extent of procedures to be performed by the group engagement team in respect of all aspects of the component auditor's work. It was acknowledged that the extent of the involvement would vary based on the group engagement team's evaluation of the component auditor, the environment in which the component auditor operates, the significance of the component being audited by the component auditor and the existence of common policies and procedures between the group engagement team and the component auditor. The requirements to base the group engagement team's decision to review relevant parts of the component auditor's documentation were revised as the standard was developed, allowing flexibility as to the extent of the review determined by the group engagement team's assessment of the circumstances of the engagement. ⁵² This is also intrinsically linked to evaluating the sufficiency and appropriateness of audit evidence obtained (see below).
Issues Identified	- The need for more guidance on when the group engagement team needs to review the working papers of the component, the nature and extent of the review, and how to evidence the nature and extent of the review. (<i>ISA Implementation Monitoring</i>) - Insufficient review of the component auditor's procedures. (<i>Audit Oversight Bodies</i>)
Relevant ISA References	<u>ISA 600</u> <i>Requirements</i> ... Communication with the Component Auditor 41. The group engagement team shall request the component auditor to communicate matters relevant to the group team's conclusion with regard to the group audit. Such communications shall include: (Ref: Para. A60) (a) Whether the component auditor has complied with ethical requirements that are relevant to the group audit, including independence and professional competence; (b) Whether the component auditor has complied with the group engagement team's requirements; (c) Identification of the financial information of the component on which the component auditor is reporting; (d) Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements;

⁵² ISA 600, paragraphs 42 and A61

	(e) A list of uncorrected misstatements of the financial information of the component (the list need not include misstatements that are below the threshold for clearly trivial misstatements communicated by the group engagement team (see paragraph 40(c)); (f) Indicators of possible management bias; (g) Description of any identified significant deficiencies in internal control at the component level; (h) Other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component; (i) Any other matters that may be relevant to the group audit, or that the component auditor wishes to draw to the attention of the group engagement team, including expectations noted in the written representations that the component auditor requested from component management; and (j) The component auditor's overall findings, conclusions or opinion. Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained <i>Evaluating the Component Auditor's Communication and Adequacy of their Work</i> 42. The group engagement team shall evaluate the component auditor's communication (see paragraph 41). The group engagement team shall: (a) Discuss significant matters arising from that evaluation with the component auditor, component management or group management, as appropriate; and (b) Determine whether it is necessary to review other relevant parts of the component auditor's audit documentation. (Ref: Para. A61) <i>Application Material</i> ... Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained <i>Reviewing the Component Auditor's Audit Documentation</i> (Ref: Para. 42(b)) A61. What parts of the audit documentation of the component auditor will be relevant to the group audit may vary depending on the circumstances. Often the focus is on audit documentation that is relevant to the significant risks of material misstatement of the group financial statements. The extent of the review may be affected by the fact that the component auditor's audit documentation has been subjected to the component auditor's firm's review procedures.

Preliminary Views of the GAWG	The GAWG observes that the requirement in paragraph 42 of ISA 600 to evaluate the component auditor's work may be impacted by issues that restrict or otherwise complicate the auditor's access to the working papers (see discussion about access issues above). However, the GAWG is of the preliminary view that challenges in this area are likely due to more than access issues. Accordingly, the GADP believes that it would be appropriate to seek additional perspectives about whether and how the requirements and guidance may be clarified or expanded to further address the nature and extent of this review. For example, to encourage the group engagement team to critically review the work of the component auditor to fully understand the extent and robustness of the procedures performed by the component auditor, the requirements could potentially be revised to provide more clarity on the procedures that the group engagement team would perform in the review. However, care will be needed to ensure that the extent of the review required by the group engagement team does not exceed that which would be undertaken on a non-group audit. In addition, the GAWG also believe that issues may sometimes arise from insufficient documentation, relating to the group engagement team's review of the component's work papers and conclusions, being included in the audit documentation of the group audit file. In particular, significant judgments that are made by the group engagement team in relation to this review may in some cases not be properly documented in the group audit file. Accordingly, the GAWG is of the preliminary view that further consideration could also be given to strengthening the documentation requirements regarding the review, including how the review was performed by the group engagement team and the documents reviewed, and specifically linking to the requirements in ISA 230.⁵³ Alternatively, enhanced requirements to strengthen the evidence regarding this review could also be explored. These matters need to be considered in light of the fact that the work of the component auditor is likely already reviewed by the engagement partner responsible for the work at the component. Consequently, the nature and depth of the review should, in principle, not be significantly different from the review of a key audit partner's work by the engagement partner in an audit that is not a group audit. The GAWG also believes that additional guidance on the nature, timing and extent of the procedures that the group engagement team should perform on the work of the component auditor would be helpful. This could be explored through the use of examples of the types and extent of procedures that would be expected to be performed in varying group engagement scenarios, such as when the component auditor uses common policies and procedures, or methodologies, as the group audit engagement team and when it does not. The guidance could either be in the application material or a non-authoritative Staff publication, and views on the need for, and the most appropriate place for, such guidance will be sought in the GADP.

⁵³ ISA 230, paragraph 8

37. The Impact of the Component Auditor's Findings on the Group Audit	
Development of ISA 600	Subsequent to comments received to ED 2005 concerning strengthening the group engagement team's procedures in respect to involvement in the work of the component auditor, it was agreed that the group engagement team's evaluation of the adequacy of the component auditors' work would help the group engagement team conclude about whether sufficient, appropriate audit evidence for the group audit as a whole has been obtained.
Issues Identified	Insufficient consideration of the effects on the group audit of the component auditor's findings, including the evaluation of whether sufficient appropriate audit evidence has been obtained. (<i>Audit Oversight Bodies</i>)
Relevant ISA References	<u>ISA 600</u> <i>Requirements</i> ... 43. If the group engagement team concludes that the work of the component auditor is insufficient, the group engagement team shall determine what additional procedures are to be performed, and whether they are to be performed by the component auditor or by the group engagement team. <i>Sufficiency and Appropriateness of Audit Evidence</i> 44. 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.⁵⁴ The group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on 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. (Ref: Para. A62) <i>Application Material</i> ... <i>Sufficiency and Appropriateness of Audit Evidence</i> (Ref: Para. 44–45) A62. If the group engagement team concludes that sufficient appropriate audit evidence on which to base the group audit opinion has not been obtained, the group engagement team may request the component auditor to perform additional procedures. If this is not feasible, the group engagement team may perform its own procedures on the financial information of the component.
Preliminary Views of the GAWG	As illustrated above, there is a requirement to obtain sufficient appropriate audit evidence to support the audit opinion. The issue may be due to one or a combination of the following:

⁵⁴ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 17

	- Insufficient documentation of the group engagement team's considerations and significant judgments about the sufficiency and appropriateness of the evidence from the component auditor to support the group audit opinion. - Insufficient consideration or documentation of the broader implications for the group audit from the results of the component auditor's work (e.g., evidence that the group auditor has considered whether a component auditor finding for one component gave rise to heightened risk where similar circumstances exist in other components). The GAWG is of the view that the issue needs to be further understood to determine an appropriate way forward.
Further Information Gathering Needed	From firms: Exploring firms' views on this issue, including how firms may have addressed inspection findings on this issue. From audit oversight bodies: To the extent available, any additional information about the causal factors giving rise to this issue.
38. Communication Between the Component Auditor and the Group Engagement Team	
Development of ISA 600	In finalizing the standard, consideration was given to concerns expressed by respondents to ED 2006 in respect of the prescriptive nature of the requirements concerning communication between the component auditor and the group engagement team. As a result, changes were made to allow for flexibility in the group engagement team's method of communication with the component auditor. Application material was specifically added to explain that communications may not necessarily be in writing. However, such communications were still required to be on a timely basis and include a request that the component auditor communicate matters relevant to the group audit to the group engagement team.
Issues Identified	- More guidance is needed on the communication between the group engagement team and the component auditor to ensure more consistency in these communications. (<i>ISA Implementation Monitoring</i>) - Insufficient communication between the group engagement team and the component auditor, in particular discussions regarding the findings of the component auditor. (<i>Audit Oversight Bodies</i>)
Relevant ISA References	<u>ISA 600</u> <i>Requirements</i> ... Communication with the Component Auditor 40. The group engagement team shall communicate its requirements to the component auditor on a timely basis. This communication shall set out the work to be performed, the use to be made of that work, and the form and content of the component auditor's communication with the group

	engagement team. It shall also include the following: (Ref: Para. A57, A58, A60) (a) A request that the component auditor, knowing the context in which the group engagement team will use the work of the component auditor, confirms that the component auditor will cooperate with the group engagement team. (Ref: Para. A59) (b) The ethical requirements that are relevant to the group audit and, in particular, the independence requirements. (c) In the case of an audit or review of the financial information of the component, component materiality (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. (d) Identified significant risks of material misstatement of the group financial statements, due to fraud or error, which are relevant to the work of the component auditor. The group engagement team shall request the component auditor to communicate on a timely basis any other identified significant risks of material misstatement of the group financial statements, due to fraud or error, in the component, and the component auditor's responses to such risks. (e) A list of related parties prepared by group management, and any other related parties of which the group engagement team is aware. The group engagement team shall request the component auditor to communicate on a timely basis related parties not previously identified by group management or the group engagement team. The group engagement team shall determine whether to identify such additional related parties to other component auditors. 41. The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication shall include: (Ref: Para. A60) (a) Whether the component auditor has complied with ethical requirements that are relevant to the group audit, including independence and professional competence; (b) Whether the component auditor has complied with the group engagement team's requirements; (c) Identification of the financial information of the component on which the component auditor is reporting; (d) Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements; (e) A list of uncorrected misstatements of the financial information of the component (the list need not include misstatements that are below the

	threshold for clearly trivial misstatements communicated by the group engagement team (see paragraph 40(c)); (f) Indicators of possible management bias; (g) Description of any identified significant deficiencies in internal control at the component level; (h) Other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component; (i) Any other matters that may be relevant to the group audit, or that the component auditor wishes to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from component management; and (j) The component auditor's overall findings, conclusions or opinion. 50. The group engagement team shall include in the audit documentation the following matters: ... (b) The nature, timing and extent of the group engagement team's involvement in the work performed by the component auditors on significant components including, where applicable, the group engagement team's review of relevant parts of the component auditors' documentation and conclusions thereon. (c) Written communication between the group engagement team and the component auditors about the group engagement team's requirements. Application Material ... Communication with the Component Auditor (Ref: Para. 40–41) A57. If effective two-way communication between the group engagement team and the component auditors does not exist, there is a risk that the group engagement team may not obtain sufficient appropriate audit evidence on which to base the group audit opinion. Clear and timely communication of the group engagement team's requirements forms the basis of effective two-way communication between the group engagement team and the component auditor. A58. The group engagement team's requirements are often communicated in a letter of instruction. Appendix 5 contains guidance on required and additional matters that may be included in such a letter of instruction. The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed. Communication between

	the group engagement team and the component auditor, however, may not necessarily be in writing. For example, the group engagement team may visit the component auditor to discuss identified significant risks or review relevant parts of the component auditor's audit documentation. Nevertheless, the documentation requirements of this and other ISAs apply. A59. In cooperating with the group engagement team, the component auditor, for example, would provide the group engagement team with access to relevant audit documentation if not prohibited by law or regulation. A60. Where a member of the group engagement team is also a component auditor, the objective for the group engagement team to communicate clearly with the component auditor can often be achieved by means other than specific written communication. For example: • Access by the component auditor to the overall audit strategy and audit plan may be sufficient to communicate the group engagement team's requirements set out in paragraph 40; and • A review of the component auditor's audit documentation by the group engagement team may be sufficient to communicate matters relevant to the group engagement team's conclusion set out in paragraph 41.
Preliminary Views of the GAWG	Notwithstanding the existing requirements and guidance, the GAWG is of the preliminary view that the requirements around communication in ISA 600 could be strengthened, in particular in relation to the 'feedback loop' of communication, i.e., such that there is more interactive communication required between the group engagement team and component auditor as the group engagement team plans, reviews and assesses the work performed by the component auditor. Two-way communication at all stages of the audit would enable the group engagement team to better understand if the instructions provided to the component auditor have been fully understood and complied with. It may also help the group engagement team better understand the results of the procedures performed and assist them with evaluating the sufficiency and appropriateness of the audit evidence obtained for the purposes of the group audit opinion. Further, the application material relating to the existing requirements around communication with the component auditor could be supplemented to explain more precisely what the requirement is intended to cover and could include examples of procedures that may be appropriate in the circumstances. For example, ISA 600 requires timely communication between the group engagement team and the component engagement team, however it doesn't then explain what is meant by timely. ISA 260⁵⁵ guidance in respect of the timing of communications could be used as a basis to provide such an explanation in ISA 600. In addition, further application material could also be considered to specifically point to the documentation of <i>all</i> significant communications and not just focus on the inclusion of written communications.

⁵⁵ ISA 260, *Communication with Those Charged With Governance*

	The GADP will seek stakeholder views as to whether a strengthening of the requirements and additional guidance will be useful to address the relevant issues identified above. The GAWG also notes that currently the requirement in ISA 600 only specifies documentation of the group engagement team's involvement in the work performed by the component auditors on significant components. The GAWG believes that the GADP could also seek the views of stakeholders' about whether this should be extended to the engagement team's involvement in the work of component auditors on all components where work is performed in support of the audit opinion.

Matters for IAASB Consideration

8. The IAASB is asked to consider the GAWG views presented in paragraphs 36–38, and provide its views on the matters noted.
9. The IAASB is asked whether there are any other matters relating to the review and evaluation of by the group engagement team that the GAWG should further consider.

Other Areas to Explore

39. In its discussions on the matters noted above, the GAWG also identified further areas to explore and plans to undertake additional information gathering to determine whether these matters should be included in the GADP:
 - (a) Practices relating to different audit delivery models and the impact on the standards or other Board documents (this will likely be done in coordination with the Quality Control Working Group).
 - (b) The application of the standards to 'fund of funds' situations (including a determination as to whether or not ISA 600 would apply in these circumstances, and if not, why not or if so, how it might be applied).
 - (c) Work being undertaken by other standard setters in this area, in particular the PCAOB in the US, and standard setters in the Netherlands and Canada, and the impact that these efforts may have on the ISAs.
 - (d) The pervasiveness of issues related to the component auditor being requested to provide information to the group engagement team when the group engagement team has had no involvement in the audit of the component. Understanding this matter will help guide whether additional application material for these circumstances would be appropriate.
40. At the March 2015 IAASB CAG meeting, the ability of the group engagement team to use a component auditor's statutory report as part of the evidence considered in issuing the group auditor's report was raised. The GAWG believes that further exploration and consideration of the possibility of making reference to the work or report of another auditor in the auditor's report on the group financial statements, including obtaining stakeholder perspectives through the GADP, may be beneficial. This exploration would include consideration of the procedures group auditors would need to undertake to enable themselves to be able to use this option, and in which circumstances it may be appropriate. Relevant considerations may include the ability of the auditor to use audited financial statements as

audit evidence in appropriate circumstances, which would not be seen as a “division of responsibility”, but rather a situation where the group engagement partner remains responsible overall for the audit of the group financial statements and the related auditor’s report and in reporting, provides transparency as to how sufficient appropriate audit evidence has been obtained. The GAWG plans to further explore and understand the requirements and guidance issued by other jurisdictions who allow this in certain circumstances (e.g., such as in the US).

Matter for IAASB Consideration

10. IAASB members are asked for views on the additional areas to explore as set out in paragraphs 39–40 above.
11. Are there any other matters that the GAWG should take into account as it develops the GADP?

Meeting: IAASB
Meeting Location: New York, United States
Meeting Dates: June 15–19, 2015

Agenda Item 11

Special Audit Considerations Relevant to Financial Institutions

Objective of Agenda Item

1. The objectives of the IAASB discussion at its June 2015 meeting are:
 - (a) To update the Board on the Financial Institutions Working Group's (FIWG) activities to date; and
 - (b) To obtain input on FIWG's recommendation to focus its activities on the audit issues related to IFRS 9¹ ahead of other aspects of the financial institutions project.

Financial Institutions Working Group

2. The FIWG is comprised of the following members:
 - Rich Sharko (WG Chair, IAASB Member) (supported by Jamie Shannon, IAASB Technical Advisor)
 - Marc Pickeur (WG Co-Chair, IAASB Member)
 - Ron Salole (IAASB Member, Non-Practitioner, Canada)
 - Abhijit Bandyopadhyay (National Standard Setter, India)
 - Emilio Pera (Practitioner, South Africa)
 - Pat Sucher (Regulator, UK)

The WG expects to add a member from an insurance background in the future. Jamie Shannon

Activities since March 2015 IAASB Meeting

3. Since the March 2015 Board meeting, the FIWG met three times by teleconference to discuss various topics, including the relationship between the banking supervisors and the bank's external auditor, the outreach activities by the FIWG's leadership, and the way forward based on the March 2015 IAASB meeting.

¹ International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

4. Since the March 2015 IAASB meeting, FIWG and IAASB leadership engaged in several outreach activities, including:
- Roundtable on consistent accounting for financial instruments with the Financial Stability Board: (Sharko, Pickeur);
 - Meeting with Representatives of the National Reserve Bank of India (Sharko);
 - Forum by the Centre for Financial Reporting Reform Seminar on Supervisors and Auditors: Partnering for Financial Stability (Pickeur);
 - Meetings with Staff of the International Accounting Standards Board (Sharko, Shannon, James)
 - Meeting with the Global Public Policy Committee Banking Working Group IAASB Liaison Subgroup (Sharko, Pickeur, Shannon, James, van der Hout);
 - Meetings with a variety of stakeholders in a country visit to South Africa (Schilder, Healy);
 - Meeting with CFA Institute (Schilder, Landes, Healy);
 - Meeting with representatives of the International Monetary Fund (Schilder, Landes, Healy); and
 - Meetings with representatives of the US Federal Deposit Insurance Corporation (FDIC) (Schilder, Landes, Healy).

Through these outreach efforts, the FIWG has become more aware of regulatory concerns regarding the importance of, and urgent need for, the IAASB's consideration of the implication of IFRS 9 for audits of financial statements, particularly around the expected credit loss model. Similar concerns were raised by members of the Accounting Experts Group of the Basel Committee on Banking Supervision when the FIWG leadership met with them in February 2015.

Proposed Change in Focus

5. At its March 2015 IAASB meeting, the IAASB supported in principle the proposed International Auditing Practice Note (IAPN) on the relationship between auditors and banking and insurance supervisors. The IAASB also noted that more research and information gathering could assist in finding a way forward for the project and highlighted areas for possible investigation, including liquidity issues for banks, new regulations that have been put into place since the global financial crisis; and guidance to help auditors with the implementation of IFRS 9.
6. The FIWG discussed the IAASB's views and also noted that the Financial Stability Board Roundtable identified a clear and pressing need for guidance on aspects of IFRS 9, particularly the shift to an expected credit loss model. The FIWG's deliberations since the March 2015 IAASB meeting focused on where the WG's focus should be in 2015, and concluded that the need for urgent guidance on aspects of IFRS 9 should be prioritized over the planned work on an IAPN on the relationship between auditors and banking and insurance supervisors and general information gathering on areas of guidance and requirements needed in the Financial Institutions area. In coming to this view, the FIWG noted that while there was benefits in progressing the IAPN first, the clear need for guidance on IFRS 9 – ahead of its implementation by audit firms – was a matter of public interest.

7. Accordingly, the FIWG recommends to change the focus of its work in 2015 to the audit implications of IFRS 9, particularly the impact of the shift to an expected credit loss model. Other aspects of the project would not be ceased, but would progress more slowly. The manner in which this work will interface with the planned December 2015 Discussion Paper on “Enhancing Audit Quality” is further explained in **Agenda Item 8**.

Action Requested

8. The IAASB is asked to provide views on the proposals presented in **Agenda Item 11-A**, particularly the proposed change in focus.

Material Presented

Agenda Item 11-A	Presentation of Financial Institutions Working Group

IAASB

Financial Institutions

Rich Sharko, Working Group Chair

Marc Pickeur, Working Group Co-Chair

New York, USA

June 17, 2015

Agenda Item 11

Reflections from the March 2015 IAASB Meeting

- Support, in principle, for the development of IAPN on the relationship with supervisors
- More research, information gathering needed before deciding on whether or not other aspects of the project should proceed via an IAPN or through changes in ISAs
 - Are extant ISAs sufficient?
 - Open to the possibility of industry/activity-specific ISAs or industry/activity-specific requirements within individual ISAs

IAASB

Page 2

Reflections from the March 2015 IAASB Meeting (cont.)

- Specific issues mentioned
 - Guidance to help auditors with the implementation of IFRS 9
 - Also supported by some CAG Representatives
 - New regulations that have been put into place since the global financial crisis
 - Liquidity/Going Concern issues for banks, noting that the specific characteristics of banks may warrant a unique approach to these topics
 - Need for consideration of audit issues of particular relevance to insurers, given the accounting developments in this area

Working Group Outreach Since IAASB Meeting: A Shift in Focus

- Financial Stability Board (Roundtable and meetings)
 - Strong pressure to refocus the Working Group's efforts on considering the implications of IFRS 9 – particularly regarding the Expected Credit Loss (ECL) provisions
 - Echoes comments by the Basel Committee in February
 - Perception that IAASB needs to be ahead of the change to strengthen audits as the entities adopt the new rules
- Other outreach: IASB Staff (re: IFRS 9, Insurance), Indian Central Bank

Working Group Outreach Since IAASB Meeting: A Shift in Focus (cont.)

- Initial reactions
 - Is existing ISA 540 sufficient?
 - Gap analysis
 - Firms have not yet considered the audit implications in detail
 - Effective date for IFRS 9: January 1, 2018 with early adoption permitted
 - Comparatives
 - System modifications

IFRS 9 – Key Audit Challenges

- Estimates under ECL model will be based on more forward-looking information
- Range of estimation uncertainty: multiples of materiality?
- Adequacy of systems and controls for implementation of IFRS 9
 - Governance over models, data (e.g. macroeconomic/forecast data)
- Identification of significant risks
- Use of experts – credit risk expertise
- Are the numbers/disclosures reasonable overall?

IFRS 9 – Information Gathering on Audit Issues: A Work in Progress

- Initial information gathering on the audit implications
 - IASB Staff (May 2015)
 - Audit issues from comment letters on IFRS 9
 - ECL similar to modelling Level 3 financial instruments?
 - GAP analysis
 - WG to consider audit issues related to IFRS 9 as a whole and assess in which area(s) action is needed
 - ECL expected to be the initial area of focus

IFRS 9 – Input Received So Far on Auditability of ECL

- What have we heard so far on ECL?
 - Common refrain (large audit firms, large FIs) is that there are many estimates already in financial statements that are addressed by ISA 540
 - *Are there aspects of accounting estimates that ISA 540 does not address, or areas where ISA 540 could be strengthened?* Working Group to look at ISA 540/IAPN 1000 initially and complete gap analysis
 - *How much work to do on forward-looking data?*

IFRS 9 – Future Outreach on Audit Issues

- How to collect more information?
 - Regular meetings and teleconferences with GPPC specialists
 - Involvement of firms' senior leadership from the banking practices
 - Technical experts to contribute from a practical implementation perspective
 - Liaison with PCAOB on auditing accounting estimates and fair values
 - Outreach to audit teams involved with early adoption of IFRS 9
 - Other opportunities: British Bankers Association, Bank of England, EBA, BCBS, IAIS, IFIAR, FRC, FASB, CFA Institute, FDIC/OCC, Financial Stability Board

Working Group Recommendation

- Need to change focus to IFRS 9, particularly ECL
 - Recognize importance of regulatory concerns about the implications
 - Need more evidence about whether existing ISAs address the issues adequately
 - Outreach/information gathering: urgent need
 - Other aspects of the FI project (Relationship with supervisors, other banking/insurance issues) on a slower track

Question

What views do IAASB members have of the need to undertake work on the audit implications of IFRS 9, particularly around ECL, ahead of other FI work?

Question

What other information gathering should the Working Group undertake?

Way Forward

- Early stage so many possible paths to a solution
 - All options to address are on the table: standard-setting, guidance
 - Urgency and requirements of due process may limit options
- Next few months will be critical
- Results of outreach will be influential in finding a way forward
- Other FI work will continue but on a slower track
- Expected timing: Discussion at IAASB and CAG September meetings, including gap analysis of ISA 540/IAPN 1000

Question

What other considerations should the Working Group consider in reflecting on the way forward?



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Meeting: IAASB
Meeting Location: New York, USA
Meeting Dates: June 15–19, 2015

Agenda Item 12

Quality Control

Objective of Agenda Item

1. The objective of this agenda item is to obtain IAASB views on the matters set out in Agenda Item 12-A to assist the Quality Control Working Group with developing the content of the Discussion Paper relating to quality control.

Quality Control Working Group

2. The Quality Control Working Group (the Working Group) is comprised of the following members:
 - Karin French, IAASB Member and Chair of the Working Group
 - Rich Sharko, IAASB Member
 - Sue Almond, IAASB Technical Advisor
 - Jennifer Burns, IAASB Technical Advisor
 - Ahava Goldman, IAASB Technical Advisor
 - Inge Van Beveren, IAASB Technical Advisor
 - Stefan Schmidt, National Standards Setters (Germany) (supported by Wolf Böhm, IAASB Technical Advisor)
 - Dawn McGeachy, IFAC SMP Committee Representative

Activities of the Working Group

3. Since the March 2015 Board meeting, the Working Group has held one physical meeting in April and two teleconferences in May to further discuss the issues relating to quality control, specifically with respect to the topics of governance and engagement partner responsibilities. The Working Group also analyzed and discussed the results of the SMP Survey on Quality Control. The objective of such discussions being to develop appropriate content for the Quality Control section of the Discussion Paper.
4. The Working Group met with the International Ethics Standards Board (IESBA) to discuss issues that cross-over between various IESBA projects and the Quality Control project. The issues identified were those of Independence, Long Association and Safeguards. The Working Group will continue its consideration of these issues including further liaison with IESBA.

5. In addition, the Working Group Chair will present an update on the Quality Control project at the Small- and Medium-sized Practices Committee June Meeting. The presentation will include the topics related to Quality Control currently being explored by the IAASB and a summary of the results of the Small- and Medium-Sized Practices Survey that was recently issued by the Working Group as part of its information gathering activities.

Action Requested

6. The IAASB is asked to consider the views of the Working Group presented in **Agenda Item 12-A** to provide views on the Matters for Consideration therein.

Material Presented

Agenda Item 12-A	Quality Control – Issues and Working Group Recommendations
Agenda Item 12-B	Analysis of Engagement Partner Responsibilities and Engagement Quality Control Reviewer Responsibilities

Quality Control – Issues and Working Group Recommendations

Objectives of the Discussion

The objective of the discussion is to:

- Inform the Board on alternative internal control and risk management frameworks and standards on quality management systems that could provide input into “modernizing” ISQC 1;¹
- Consider the issues identified relating to governance requirements as a result of the performance of a comparison of ISQC 1 to certain governance frameworks, internal control frameworks and standards on quality management systems;
- Explore the balance of the responsibilities in the extant standards between the engagement partner and the engagement quality control reviewer and consider the need for clarification of the responsibilities;
- Consider the issues raised from the Small and Medium-Sized Practices survey; and
- Discuss alternative methods of addressing the issues identified in this paper and in previous presentations to the Board regarding ISQC 1.

In particular, the IAASB’s views on the topics within this paper, along with the views on those topics previously discussed, will be used as the basis for:

- How these matters will be described in the Discussion Paper;² and
- Developing the questions for respondents regarding Quality Control in the Discussion Paper.

The Decision Summary from the March 2015 Board meeting with respect to Quality Control is included below.

Quality Control

The Board generally supported soliciting the views of the Small- and Medium-Sized Practices on the topic of quality control by means of a targeted survey, together with the issuance of a Discussion Paper to obtain the views of the wider stakeholder community. However, it was suggested that the deadline for the survey be extended, given that it was issued in busy season for many firms. The Quality Control Working Group (the Working Group) was also asked to extend information-gathering activities to other stakeholders, including national auditing standard setters (NSS), professional accountancy organizations, the European Audit Inspections Group and the European Federation of Accountants and Auditors.

The Board generally expressed agreement with the topics presented for discussion. However, the Board disagreed with how the Working Group had presented potential short-term and long-term solutions to the issues in Agenda Item 3-B, and suggested this approach should be reconsidered. In particular, the IAASB acknowledged the concerns that had been raised by some CAG Representatives as well as the SMP Committee that making changes to the standards multiple times (i.e., by proposing

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

² See Agenda Item 8 for further information on the approach to the combined Discussion Paper planned to be issued in December 2015.

responses in the short term and then making further updates at a later time) would not be preferable to those that use the standards.

The Board therefore suggested it would be more appropriate for the topics to be presented more broadly in the planned Discussion Paper, allowing respondents to provide views on the priority of the topics and timeframe in which they could be addressed, and the Board emphasized particular areas that should be explored within the Discussion Paper. Specifically, the Board recommended that the Working Group:

- Reconsider whether it is appropriate to use the term “risk-based” approach, based on the possibility for different understanding of what this means in respect of ISQC 1 and relative to the intent of the Working Group or the Board.
- Take a broader focus on audit quality, highlighting that the Board’s initial discussions have been focused on quality control at the firm level and not necessarily on quality control at the engagement level.
- Take a strategic approach to the issue of managing quality risks.
- Consider having separate sections in the Discussion Paper to discuss monitoring issues and those issues relating to remediation.
- Further explore issues related to the governance of accounting firms.

IAASB CAG CHAIRMAN’S REMARKS

Ms. de Beer noted that the CAG was supportive overall of the approach to scoping the quality control project by means of a Small- and Medium-sized Practices survey and a wider Discussion Paper. She noted that CAG Representatives had also expressed concern about the categorization of potential actions into short-term and long-term actions, noting that it was difficult to understand the criteria used for such classification and that classifying a potential action as a long-term action may be perceived as the IAASB delaying addressing a number of issues indefinitely. She also noted that CAG Representatives had suggested the need for a longer consultation period than initially proposed.

WAY FORWARD

The Working Group will continue its consideration of the issues and the feedback from the CAG and Board and present further matters for the IAASB’s consideration at its June 2015 meeting.

Introduction

1. The objective of public consultation through a Discussion Paper (i.e., the quality control aspects of the Discussion Paper) will be to:
 - Confirm that all relevant issues have been identified regarding quality control, and that all relevant aspects of those issues have been considered.
 - Present to the stakeholders the different options available to address the identified issues, clearly highlighting which options may take longer to implement.
 - Obtain stakeholder views on the identified issues, the relative priority of those issues, related recommendations and the preferred option of addressing them.
2. The Discussion Paper will contain specific questions related to Quality Control. The responses to the Discussion Paper in general, as well as those regarding specific quality control aspects, will assist the IAASB in developing the standard-setting project proposal related to Quality Control. It is

expected that the Quality Control project will primarily consider changes to ISQC 1 and to ISA 220³ but may also result in conforming amendments to other International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs) and International Standards on Related Services (ISRSs).

3. To facilitate the development of the Quality Control Discussion Paper, the Working Group has continued to consider issues identified through the IAASB's ISA Implementation Monitoring project and through various outreach with regulators and oversight bodies, and firms. The Working Group has also incorporated discussions from previous Board meetings and meetings of National Standard Setters (NSS) in its deliberations.

Background

4. In previous Board meetings,⁴ the Working Group has presented to the Board on the topics of:
 - Engagement quality control reviewer;
 - Remediation;
 - Alternative audit delivery models (also referred to as outsourcing and shared service centers);
 - Issues pertaining to governance and to small- and medium-sized practices; and
 - A comparison of the Framework for Audit Quality in the areas of Values, Ethics and Attitudes, Knowledge, Time and Experience, and Audit Process and Quality Control Procedures to the ISAs and ISQC 1.
5. At the March 2015 Board meeting, the Working Group presented to the Board its analysis of the issues relating to the above topics and its suggested approach to addressing the issues. As noted in the minutes from this meeting, included above, while not necessarily disagreeing with the issues identified and the recommendations of the Working Group, the Board did not agree with characterizing the potential actions as short-term or long-term actions.
6. This Working Group acknowledges the Board's views on the short-term and long-term classification of the issues and will consider them when drafting the Quality Control aspects of the Discussion Paper. This paper, therefore, does not revisit all of the issues previously discussed with the Board, but explores certain issues in more depth. The Working Group is continuing its outreach on all issues identified to date.
7. The Working Group has considered the feedback obtained from the Board at the March 2015 meeting and has further explored issues on the following topics:
 - A Strategic Approach to the modernization of ISQC 1;
 - Governance—A Comparison of Governance and Internal Control and Risk Management Frameworks and Standards on Quality Management Systems to ISQC 1, including;
 - Leadership Responsibilities for Quality within the Firm
 - Human Resource Related Matters; Resources and Consultations; and

³ ISA 220, *Quality Control for an Audit of Financial Statements*

⁴ See December 2014 Board Meeting Agenda Item 4, <http://www.iaasb.org/meetings/new-york-usa-8> and March 2015 Board Meeting Agenda Item 3 <http://www.iaasb.org/meetings/brussels-belgium-1>

- Monitoring; Addressing the Results of Inspections Performed by External Regulators;
 - Engagement Partner Responsibilities; and
 - Small- and medium-sized practices Survey.
8. In reflecting on the issues outlined above and those previously discussed at earlier Board meetings, the Working Group is of the view that there may be opportunities in both ISQC 1 and ISA 220 to address these issues through a variety of different methods. This could include the addition of new requirements or the clarification of existing requirements to address any perceived gaps in ISQC 1 or ISA 220. Additional application material to further explain a requirement and how it can be satisfied may be appropriate where inconsistencies are experienced in the application of that requirement. Finally additional guidance can be considered in the form of other non-authoritative guidance.

A Strategic Approach to the Modernization of ISQC 1

9. At the March board meeting, the Working Group was asked how the structure of ISQC 1 could be revised to be more responsive to identified quality risks (previously referred to as taking a “risk-based approach”). The Working Group considered whether there was existing guidance that provided a framework facilitating the development of internal quality control systems that could help provide a basis for developing a revised ISQC 1. The Working Group identified several relevant and widely recognized internal control and risk management frameworks and standards on quality management systems, which incorporate guidance on the effective development and maintenance of systems of quality control and utilize a quality management approach to governance.
10. In discussing possible approaches to revising ISQC 1, the Working Group acknowledged that the Institut Der Wirtschaftsprüfer (IDW) had explored potential improvements to ISQC 1 through a quality management approach. The IDW had given a presentation to the NSS in 2013 on possible improvements that could be made to ISQC 1. This presentation incorporated the internal control and risk management frameworks and the standards on quality management systems that had been identified by the Working Group.
11. The internal control and risk management frameworks and standards on quality management systems specifically explored in the IDW presentation noted above and by the Working Group included:
- *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), (2013 COSO *Internal Control Framework*)
 - *Enterprise Risk Management—Integrated Framework* (2004), issued by COSO (COSO *ERM Framework*)
 - ISO 90001: *Quality Management Systems*
 - OCEG Red Book 2.1
12. The Working Group is of the view that there is merit to presenting an updated version of this presentation with the Board as it illustrates how ISQC 1 could be revised to include a quality management approach following the COSO ERM Framework. The Working Group’s considerations regarding these internal control and risk management frameworks and standards on quality

management systems and their potential input to the Quality Control project is discussed in the *Ways to Update ISQC 1 and ISA 220* section of this paper.

Governance—A Comparison of Governance and Internal Control and Risk Management Frameworks and Standards on Quality Management Systems to ISQC 1

13. In addition to the internal control and risk management frameworks and standards on quality management systems identified and discussed as part of the IDW presentation, the Working Group identified other guidance relating to governance codes and audit quality.⁵ The Working Group thought that it would be beneficial to contrast the structure and requirements of the frameworks, the standards and other guidance with the structure and requirements in ISQC 1. The objective of this exercise was to identify any potential gaps or areas for improvement in ISQC 1.
14. The table presented below highlights the differences (i.e. the potential gaps or areas for improvement) identified in performing the review of the frameworks, standards and other guidance relating to the elements of a system of quality control, as compared to the requirements in ISQC 1. The Working Group is of the view these identified differences warrant further consideration in the Discussion Paper as there is potential for improvement or clarification of extant ISQC 1. The table also incorporates the requirements and application material in extant ISQC 1 considered by the Working Group as part of its deliberations for informational purposes.
15. The largest difference between the frameworks, standards and other guidance reviewed and the requirements and guidance in ISQC 1 relates to reporting by firms, both in terms of publishing its audited financial statements and in terms of transparency reporting. This difference is not incorporated in the following table. In general, the Working Group is of the view that specific requirements for reporting for firms go beyond the scope of a quality control standard. Further, in light of the infancy of transparency reporting and the different requirements in jurisdictions around the world, the Working Group is of the view that transparency reporting at this time may go beyond the scope of this project.

⁵ This guidance includes, [The Audit Firm Governance Code](#) (Institute of Chartered Accountants in England and Wales and UK Financial Reporting Committee); [Oversight and transparency, A code for audit firms holding a PIE licence](#) (Nederlandse Beroepsorganisatie van Accountants); [European Commission Directive 2006/43/EC](#) of the European Parliament and Council of 17 May 2006 and [Directive 2014/56/EU](#) of the European Parliament and of the Council of 16 April 2014; 2013 COSO Internal Control Framework ; COSO ERM Framework; Center for Audit Quality (CAQ) [Approach to Audit Quality Indicators](#); and [ISO 90001\(2008\)](#)

16. <i>Leadership Responsibilities for Quality within the Firm</i>	
Differences Identified for Further Consideration	- ISQC 1 has limited requirements and guidance on leadership responsibilities for quality within the firm. - While ISQC 1 speaks to the promoting of an internal culture recognizing the importance of quality, it does not include certain specific terminology such as “tone at the top.” - ISQC 1 includes the requirement for leadership to take responsibility for the audit firm’s system of quality control, which may be interpreted to be narrower in scope than accountability as described in certain of the frameworks. - Certain of the frameworks make explicit reference to safeguarding, monitoring and acting in the public interest
Relevant ISQC 1 References	<i>Requirements</i> Leadership Responsibilities for Quality within the Firm 18. The firm shall establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements. Such policies and procedures shall require the firm’s chief executive officer (or equivalent) or, if appropriate, the firm’s managing board of partners (or equivalent) to assume ultimate responsibility for the firm’s system of quality control. (Ref: Para. A4–A5) 19. The firm shall establish policies and procedures such that any person or persons assigned operational responsibility for the firm’s system of quality control by the firm’s chief executive officer or managing board of partners has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (Ref: Para. A6) <i>Application Material</i> Leadership Responsibilities for Quality within the Firm <i>Promoting an Internal Culture of Quality</i> (Ref: Para. 18) A4. The firm’s leadership and the examples it sets significantly influence the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm’s management that emphasize the firm’s quality control policies and procedures, and the requirement to: (a) perform work that complies with professional standards and applicable legal and regulatory requirements; and (b) issue reports that are appropriate in the circumstances. Such actions and messages encourage a culture that recognizes and rewards high quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in the firm’s internal documentation and training materials, and in partner and staff appraisal procedures such

	that they will support and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved. A5. Of particular importance in promoting an internal culture based on quality is the need for the firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. Promoting such an internal culture includes: (a) Establishment of policies and procedures that address performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, in order to demonstrate the firm's overriding commitment to quality; (b) Assignment of management responsibilities so that commercial considerations do not override the quality of work performed; and (c) Provision of sufficient resources for the development, documentation and support of its quality control policies and procedures. <i>Assigning Operational Responsibility for the Firm's System of Quality Control</i> (Ref: Para. 19) A6. Sufficient and appropriate experience and ability enables the person or persons responsible for the firm's system of quality control to identify and understand quality control issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.
Potential Recommendations for Incorporation in the Discussion Paper	The Working Group identified this as an important area of ISQC 1 and is of the view that the following suggestions should be incorporated into the Discussion Paper to obtain stakeholder views on the appropriateness and importance of suggested changes: • Incorporate specific references to the "tone at the top" to emphasize the importance of setting an appropriate culture for an organization using terminology easily recognized and understood by users of the standards, through the clarification of existing requirements, additional application material or both. Additionally incorporate as additional application material further explanation on such a culture including: ○ The concept of "leading by example" in application material associated with the updated tone at the top requirement; and ○ Guidance that highlights the responsibility of firms to determine that outsourced service providers (including shared service centers) have appropriate systems of quality control. ○ References to outsourced service providers to make it explicit that the tone set or the culture encouraged extends to those contracted by the firm as well as those employed directly by the firm, irrespective of

	whether those individuals reside at the local office or at a remote location as part of an alternative audit delivery model.⁶ • Incorporate the concept of public interest. The Working Group is of the view that the ISAs are set up such that compliance with the ISAs would result in acting in the public interest; however, it is also of the view that there is benefit from making explicit reference to this in introductory paragraphs or application material associated with leadership to highlight the fundamental principle underpinning the responsibilities of the auditor for all engagements to which ISQC 1 applies, not just audits. • Definition and confirmation of responsibilities, in particular in relation to the discussion on the engagement partner and the engagement quality control reviewer, will assist in determining accountability for quality at the engagement level. Other aspects of accountability are considered in more detail in the section “Engagement partner responsibilities” below. • The Working Group is of the view that any updates to ISQC 1 should be flexible enough to allow the leadership of firms to establish the policies and procedures they feel necessary, taking into account circumstances relevant to the firm. This could include, for example, policies that allow firms to consider the performance of reviews other than engagement quality control reviews such as IFRS reviews, hot reviews and pre-issuance reviews, as quality control procedures. In such instances, the relationship between the “other” reviews performed by the firm and the engagement quality control review should be clear.

17. *Human Resource Related Matters; Resources and Consultations*

Differences Identified for Further Consideration	The Working Group considered the topic of resources in its entirety, thus including the elements of human resources and engagement performance that are separately identified in ISQC 1. Differences highlighted included: • ISQC 1 does not include requirements or guidance in respect of: ○ HR policies governing fixed and variable remuneration for partners or remuneration based on the provision or cross selling of services additional to those contracted for. ○ A continuity plan, encompassing loss of a key partner, loss of an office or the introduction of sanctions affecting a key partner or the firm. • While ISQC 1 includes requirements and application material in respect of policies and procedures regarding consultation with individuals within or outside the firm that have specialized expertise, this guidance is not as in depth or as explicit as some of the quality control frameworks.

⁶ See Agenda Item 3-B from the March 2015 Board meeting for discussion on Alternative Audit Delivery Models (shared service centers and outsourcing) http://www.ifac.org/system/files/meetings/files/20150316-IAASB-Agenda_Item_3-B-Quality%20Control-final.pdf

Relevant ISQC 1 References	<i>Requirements</i> Human Resources 29. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to: (a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A24–A29) <i>Assignment of Engagement Teams</i> 30. The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that: (a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance; (b) The engagement partner has the appropriate competence, capabilities, and authority to perform the role; and (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner. (Ref: Para. A30) 31. The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to: (a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A31) Engagement Performance 32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include: (a) Matters relevant to promoting consistency in the quality of engagement performance; (Ref: Para. A32–A33) <i>Consultation</i> 34. The firm shall establish policies and procedures designed to provide it with reasonable assurance that: (a) Appropriate consultation takes place on difficult or contentious matters; (b) Sufficient resources are available to enable appropriate consultation to take place;

	(c) The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and (d) Conclusions resulting from consultations are implemented. (Ref: Para. A36–A40) <i>Application Material</i> <i>Expectation to Obtain Sufficient Appropriate Audit Evidence</i> (Ref: Para. 13) Human Resources (Ref: Para. 29) A24. Personnel issues relevant to the firm’s policies and procedures related to human resources include, for example: • Recruitment. • Performance evaluation. • Capabilities, including time to perform assignments. • Competence. • Career development. • Promotion. • Compensation. • The estimation of personnel needs. Effective recruitment processes and procedures help the firm select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the firm’s work and possess the appropriate characteristics to enable them to perform competently. A25. Competence can be developed through a variety of methods, including the following: • Professional education. • Continuing professional development, including training. • Work experience. • Coaching by more experienced staff, for example, other members of the engagement team. • Independence education for personnel who are required to be independent. A26. The continuing competence of the firm’s personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities. Effective policies and procedures emphasize the need for continuing training for all levels of firm personnel, and provide the necessary training resources and assistance to enable personnel to develop and maintain the required competence and capabilities. A27. The firm may use a suitably qualified external person, for example, when internal technical and training resources are unavailable.

	A28. Performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. Steps a firm may take in developing and maintaining competence and commitment to ethical principles include: • Making personnel aware of the firm's expectations regarding performance and ethical principles; • Providing personnel with evaluation of, and counseling on, performance, progress and career development; and • Helping personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action. <i>Considerations Specific to Smaller Firms</i> A29. The size and circumstances of the firm will influence the structure of the firm's performance evaluation process. Smaller firms, in particular, may employ less formal methods of evaluating the performance of their personnel. <i>Assignment of Engagement Teams</i> Engagement Partners (Ref: Para. 30) A30. Policies and procedures may include systems to monitor the workload and availability of engagement partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities. Engagement Teams (Ref: Para. 31) A31. The firm's assignment of engagement teams and the determination of the level of supervision required, include for example, consideration of the engagement team's: • Understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation; • Understanding of professional standards and applicable legal and regulatory requirements; • Technical knowledge and expertise, including knowledge of relevant information technology; • Knowledge of relevant industries in which the clients operate; • Ability to apply professional judgment; and • Understanding of the firm's quality control policies and procedures. Engagement Performance <i>Consistency in the Quality of Engagement Performance</i> (Ref: Para. 32(a)) A32. The firm promotes consistency in the quality of engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials. Matters addressed may include:

	• How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work. • Processes for complying with applicable engagement standards. • Processes of engagement supervision, staff training and coaching. • Methods of reviewing the work performed, the significant judgments made and the form of report being issued. • Appropriate documentation of the work performed and of the timing and extent of the review. • Processes to keep all policies and procedures current. <i>Consultation</i> (Ref: Para. 34) A36. Consultation includes discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise.
Potential Recommendations for Incorporation in the Discussion Paper	• The Working Group considered the possibility of including additional requirements or application material in ISQC 1 that would identify audit quality as a key remuneration consideration for the engagement partner (or engagement team); however, it noted that quality was one of many factors that could and should be considered as part of a remuneration structure and therefore concluded that added emphasis in ISQC 1 to this particular aspect of remuneration would be unwarranted. • However, the Working Group did believe that better linkage between audit quality and remuneration could be established in ISQC 1, where practicable, and that as part of these considerations additional requirements or application material could be incorporated on the impact of the results of internal and external inspections of the engagement including the severity of any findings therefrom. • The Working Group is of the view that ISQC 1 should not be used as a vehicle to mandate the structure of engagement partner's (or other engagement team members') remuneration, specifically with respect to compensation that may be withheld and paid out in the longer term based on the results of pre-determined criteria in the intervening period, and as such this should not form part of the requirements and guidance contained in ISQC 1. • The Working Group's antepenultimate consideration in this area concerned the provision of application material indicating that when setting remuneration policies, consideration should be given to achieving consistency with the spirit of the requirements under the applicable Code of Ethics. • The Working Group also is of the view that the incorporation into ISQC 1 of continuity planning requirements would be an appropriate addition to the standard. This would include incorporation of requirements or application material on: • The loss of a key audit partner; • The loss of a network office, or

	• The imposition of sanctions affecting a key partner, office or firm within a network. • The Working Group is of the view that the requirements of ISQC 1 appropriately consider the need for consultations on significant or contentious matters, however, the Working Group is of the view that further guidance could be provided in the application material in this area that may also help to address concerns of small- and medium-sized practices.

18. <i>Monitoring, Addressing the Results of Inspections Performed by External Inspectors</i>	
Differences Identified for Further Consideration	• ISQC 1 does not contain explicit requirements for firms in respect of policies and procedures to address and respond to the results of inspections performed by external inspectors. • While ISQC 1 notes a number of actions that can be taken in respect of findings, it is not explicit in providing guidance on how a firm considers how these findings may impact other engagements within the firm. • ISQC 1 does not contain any documentation requirements regarding the consideration of findings from inspections, including their evaluation and resolution.
Relevant ISQC 1 References	<i>Requirements</i> Monitoring Monitoring the firm's quality control policies and procedures 48. The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall: (a) Include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner; (b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and (c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagement. (Ref: Para. A64–A68) <i>Evaluating, Communicating and Remedying Identified Deficiencies</i> 49. The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either: (a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and

	regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action. 50. The firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action. (Ref: Para. A69) 51. Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following: (a) Taking appropriate remedial action in relation to an individual engagement or member of personnel; (b) The communication of the findings to those responsible for training and professional development; (c) Changes to the quality control policies and procedures; and (d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly. 52. The firm shall establish policies and procedures to address cases where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement. Such policies and procedures shall require the firm to determine what further action is appropriate to comply with relevant professional standards and applicable legal and regulatory requirements and to consider whether to obtain legal advice. 53. The firm shall communicate at least annually the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, its managing board of partners. This communication shall be sufficient to enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated shall include the following: (a) A description of the monitoring procedures performed. (b) The conclusions drawn from the monitoring procedures. (c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies. 54. Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this ISQC, and these firms place reliance on such a monitoring system, the firm's policies and procedures shall require that:

	(a) At least annually, the network communicate the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and (b) The network communicate promptly any identified deficiencies in the system of quality control to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken, in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advise otherwise. <i>Application Material</i> Monitoring <i>Monitoring the Firm's Quality Control Policies and Procedures</i> (Ref: Para. 48) A64. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of: • Adherence to professional standards and applicable legal and regulatory requirements; • Whether the system of quality control has been appropriately designed and effectively implemented; and • Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances. A65. Ongoing consideration and evaluation of the system of quality control include matters such as the following: • Analysis of: ◦ New developments in professional standards and applicable legal and regulatory requirements, and how they are reflected in the firm's policies and procedures where appropriate; ◦ Written confirmation of compliance with policies and procedures on independence; ◦ Continuing professional development, including training; and ◦ Decisions related to acceptance and continuance of client relationships and specific engagements. • Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the firm's policies and procedures relating to education and training. • Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it. • Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures.

	A66. Inspection cycle policies and procedures may, for example, specify a cycle that spans three years. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, such as the following: • The size of the firm. • The number and geographic location of offices. • The results of previous monitoring procedures. • The degree of authority both personnel and offices have (for example, whether individual offices are authorized to conduct their own inspections or whether only the head office may conduct them). • The nature and complexity of the firm's practice and organization. • The risks associated with the firm's clients and specific engagements. A67. The inspection process includes the selection of individual engagements, some of which may be selected without prior notification to the engagement team. In determining the scope of the inspections, the firm may take into account the scope or conclusions of an independent external inspection program. However, an independent external inspection program does not act as a substitute for the firm's own internal monitoring program. Considerations Specific to Smaller Firms A68. In the case of small firms, monitoring procedures may need to be performed by individuals who are responsible for design and implementation of the firm's quality control policies and procedures, or who may be involved in performing the engagement quality control review. A firm with a limited number of persons may choose to use a suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures. Alternatively, the firm may establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities. <i>Communicating Deficiencies</i> (Ref: Para. 50) A69. The reporting of identified deficiencies to individuals other than the relevant engagement partners need not include an identification of the specific engagements concerned, although there may be cases where such identification may be necessary for the proper discharge of the responsibilities of the individuals other than the engagement partner.
Potential Recommendations for Incorporation in the Discussion Paper	• The Working Group recognizes that firms have likely developed their own methodologies to address findings from external inspections; however it is of the view that ISQC 1 should contain explicit requirement for firms to consider findings from external inspectors, including: ○ Analysis of findings and appropriate responses thereto in the same way that other internal and professional body findings are considered. ○ Consideration of whether such findings would have an impact on other engagements.

	• The Working Group also felt that consideration of requirements or application material addressing documentation of the evaluation and resolution of external inspection findings would be appropriate. • The Working Group also considered other types of reviews not specifically defined in ISQC 1 that may be performed to monitor the quality of engagements, as described in paragraph 15, noting that firms may perform such reviews but not consider them quality control procedures.

Matters for IAASB Consideration

1. The IAASB is asked for its views on the matters identified above regarding governance, for inclusion in the Discussion Paper, including:
 - (a) The nature of the topics identified;
 - (b) The completeness of these topics;
 - (c) The potential recommendations made by the Working Group; and
 - (d) The relative priority of the topics.

Engagement Partner Responsibilities

19. Based on feedback obtained from the Board to consider quality control both at the firm level and at the engagement level and, in particular, the balance of responsibilities between the engagement partner and the engagement quality control reviewer, the Working Group performed a number of analyses to determine what gaps, if any, existed in the quality control requirements at the engagement level and if there was an imbalance of responsibilities. These analyses included:
 - A comparison of the *Framework for Audit Quality* (the Framework) to ISA 220;
 - A comparison of IES 8⁷ to the ISAs and ISQC 1; and
 - A comparison of engagement partner responsibilities identified throughout the ISAs with the responsibilities of the engagement quality control reviewer, as described in ISQC 1 and in ISA 220.
20. The Working Group has included in this paper the results of the comparisons noted above where any gaps or potential improvements had been identified. The Working Group felt that there was merit to providing the Board with the analysis of engagement partner responsibilities and of engagement quality control reviewer responsibilities in light of previous discussions on this topic (**see Agenda Item 12-B**).

Comparison of the Framework for Audit Quality and ISA 220

21. The Working Group compared at the engagement level, Values, Ethics and Attitudes; and Knowledge, Experience and Time to the requirements and application material included in ISA 220 and other ISAs as necessary to identify differences, (i.e. potential gaps or areas for improvements).

⁷ International Education Standard (IES) 8, *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)*

22. The Working Group is of the view that Values, Ethics and Attitudes at the engagement level are adequately addressed in the ISA; however, the Working Group did identify the potential for improvement in the area of Knowledge, Time and Experience as follows:

<i>Knowledge, Experience and Time – Engagement Level</i>	
Differences Identified for Further Consideration, indicated in bold text	7. The audit engagement partner is responsible for being satisfied that the engagement team collectively has the appropriate competences and that the team has sufficient time to be able to obtain sufficient appropriate audit evidence before issuing the audit opinion. 8. Key attributes are: - Partners and staff have the necessary competences - Partners and staff understand the entity's business. - Partners and staff make reasonable judgments. The audit engagement partner is actively involved in risk assessment, planning, supervising, and reviewing the work performed. Staff performing detailed "on-site" audit work has sufficient experience, its work is appropriately directed, supervised and reviewed, and there is a reasonable degree of staff continuity. Partners and staff have sufficient time to undertake the audit in an effective manner. - The audit engagement partner and other experienced members of the engagement team are accessible to management and those charged with governance.
Relevant ISA 220 References	<i>Requirements</i> 15. The engagement partner shall take responsibility for: (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (Ref: Para. A13—A15, A20) (b) The auditor's report being appropriate in the circumstances. 16. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A16—A17, A20) 17. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the audit team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A18—A20) 18. The engagement partner shall: (a) Take responsibility for the engagement team by undertaking appropriate consultation on difficult or contentious matters;

	(b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement both with the engagement team, and between the engagement team and others at the appropriate level within or outside the firm; (c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and (d) Determine that the conclusions resulting from such consultations have been implemented (Ref: Para. A21—A22) <i>Application Material</i> A12. In the public sector, additional appropriate competence may include skills that are necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such competence may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing or a comprehensive assessment of compliance with law, regulation or other authority and preventing and detecting fraud and corruption. A13. Direction of the engagement team involves informing members of the team of matters such as: • Their responsibilities, including the need to comply with relevant ethical requirements and to plan and perform an audit with professional skepticism as required by ISA 200.⁸ • Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement. • The objectives of the work to be performed • The nature of the entity's business • Risk related issues • Problems that may arise • The detailed approach to the performance of the engagement. Discussion among members of the engagement team allows less experienced team members to raise questions with more experienced team members so that appropriate communication can occur within the engagement team. A14. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the work. A15. Supervision includes matters such as: • Tracking the progress of the audit engagement. • Considering the competence and capabilities of individual members of the engagement team including whether they have sufficient time to

⁸ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of An Audit in Accordance with International Standards on Auditing*

	carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the audit engagement. • Addressing significant matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately. • Identifying matters for consultation or consideration by more experienced team members during the audit engagement. • The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A16—A17, A20) • On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the audit team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A18—A20) A18. Timely reviews of the following by the engagement partner at appropriate stages during the engagement allow significant matters to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report: • Critical areas of judgment, especially those relating to difficult or contentious matters identified during the course of the engagement; • Significant risks; and • Other areas the engagement partner considers important.
Potential recommendations for incorporation in the Discussion Paper	• The Working Group is of the view that more guidance would be helpful to clarify what is meant by performance, direction, supervision and review of the audit engagement, through additional requirements or application material that discusses the responsibilities of the engagement partner. • The Working Group noted that the engagement partner's responsibilities are not consolidated in one location and are included throughout the ISAs. As such, consideration could be given to creating an appendix to ISA 220 or non-authoritative guidance that consolidates all the responsibilities of the engagement partner. • The Working Group also considered that additional guidance could be provided concerning the engagement partner's considerations of the sufficiency of the engagement team members' experience and the sufficiency of time available to perform the engagement. • The Working Group also considered the appropriateness of incorporating reference to consideration of the public interest in a similar manner to ISQC 1 discussed above, if changes were ultimately to be made to ISA 220.

Comparison of IES 8 to the ISAs and ISQC 1

23. The Working Group compared the competencies articulated in IES 8 with the requirements and associated application material incorporated in the ISAs. The Working Group found to a large extent that the competencies were appropriately addressed in the ISA; however, it did identify improvements that could be made to ISQC 1 or ISA 220 concerning appropriate engagement partner characteristics. The characteristics considered by the Working Group include:
- Intellectual—Resolve audit issues using inquiry, abstract and logical thought, and critical analysis to consider alternatives and analyze outcomes.
 - Interpersonal and communication—Communicate effectively and appropriately with the engagement team, management, and those charged with governance of the entity; and resolve issues through effective consultation when necessary.
 - Personal—Promote and undertake lifelong learning; act as a role model to the engagement team; and act in a mentoring or coaching capacity to the engagement team.
 - Organizational—Evaluate whether the engagement team, including auditor's experts, collectively has the appropriate objectivity and competence to perform the audit; and manage audit engagements by providing leadership and project management of the engagement teams.
 - Commitment to the public interest—Promote audit quality in all activities with a focus on protecting the public interest.
 - Professional skepticism and professional judgment—Apply a skeptical mindset and professional judgment in planning and performing an audit and reaching conclusion on which to base an audit opinion.
 - Ethical principles—Apply the ethical principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior in the context of an audit and determine an appropriate resolution to ethical dilemmas; evaluate and respond to threats to objectivity and independence that can occur during an audit; and protect the confidential information of the entity in accordance with ethical responsibilities and relevant legal requirements.

Potential Recommendations for Incorporation in the Discussion Paper

24. The Working Group recommends that consideration be given to updating requirements or application material within ISQC 1 or ISA 220 to better reflect the characteristics identified in IES 8.

Analysis of Engagement Partner Responsibilities and Engagement Quality Control Reviewer Responsibilities

Analysis

25. The Working Group recognized that requirements concerning engagement partner's responsibilities can be found in a number of the ISAs. To facilitate a better understanding of those responsibilities, the Working Group prepared a table consolidating those responsibilities. The Working Group then considered those responsibilities in juxtaposition with the responsibilities of the engagement quality control reviewer with a view to identifying any potential imbalance between the responsibilities of the

engagement partner and of the engagement quality control reviewer. As part of its analysis and discussions, the Working Group further considered the sufficiency of the engagement partner requirements. See **Agenda Item 12-B** for the detailed analysis.

26. The Working Group is of the view that there is merit to providing the Board with this analysis, as the analysis provides an opportunity to reflect on where ultimate responsibility for the engagement lies and demonstrates the sufficiency of the requirements for both the engagement partner and the engagement quality control reviewer. Further, it was felt that the analysis generally reflected the relative responsibilities that attach to the different roles of the engagement partner and the engagement quality control reviewer.
27. As a result of performing this analysis, and in conjunction with previous analyses and discussions, the Working Group identified a potential gap and a number of areas where it was felt that the requirements or application material addressing both the engagement partner and the engagement quality control reviewer could be improved.

Potential Recommendations for Incorporation in the Discussion Paper

28. The Working Group is of the view that requirements or application material addressing documentation of the timing and substance of the procedures performed and significant discussions held by both the engagement partner and the engagement quality control reviewer would be helpful to enable both parties to evidence their respective involvement in the execution of the audit engagement.
29. The Working Group is also of the view that including an objective of the engagement quality control review and additional application material that clarifies the role of the engagement quality control reviewer would facilitate a better understanding of the purpose of the review and the responsibilities of the engagement quality control reviewer and would provide a better basis for the engagement quality control reviewer to carry out these responsibilities. The Working Group was of the preliminary view that this would not result in a change to the requirements.
30. Similar to the comparison of the Framework to ISA 220, the Working Group is of the view that this comparison also demonstrates that it would be helpful to clarify what is meant by performance, direction, supervision and review of the audit engagement. The Working Group noted that performance, direction, supervision and review of an engagement can mean very different things depending on the type and size of the engagement, for example, in the direction and supervision of a large listed entity more emphasis will likely be on the appropriate delegation and supervision of the engagement team whereas on a small private entity, direction and supervision will likely emphasize a more “hands on” approach by the engagement partner. The Working Group is of the view that firms have likely already developed guidance in this area, and that it is important to understand the current practices in advance of developing this consideration in the Discussion Paper.
31. The Working Group was also of the view that additional consideration needs to be given to the [group] engagement partner’s responsibilities as outlined in ISA 600.⁹ The Working Group noted a number of requirements that ISA 600 specified should be performed by the group engagement partner, while

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

for similar requirements outside of a group audit engagement, the auditor¹⁰ was allowed to perform such procedures. The Working Group will liaise with the Group Audits Working Group on these requirements.

Matters for IAASB Consideration

2. The IAASB is asked for its views on the matters identified for inclusion in the Discussion Paper, including:
 - (a) The completeness of the matters identified as it relates to engagement partner responsibilities;
 - (b) The potential recommendations made by the Working Group; and
 - (c) The relative priority of this topic.

Small- and Medium-Sized Practice Survey

Background

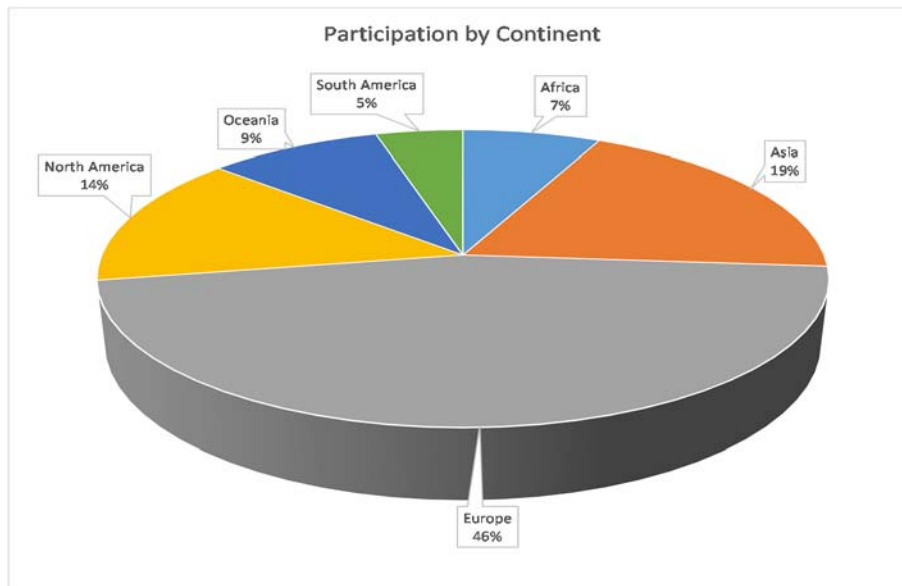
32. The Working Group designed and issued a survey aimed at obtaining a better understanding of the issues experienced by small- and medium-sized practices in implementing and complying with the requirements of ISQC 1 and ISA 220.
33. The survey asked questions in four areas: Implementation of ISQC 1, Application and Scalability of ISQC 1, Engagement Quality Control Reviewer Requirements, and remediation. The survey also incorporated a section to allow those taking the survey to provide any other information deemed necessary. The key themes from the survey are discussed further below.

Results – General Findings

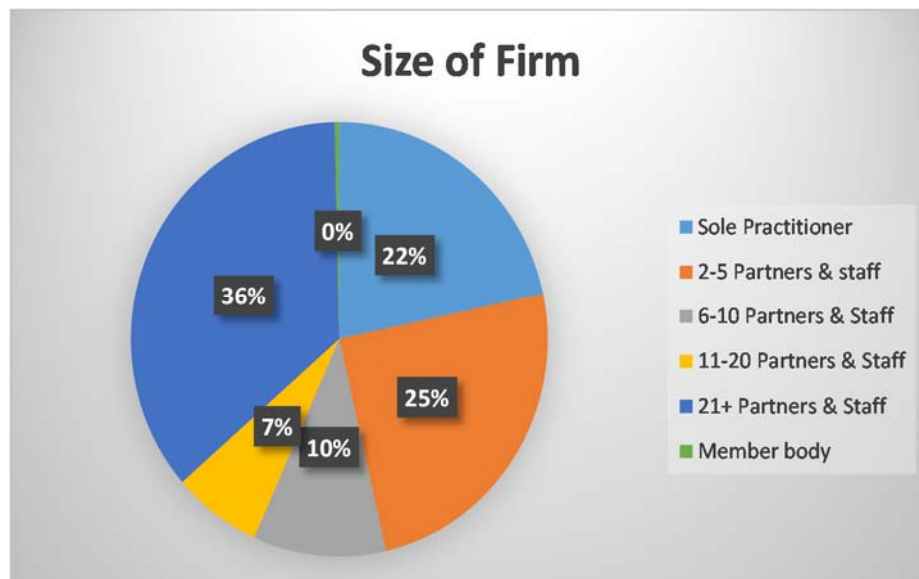
34. At the request of the Board, the Working Group agreed to extend the closing date of the survey to allow for as many responses as possible, with the final responses being received in early May. Almost 300 responses¹¹ to the survey were received from firms of all sizes and from around the world. A geographical analysis of the responses is included below.

¹⁰ The auditor is defined as follows, “Auditor” is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team or, as applicable, the firm. Where an ISA expressly intends that a requirement of responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents when relevant.

¹¹ Not all of the respondents to the survey selected to respond to all the questions included therein.



35. An analysis of responses by size of practice is as follows:



36. Regarding the adoption and implementation of ISQC 1, the results of the survey indicated the following:

- Approximately 87% of those that had adopted ISQC 1 had done so in its entirety and without supplementing the requirements with additional policies and procedures;
- Approximately 71% applied ISQC 1 in the same way to the different parts of their practices;
- Approximately 65% indicated that they were aware of application tools or guidance made available by NSS or other professional bodies to assist with the application of ISQC 1 to small- and medium sized practices; however, only approximately 56% of the respondents indicated that they used the guidance.

- Approximately 79% also indicated that they were of the view that sufficient guidance has already been issued.
37. The availability of resources across all areas of ISQC 1 was a key issue for small- and medium-sized practices. This was not limited to the cost of compliance with ISQC 1 but also encompassed matters such as:
- The attraction and retention of appropriate talent;
 - Conflicting priorities where there is limited personnel with the necessary skills;
 - Insufficient personnel to meet rotation requirements; and
 - The increasing number of partner hours required to complete an engagement in a market with declining fees.

Results - Monitoring

38. In general, the area identified as the most difficult to implement and comply with was monitoring. The specific difficulties noted related to the size of the firm or office and resource constraints and funding the cost of compliance.
39. Other responses indicated that:
- The monitoring requirements were excessive for certain types of engagements such as compilation engagements; and
 - From a timing perspective, it was difficult to complete an annual cold review of an engagement; conclude on its results; share those results with the organization; and determine and act on training needs and policy and procedure improvements before the start of the following year's engagement.

Results – Engagement Quality Control Review

40. Respondents indicated that they appointed an engagement quality control reviewer on engagements involving, in addition to listed entities, subsidiaries of listed entities and public interest entities and engagements such as:
- Audits and/or assurance engagements of other entities that met an internal pre-determined criteria, such as number of engagement hours, assessed risk of the engagement, or industry in which the entity operates;
 - Public sector engagements;
 - Compilations;
 - Agreed-upon procedures and review engagements; and
 - Group audits.

41. Issues in the area of engagement quality control reviews were largely related to resources, with more than half of the survey respondents indicating that they used third-party resources in this area. Specifically, respondents cited the identification of engagement reviewers possessing the appropriate competence to perform the review, and other resources issues, including sufficient number of partners in the firm, sufficient time to adequately perform and document the review and to arrange review and sign off meetings.
42. It was also suggested that more clarity was needed on application of engagement quality review requirements in a group audit situation, and the objective and purpose of an engagement quality control review. It was noted that it would be helpful for the IAASB to explain the connection between engagement quality control reviews and risk mitigation, the relevance for all sizes of firms, and types of engagements that should be subject to an engagement quality control review in certain circumstances as part of risk mitigation.

Results – Additional Guidance

43. Although 79% of respondents to the survey initially indicated that sufficient guidance was already available, others indicated that users would find further guidance useful in the form of more simplified examples of the application of the requirements, checklists and case studies.

Results - Documentation

44. A common theme throughout all sections of the survey was the documentation requirements associated with maintaining a system of quality control. Responses indicated that the documentation requirements in some areas were too extensive and a few firms noted less formal documentation policies.

Key Themes

45. Based on the analysis above, the Working Group identified three key themes as a result of the survey responses:
 - The application of ISQC 1 to review, other assurance, and related services engagements;
 - The performance of engagement quality control reviews; and
 - Challenges in the documentation of systems of quality control.

Potential Recommendations for Inclusion in the Discussion Paper

46. As noted in paragraph 16, the Working Group is of the view that the idea of flexibility in the review process should be explored, to allow firms to utilize other reviews, such as peer reviews and other inspections, as part of its monitoring plan. Such types of reviews could function as a detective control in the area of monitoring of quality control.
47. The Working Group also is of the view that a framework or chart that indicates the types of engagements that ISQC 1 applies to, similar to that included in the Assurance Framework, may provide clarity on the applicability of the requirements in ISQC 1 to different types of engagements.
48. As noted in the Working Group's analysis of the engagement partner and engagement quality control reviewer section of this paper, the Working Group is of the view that including an objective and

clarification of the role of the engagement quality control review would help users to better apply ISQC 1.

49. As to providing more examples, checklists and case studies, the Working Group suggests identifying and using best practice examples currently included in application tools and guidance materials. The Working Group is of the view, that better dissemination of these best practice examples would assist small- and medium-sized practices in determining the sufficiency of documentation for its systems of quality control.
50. The Working Group is also of the view that some form of publication would be an appropriate method to provide more clarity on the differences between ISQC 1 and ISA 220. Such publication could also provide rationale for the existing documentation requirements and information on where documentation examples may be found.

Matters for IAASB Consideration

3. The IAASB is asked for its views on:
 - (a) The issues identified through the small- and medium-sized practices survey and their impact on the quality control aspects of the Discussion Paper; and
 - (b) The recommendations of the Working Group for consideration in the Discussion Paper.

Ways to Update ISQC 1 and ISA 220

51. The Working Group is of the view that alternative methods of dealing with the identified issues should be presented in the Discussion Paper to allow stakeholders to indicate a preference on the ultimate scoping of the project. The Working Group proposes that two options on the way forward with the quality control project be incorporated into the Discussion Paper. The first option is a strategic update to ISQC 1 using a quality management approach. Exploration of this approach also responds to the Board's request to look at the project on a more strategic basis. The second option is to amend extant ISQC 1 for the various issues previously identified and discussed (a quality control approach).

Quality Management Approach

52. This approach would better align ISQC 1 with other internal control, quality and risk management frameworks and would be a proactive improvement that would lead the profession in this area. A quality management approach would require firms to engage in objective setting with respect to quality, assessing quality risks and responding to those risks. Accordingly, this approach would strengthen quality at the firm and engagement level.
53. A quality management approach would place more emphasis on policies and procedures that are preventative in nature, such as those around leadership and engagement performance, rather than detective in nature, such as those around quality reviews and inspections.
54. This would involve some restructuring of the existing requirements in ISQC 1 into a logical flow of elements and incorporate a quality risk assessment and response, which aligns with the approach used in the ISAs. The Working Group proposes that such a revision be based on a recognized framework; more specifically, it is of the view that the COSO ERM Framework would be appropriate.
55. The COSO ERM Framework is a three-dimensional model that can easily be adapted to address some of the current challenges, such as those with group audits; it can be responsive as the

environment in which firms operate evolves, including adaption to changes in regulatory requirements; and it can be applied in a similar way at various levels within the quality control system, for example, at the firm level or at the engagement level.

56. In addition to restructuring of the existing requirements, this would present the opportunity to make requirements conditional where appropriate and address agreed gaps within the standard. This would then naturally address many of the concerns raised by the small- and medium-sized practices about the scalability of ISQC 1, and would result in ISQC 1 only being updated once with all issues being addressed simultaneously.
57. However, the Working Group recognizes that such an undertaking would require more effort than the alternative of a “quality control” approach, as a more fundamental review of the form, content and approach of ISQC 1 would be envisaged. This would likely result in an extended timeframe in which to complete the project. Given the extended timeframe, if this option is considered preferable by the stakeholders, it may be possible to provide other forms of guidance in the interim period in relation to specific issues (subject to available resources and Board’s consideration of its priorities in relation to issues within the Quality Control project as well as other topics).
58. The following steps could be taken in the interim period to address specific issues:
 - Limited changes to ISQC 1 and ISA 220.
 - The issuance of an International Practice Note or an International Auditing Practice Note indicating how ISQC 1 could be applied in a scalable manner, noting however, that this would not address additional requirements related to alternative audit delivery models or external inspections.
 - The identification of existing best practice documents issued by NSS and others, promoting use of such through mediums such as the SMP Committee and the IFAC Gateway.

Quality Control Approach

59. This approach would involve adding additional requirements and application material to extant ISQC 1 for the identified gaps and a revision of the existing text where appropriate. These updates would be determined based on the topics discussed in this paper and at previous Board meetings.
60. Under this approach, it would be envisaged that the current structure and approach within ISQC 1 would be retained, rather than a fundamental consideration of the standard under the “Quality Management Approach”. While this may result in less cost implications for practitioners as a result of the changes, from a small- and medium-sized practice’s perspective, it may not sufficiently address the scalability issues that have been identified or may not adequately highlight the relevance of ISQC 1 to small- and medium-sized practices.
61. The majority of the Working Group is of the view that maintaining the current format would perpetuate the inability of the standard to be adaptable to quality risks and a changing environment. Further, the emphasis between quality control policies and procedures that are detective in nature, rather than preventative, would remain the same. Unlike a quality management approach, a quality control approach would not encompass concepts related to objective setting, enterprise risk assessment and response, and information and communication.

62. This approach may also result in additional updates to ISQC 1 being required to address any issues that could not be dealt with in a quality control approach depending on debates at the Board level and response to the Discussion Paper. This could ultimately necessitate two updates to practitioner's systems which will have obvious cost implications.

Working Group's Recommended Approach

63. Based on the relative merits of each approach, the vast majority of the Working Group supports the quality management approach to updating ISQC 1 and ISA 220. There is some support, however, for pursuing the quality control approach, as there is a view that such an approach would allow for only the specific issues identified to be addressed, result in targeted changes to the standards which can be clearly articulated and communicated to practitioners and other stakeholders, and be more practically implemented, particularly for small- and medium-sized practices.

Matters for IAASB Consideration

4. The IAASB is asked for its views on:
- (a) The inclusion in the Discussion Paper of potential approaches to understand stakeholder preferences.
 - (b) The appropriateness of the two identified proposed approaches and their advantages and disadvantages.
 - (c) The Working Group's recommended approach.

Analysis of Engagement Partner and Engagement Quality Control Reviewer Responsibilities

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
International Standard on Quality (ISQC) 1, <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements</i>		
<i>ISQC 1 Para. 11 (b)</i> 11. The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that: ... b) Reports issued by the firm or engagement partners are appropriate in the circumstances.	<i>ISQC 1 Para. 37(d)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: ... d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44) <i>ISA 220 Para. 20(d)</i> 22. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve: ... d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26–A27, A29–A31)	Yes
<i>ISQC 1 Para. 22(a)</i> 22. Such policies and procedures shall require (Ref: Para. A10) a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;		No

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
<i>ISQC 1 Para. 23(b)(i)</i> 23. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for (Ref: Para A10) ... b) The firm to promptly communicate identified breaches of these policies and procedures to: i) The engagement partner who, with the firm, needs to address the breach;		
<i>ISQC 1 Para. 23(c)</i> 23. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for (Ref: Para A10) ... c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph 23(b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.		No
<i>ISQC 1 Para. 25(b)</i> 25. The firm shall establish policies and procedures: (Ref: Para. A10) ... b) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the	<i>ISQC 1 Para. 25(b)</i> 25. The firm shall establish policies and procedures: (Ref: Para. A10) ... b) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the	Yes

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
individuals responsible for engagement quality control review, and, where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12–A17)	individuals responsible for engagement quality control review, and, where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12–A17)	
<i>ISQC 1 Para. 29(b)</i> 29. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to: ... b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A24–A29)	<i>ISQC 1 Para. 37(d)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: ... d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44) <i>ISA 220 Para. 20(d)</i> 20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve: ... d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26–A27, A29–A31)	Yes
<i>ISQC 1 Para. 30</i> 30. The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that: a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance; b) The engagement partner has the appropriate competence, capabilities, and authority to perform the role; and	<i>ISQC 1 Para. 39</i> 39. The firm shall establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through: a) The technical qualifications required to perform the role, including the necessary experience and authority; and (Ref: Para. A47) b) The degree to which an engagement quality control reviewer can be consulted on the engagement without	Partial (b) only

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
c) The responsibilities of the engagement partner are clearly defined and communicated to that partner. (Ref: Para. A30)	compromising the reviewer's objectivity. (Ref: Para. A48)	
<i>ISQC 1 Para. 31 (b)</i> 31. The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to: ... b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A31)	<i>ISQC 1 Para. 37(d)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: ... d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44) <i>ISA 220 Para. 20(d)</i> 20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve: ... d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26–A27, A29–A31)	Yes
<i>ISQC 1 Para. 32</i> 32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include: a) Matters relevant to promoting consistency in the quality of engagement performance; (Ref: Para. A32–A33)	<i>ISQC 1 Para. 37(d)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: ... b) Review of the financial statements or other subject matter information and the proposed report; ... d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44)	Yes

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
b) Supervision responsibilities; and (Ref: Para. A34) c) Review Responsibilities. (Ref: Para. A35)	<i>ISQC 1 Para. 38(c)</i> 38. For audits of financial statements of listed entities, the firm shall establish policies and procedures to require the engagement quality control review to also include consideration of the following: ... c) Whether documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A45–AA46) <i>ISA 220 Para. 20(d)</i> 20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve: ... b) Review of the financial statements and the proposed auditor's report; ... d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26–A27, A29–A31)	
<i>ISQC 1 Para.37 (a)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: a) Discussion of significant matters with the engagement partner;	<i>ISQC 1 Para.37 (a)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: a) Discussion of significant matters with the engagement partner; <i>ISA 220 Para.20(a)</i> 20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions	Yes

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
	reached in formulating the auditor's report. This evaluation shall involve: a) Discussion of significant matters with the engagement partner;	
<i>ISQC 1 Para.43</i> 43. The firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. (Ref: Para. A52–A53)	<i>ISQC 1 Para.43</i> 43. The firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. (Ref: Para. A52–A53) <i>ISA 220 Para. 22</i> 22. If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.	Yes
<i>ISQC 1 Para. 49 (a)</i> 49. The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either: a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or	<i>ISQC 1 Para. 37(d)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: ... d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44) <i>ISA 220 Para. 20(d)</i> 20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve: ... d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed	Yes

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
	auditor's report is appropriate. (Ref: Para. A26–A27, A29–A31)	
<i>ISQC 1 Para. A44</i> A44. The extent of the engagement quality control review may depend, among other things, on the complexity of the engagement, whether the entity is a listed entity, and the risk that the report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner.		No
ISA 220, Quality Control for an Audit of Financial Statements		
<i>ISA 220 Para.8</i> 8. The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. (Ref: Para. A3)		No
<i>ISA 220 Para.9</i> 9. Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. (Ref: Para. A4–A5)		No
<i>ISA 220 Para.10</i> 10. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A5)		No
<i>ISA 220 Para.11</i> 11. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit	<i>ISQC 1 Para.38(a)</i> 38. For audits of financial statements of listed entities, the firm shall establish policies and procedures to require the engagement quality	Yes

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
engagement. In doing so, the engagement partner shall: (Ref: Para. A5) a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence; b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A6–A7)	control review to also include consideration of the following: a) The engagement team's evaluation of the firm's independence in relation to the specific engagement; <i>ISA 220 Para.21(a)</i> 21. For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following: a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;	
<i>ISA 220 Para.12</i> 12. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A8–A9)		No
<i>ISA 220 Para.13</i> 13. If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A9)		No

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
<i>ISA 220 Para.14</i> 14. The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to: a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and b) Enable an auditor's report that is appropriate in the circumstances to be issued. (Ref: Para. A10–A12)		No
<i>ISA 220 Para.15</i> 15. The engagement partner shall take responsibility for: a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (Ref: Para. A13–A15, A20) b) The auditor's report being appropriate in the circumstances.	<i>ISQC 1 Para.37(d)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: ... d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44) <i>ISA 220 Para.20(d)</i> 20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve: ... d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26–A27, A29–A31)	Partial (b) only
<i>ISA 220 Para.16</i> 16. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A16–A17, A20)		No

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
<i>ISA 220 Para.17</i> 17. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A18–A20)	<i>ISQC 1 Para.37(d)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: ... d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44) <i>ISA 220 Para.20(d)</i> 20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve: ... d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26–A27, A29–A31)	Yes
<i>ISA 220 Para.18</i> 18. The engagement partner shall: a) Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters; b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm; c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and	<i>ISQC 1 Para.38(b)</i> 38. For audits of financial statements of listed entities, the firm shall establish policies and procedures to require the engagement quality control review to also include consideration of the following: ... b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and <i>ISA 220 Para. 21(b)</i> 21. For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement	Partial (b)-(d) only

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
d) Determine that conclusions resulting from such consultations have been implemented. (Ref: Para. A21–A22)	quality control review, shall also consider the following: ... b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and	
<i>ISA 220 Para.19</i> 19. For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall: a) Determine that an engagement quality control reviewer has been appointed; b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and c) Not date the auditor's report until the completion of the engagement quality control review. (Ref: Para. A23–A25)	<i>ISQC 1 Para.37(a)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: a) Discussion of significant matters with the engagement partner; <i>ISA 220 Para. 20(a)</i> 20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve: a) Discussion of significant matters with the engagement partner;	Yes
<i>ISA 220 Para. 23</i> 23. An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may		No

Responsibilities for Engagement Partner	Responsibilities for Engagement Quality Control Reviewer	Equivalent Responsibility
affect the audit engagement. (Ref: Para A32–A34)		
<i>ISA 220 Para. A6</i> A6. The engagement partner may identify a threat to independence regarding the audit engagement that safeguards may not be able to eliminate or reduce to an acceptable level. In that case, as required by paragraph 11(c), the engagement partner reports to the relevant person(s) within the firm to determine appropriate action, which may include eliminating the activity or interest that creates the threat, or withdrawing from the audit engagement, where withdrawal is possible under applicable law or regulation.		No
<i>ISA 220 Para. A18</i> A18. Timely reviews of the following by the engagement partner at appropriate stages during the engagement allow significant matters to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report: • Critical areas of judgment, especially those relating to difficult or contentious matters identified during the course of the engagement; • Significant risks; and • Other areas the engagement partner considers important. The engagement partner need not review all audit documentation, but may do so. However, as required by ISA 230, the partner documents the extent and timing of the reviews.	<i>ISQC 1 Para. 37(c)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: ... c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and <i>ISA 220 Para. 20(c)</i> 20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve: ... c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and	Yes

ISA 230, Audit Documentation		
<i>ISA 230 Para. A16</i> A16. The audit documentation for the audit of a smaller entity is generally less extensive than that for the audit of a larger entity. Further, in the case of an audit where the engagement partner performs all the audit work, the documentation will not include matters that might have to be documented solely to inform or instruct members of an engagement team, or to provide evidence of review by other members of the team (for example, there will be no matters to document relating to team discussions or supervision). Nevertheless, the engagement partner complies with the overriding requirement in paragraph 8 to prepare audit documentation that can be understood by an experienced auditor, as the audit documentation may be subject to review by external parties for regulatory or other purposes.		No
<i>ISA 230 Para. A20</i> A20. Examples of exceptional circumstances include facts which become known to the auditor after the date of the auditor's report but which existed at that date and which, if known at that date, might have caused the financial statements to be amended or the auditor to modify the opinion in the auditor's report. The resulting changes to the audit documentation are reviewed in accordance with the review responsibilities set out in ISA 220, with the engagement partner taking final responsibility for the changes.		No
ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements		
<i>ISA 240 Para.15</i> 15. ISA 315 (Revised) requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion. This discussion shall place particular emphasis on how and where the	<i>ISA 220 Para. A28</i> Listed entities only A32. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of a listed entity include:	Yes

entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity. (Ref: Para. A10–A11)	• Significant risks identified during the engagement in accordance with ISA 315 (Revised),¹² and the responses to those risks in accordance with ISA 330,¹³ including the engagement team's assessment of, and response to, the risk of fraud in accordance with ISA 240.¹⁴ • Judgments made, particularly with respect to materiality and significant risks. The significance and disposition of corrected and uncorrected misstatements identified during the audit. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of financial statements of other entities.	
ISA 300, <i>Planning an Audit of Financial Statements</i>		
<i>ISA 300 Para. 5</i> 5. The engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members. (Ref: Para. A4)	<i>ISQC 1 Para. A48</i> A48. The engagement partner may consult the engagement quality control reviewer during the engagement, for example, to establish that a judgment made by the engagement partner will be acceptable to the engagement quality control reviewer. Such consultation avoids identification of differences of opinion at a late stage of the engagement and need not compromise the engagement quality control reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant the reviewer's objectivity may be compromised unless care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the firm or a suitably qualified external person may be appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement.	No

ISA 315 (Revised), Identifying and Addressing the Risks of Material Misstatement through Understanding the Entity and Its Environment		
<i>ISA 315 Para. 8</i> 8. If the engagement partner has performed other engagements for the entity, the engagement partner shall consider whether information obtained is relevant to identifying risks of material misstatement.	<i>ISA 220 Para. A28</i> A28. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of a listed entity include: - Significant risks identified during the engagement in accordance with ISA 315 (Revised),¹² and the responses to those risks in accordance with ISA 330,¹³ including the engagement team's assessment of, and response to, the risk of fraud in accordance with ISA 240.¹⁴ - Judgments made, particularly with respect to materiality and significant risks. - The significance and disposition of corrected and uncorrected misstatements identified during the audit. - The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of financial statements of other entities.	Yes
<i>ISA 315 Para.10</i> 10. The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team	<i>ISQC 1 Para. A45</i> A45. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of an audit of financial statements of a listed entity include: Significant risks identified during the engagement and the responses to those risks.	Yes

members not involved in the discussion. (Ref: Para. A21–A23)	• Judgments made, particularly with respect to materiality and significant risks. • The significance and disposition of corrected and uncorrected misstatements identified during the engagement. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of the financial statements of other entities as well as reviews of financial statements and other assurance and related services engagements. <i>ISA 220 Para. A28</i> A28. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of a listed entity include: • Significant risks identified during the engagement in accordance with ISA 315 (Revised),¹² and the responses to those risks in accordance with ISA 330,¹³ including the engagement team's assessment of, and response to, the risk of fraud in accordance with ISA 240.¹⁴ • Judgments made, particularly with respect to materiality and significant risks. • The significance and disposition of corrected and uncorrected misstatements identified during the audit. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.	

	These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of financial statements of other entities.	
ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)		
<i>ISA 600 Para.4</i> 4. In accordance with ISA 220, the group engagement partner is required to be satisfied that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities. The group engagement partner is also responsible for the direction, supervision and performance of the group audit engagement.		No
<i>ISA 600 Para. 5</i> 5. The group engagement partner applies the requirements of ISA 220 regardless of whether the group engagement team or a component auditor performs the work on the financial information of a component. This ISA assists the group engagement partner to meet the requirements of ISA 220 where component auditors perform work on the financial information of components.		No
<i>ISA 600 Para.11</i> 11. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances. As a result, the auditor's report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A8–A9)	<i>ISQC 1 Para. 37(d)</i> 37. The firm shall establish policies and procedures to require the engagement quality control review to include: ... d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44) <i>ISA 220 Para. 20(d)</i> 20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:	Partial Audit report only

	d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26–A27, A29–A31)	
<i>ISA 600 Para.12</i> 12. In applying ISA 220, the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. For this purpose, the group engagement team shall obtain an understanding of the group, its components, and their environments that is sufficient to identify components that are likely to be significant components. Where component auditors will perform work on the financial information of such components, the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A10–A12)		No
<i>ISA 600 Para.13</i> 13. If the group engagement partner concludes that: a) it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and b) the possible effect of this inability will result in a disclaimer of opinion on the group financial statements, the group engagement partner shall either: a) in the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw from the engagement, where		No

withdrawal is possible under applicable law or regulation; or b) where law or regulation prohibits an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A13–A19)		
<i>ISA 600 Para.14</i> 14. The group engagement partner shall agree on the terms of the group audit engagement in accordance with ISA 210. (Ref: Para. A20–A21)		No
<i>ISA 600 Para.16</i> 16. The group engagement partner shall review the overall group audit strategy and group audit plan. (Ref: Para. A22)	<i>ISQC 1 Para. A45</i> A45. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of an audit of financial statements of a listed entity include: • Significant risks identified during the engagement and the responses to those risks. • Judgments made, particularly with respect to materiality and significant risks. • The significance and disposition of corrected and uncorrected misstatements identified during the engagement. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of the financial statements of other entities as well as reviews of financial statements and	Yes

	other assurance and related services engagements. <i>ISA 220 Para. A28</i> A28. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of a listed entity include: • Significant risks identified during the engagement in accordance with ISA 315 (Revised),¹² and the responses to those risks in accordance with ISA 330,¹³ including the engagement team's assessment of, and response to, the risk of fraud in accordance with ISA 240.¹⁴ • Judgments made, particularly with respect to materiality and significant risks. • The significance and disposition of corrected and uncorrected misstatements identified during the audit. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of financial statements of other entities.	
<i>ISA 600 Para.45</i> A45. The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (either identified by the group engagement team or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A63)	<i>ISQC 1 Para. A45</i> A45. The Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of an audit of financial statements of a listed entity include: • Significant risks identified during the engagement and the responses to those risks.	Yes

	• Judgments made, particularly with respect to materiality and significant risks. • The significance and disposition of corrected and uncorrected misstatements identified during the engagement. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of the financial statements of other entities as well as reviews of financial statements and other assurance and related services engagements. <i>ISA 220 Para. A28</i> A32. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of a listed entity include: • Significant risks identified during the engagement in accordance with ISA 315 (Revised),¹² and the responses to those risks in accordance with ISA 330.13 including the engagement team's assessment of, and response to, the risk of fraud in accordance with ISA 240.¹⁴ • Judgments made, particularly with respect to materiality and significant risks. • The significance and disposition of corrected and uncorrected misstatements identified during the audit. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.	

	These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of financial statements of other entities.	
<i>ISA 600 Para. A8</i> A8. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings, conclusions or opinions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.		No
<i>ISA 600 Para. A63</i> A32. The group engagement partner's evaluation of the aggregate effect of any misstatements (either identified by the group engagement team or communicated by component auditors) allows the group engagement partner to determine whether the group financial statements as a whole are materially misstated.	<i>ISQC 1. Para. A45</i> A45. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of an audit of financial statements of a listed entity include: • Significant risks identified during the engagement and the responses to those risks. • Judgments made, particularly with respect to materiality and significant risks. • The significance and disposition of corrected and uncorrected misstatements identified during the engagement. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of the financial statements of other entities as well as reviews of financial statements and other assurance and related services engagements.	Yes

	<i>ISA 220 Para. A28</i> A28. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of a listed entity include: • Significant risks identified during the engagement in accordance with ISA 315 (Revised),¹² and the responses to those risks in accordance with ISA 330,¹³ including the engagement team's assessment of, and response to, the risk of fraud in accordance with ISA 240.¹⁴ • Judgments made, particularly with respect to materiality and significant risks. • The significance and disposition of corrected and uncorrected misstatements identified during the audit. • The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies. These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of financial statements of other entities.	
ISA 620, Using the Work of an Auditor's Expert		
<i>ISA 620 Para. A6</i> A6. The If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements. The engagement partner is required to be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the audit engagement. Further, the auditor is required		No

to ascertain the nature, timing and extent of resources necessary to perform the engagement. The auditor's determination of whether to use the work of an auditor's expert, and if so when and to what extent, assists the auditor in meeting these requirements. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's expert.		