



AUASB Agenda Paper

Title:	Agenda Consultation & 2022-23 Work Plan Update	Date:	6 September 2022
Strategic Objective:	All	Agenda Item:	3.0
ATG Staff:	Matthew Zappulla	AUASB Sponsor:	Bill Edge

Recommendations and Questions for the Board

ATG Recommendations	Question for the Board
That the AUASB note the outcomes from the recent AUASB Agenda Consultation Process.	Is the AUASB satisfied with the process and summary of feedback arising from the AUASB Agenda Consultation Process recently undertaken?
That the AUASB support the proposed updates to the AUASB Technical Work Program arising from the Agenda Consultation feedback received and other outreach performed by the AUASB Technical Group staff.	AUASB members are requested to review proposed changes to the current strategic priorities and technical projects for inclusion in the AUASB 2022-23 Technical Work Program described in Paragraphs 15 – 25 below.
That the AUASB endorse the development a short feedback statement by AUASB Technical Staff that summarises the main outcomes from the AUASB Agenda Consultation Process.	Do AUASB members support that a feedback statement on the AUASB Agenda Consultation Process is produced, and that this feedback statement is a short publication (2-3 pages) communicated through the usual AUASB communications channels?

Background and Previous Discussions on Topic

1. As outlined in the AUASB's [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#) the AUASB undertakes a formal agenda consultation process with stakeholders at least once every five years to identify issues that need resolution. This process complements the AUASB's regular consultations with stakeholders to obtain timely feedback on current and emerging auditing and assurance issues, and helps the Board fulfil its strategic objectives, particularly allocating its limited resources appropriately to address the highest priority topics identified by its stakeholders.
2. The AUASB uses, as appropriate, the standards of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop Australian Auditing and Assurance Standards. Nevertheless, a local agenda consultation process is necessary to identify Australian auditing and assurance issues not covered by the IAASB that the AUASB could address. The AUASB's previous local agenda consultation was undertaken in late 2017.
3. In May 2022, the AUASB issued a Consultation Paper on the [AUASB Agenda Consultation 2022-23](#) for comment by 29 July 2022. The objective of the Consultation Paper was to gather views from Australian stakeholders on the projects the AUASB should address in the next few years and to identify other emerging Australian auditing and assurance issues the AUASB should include in its future Work Programs.

Outreach and comment letters received

4. Feedback on the agenda consultation process was obtained from stakeholders through comment letters in response to the AUASB's Consultation Paper, responses to an online survey and direct comments provided at roundtable sessions held by AUASB Staff. In total, feedback was received from over 60 stakeholders, including:
 - (a) auditors;
 - (b) users;
 - (c) preparers;
 - (d) regulators;
 - (e) academics; and
 - (f) professional bodies.
5. The AUASB received four comment letters in response to the Consultation Paper:
 - (a) Institute of Public Accountants (IPA);
 - (b) Accounting Professional & Ethical Standards Board (APESB);
 - (c) Chartered Accountants Australia and New Zealand (CA ANZ); and
 - (d) CPA Australia.
6. AUASB Staff held five roundtable sessions throughout the consultation period, including:
 - (a) two in-person roundtables (in Melbourne, which was part of the June AUASB meeting, and in Perth – planned sessions in Brisbane and Sydney were not held due to a lack of registrations); and
 - (b) three online roundtables (one roundtable with the CA ANZ Audit and Assurance Advisory Panel, one targeted at representatives from Mid Tier audit firms and one general roundtable open to all members of the public).

Matters for Discussion and ATG Recommendations

Summary of feedback received of the main topics in the AUASB Agenda Consultation Paper

7. The AUASB Technical Group have reviewed all the responses provided to the AUASB as part of the agenda consultation process (both formal and informal), with the main areas of feedback listed below in Paragraphs 8 - 14.
8. All stakeholders provided broad support for the AUASB to progress, as a high priority, with the development of a sustainability assurance framework for local application which is aligned with the IAASB, but also fit for purpose in Australia. Stakeholders also noted that, in relation to sustainability assurance, it will be important for the AUASB to consider:
 - (a) the role of experts/specialists and new/revised frameworks to verify information;
 - (b) the need for different levels of assurance of such information; and
 - (c) the limited resources and expertise available to smaller practitioners.
9. Many stakeholders noted that issues in relation to audit quality are primarily driven by the application of auditing standards and linked to a growing skill gap and the challenges of remote working. As such, stakeholders provided support for further implementation resources, the

identification of different audit quality targets and the removal of the inconsistent requirements between legislation/regulation and the AUASB Standards.

10. Several stakeholders indicated that, although a standalone LCE standard will be beneficial to audit quality, the current proposals in the IAASB's Exposure Draft are not fit for purpose and add to the growing burden on auditors. Stakeholders provided support for the AUASB to influence the scope of the standard at an international level to ensure Australia's views are reflected in the final standard.
11. In relation to Technology, some stakeholders gave feedback that was supportive of the role the Technology PAG currently has incorporating new technologies into the audit function, but noted that the AUASB should consider further guidance on how the current auditing standards can be applied to new and emerging areas such as blockchain and digital assets.
12. A few stakeholders gave feedback that the AUASB should update certain AUASB Guidance Statements, including:
 - (a) GS 007 (Outsourced Investment Management) – Several implementation issues were noted, which should be addressed through guidance as a priority due to the increased regulatory focus.
 - (b) GS 003 (AFSLs) – As this is a complicated area of practice, the guidance statement should be updated regularly to reflect developments and provide clarity and alignment with AASB Standards and ASIC financial reporting changes.
 - (c) GS 019 (Charity Fundraising) – Should be revised and modernised as it is out-of-date.
13. Some stakeholders indicated that the knowledge gap in relation to going concern continues to be an issue, and that AUASB should work with the AASB, FRC and other relevant bodies to address this. Many of the same stakeholders also indicated that a more robust framework is needed for assessing and documenting fraud risk, particularly for the audits of smaller entities.
14. Other relevant points included feedback to the AUASB on the following topic areas:
 - (a) Streamlining audits requirements for not-for-profit entities and the consideration of the impacts of digital reporting in NFPs, including digital fundraisings.
 - (b) The low number of review engagements being undertaken and the need for additional research in this area to determine whether the AUASB Standards on limited assurance engagements remain fit for purpose.
 - (c) A request for more guidance on the sufficiency of audit evidence due to misunderstanding around the quantity versus quality of evidence (specifically in connection to the upcoming revisions to ASA 500).

Impact on AUASB Strategic Priorities

15. The AUASB Technical Group have analysed all the agenda consultation feedback received and determined impacts on the 2022-23 AUASB Work Program after considering various factors including:
 - (a) the importance of the issue to stakeholders;
 - (b) the urgency of addressing the issue, considering input of other relevant regulators and evidence of the impact of not addressing the issue;
 - (c) interactions with other current or possible projects;
 - (d) the complexity and breadth of the problem to be resolved, and the feasibility of possible solutions being developed;

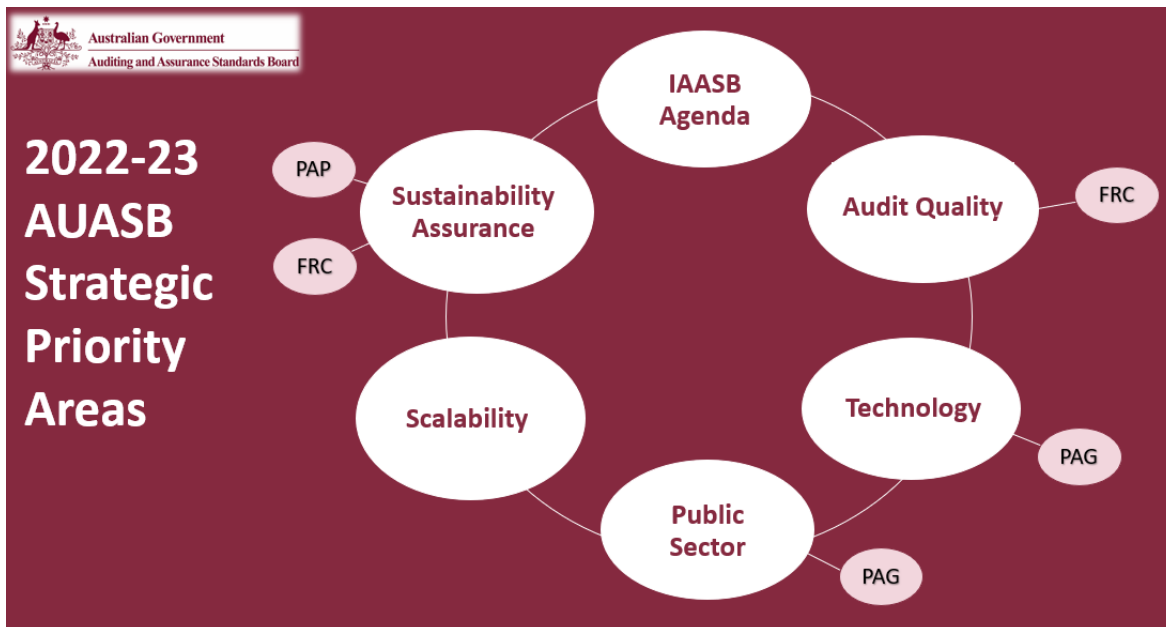
AUASB Agenda Paper

- (e) the capacity of stakeholders to respond to individual project proposals, both as individual proposals and across the work program as a whole;
- (f) the overall balance of the AUASB work plan (i.e. ensuring a balance of priorities across different sectors and stakeholder groups); and
- (g) the availability of sufficient AUASB staff resources.

16. All of the current project and priority areas promoted in the AUASB's Consultation Paper were either endorsed or not objected to by stakeholders who responded to our request for feedback. Accordingly, the following AUASB Priority Areas have been retained as key areas of focus in our 2022-23 AUASB Technical Work Program:

Priority Area	Details	What we've done	What we will do
IAASB Agenda	Continuing focus on monitoring and responding to current IAASB Projects	<ul style="list-style-type: none"> • Group Audits • LCE • QM Amendments 	<ul style="list-style-type: none"> • Audit Evidence • Going Concern • Fraud
Sustainability Assurance	Influence local and global Sustainability Reporting and Assurance developments	<ul style="list-style-type: none"> • AASB/AUASB Project Advisory Panel • IAASB EER Guidance • FRC/AASB/AUASB Position Statement • AASB and AUASB Joint Staff Article 	<ul style="list-style-type: none"> • IAASB Sustainability Proposals • Local interim guidance before IAASB standards
Audit Quality	Work with the FRC and others to drive audit quality improvements	<ul style="list-style-type: none"> • PJC Inquiry Responses • FRC Audit Quality Action Plan • ASIC Inspection and Quality Management Standards Bulletins • Audit Committee Chairs Surveys 	<ul style="list-style-type: none"> • Reviews of ASIC Inspection Process and Findings • FRC Audit Quality Action Plan • Audit Committee Chair Interviews • Joint AICD Publication
Technology	Identify how existing AUASB standards can be effectively applied on Technology matters	<ul style="list-style-type: none"> • Technology Project Advisory Group • Data Integrity & Cyber Guidance Bulletins • ISA 315 GITC FAQs 	<ul style="list-style-type: none"> • Complete Data Reliability publication • Revised PAG membership • New guidance on non-audit assurance
Public Sector	Develop specific guidance on public sector audit issues	<ul style="list-style-type: none"> • Public Sector Project Advisory Group • New Guidance Statement <ul style="list-style-type: none"> ○ Framework ○ Engagement Letters ○ Going Concern 	<ul style="list-style-type: none"> • Update Guidance Statement to also include: <ul style="list-style-type: none"> ○ Engagement Leader responsibilities ○ Quality Management • Post Implementation Review of Performance Audit Standards

17. In addition, we have created a new Priority Area covering 'Scalability' which will incorporate:
 - (a) all current LCE activities and any future IAASB developments relating to the proposed LCE Standard, including outreach to assess if an LCE standard should be applied in Australia;
 - (b) our current and future actions to improve the legislative drafting of audit and assurance requirements (previously referred to as 'Prescribed Reporting'); and
 - (c) a specific focus on audit issues associated with Not for Profit (NFP) entities, particularly as the AASB increases their activity on reporting issues that impact the NFP Sector.
18. Implementation activities associated with the Quality Management Standards is no longer a specific Priority Area, noting that the implementation timetable for these standards has moved to a more operational phase, with it still being an area where the AUASB Technical Group monitor developments, but don't plan any detailed initiatives.
19. The following graphic summarises the revised AUASB Strategic Priority Areas for 2022-23.



Impact on 2022-23 AUASB Technical Work Program projects

20. At an operational level the following domestic projects have been either rolled forward or retained as ongoing projects from the 2021-22 Technical Work Program:

AUASB Project	Details
AUASB Digital Standards Portal	Updated Portal released early August 2022
Technology PAG – Data Reliability Guidance	Delayed until September 2022
AICD / AUASB Audit Committee Publication on the periodic review of external auditors	Draft reviewed by AUASB, working with AICD and ASIC to be finalised soon
ASA 600 Standard and Implementation Support	To commence in October 2022
Post Implementation Review of ASAE 3500 Performance Engagements	To commence in early 2023 after completion of next iteration of GS 023
Audit Engagement Related Disclosures	Continuing to work with AASB, APESB and NZ on this issue

AUASB Agenda Paper

AUASB Project	Details
Internal Controls	Whilst we still await any Government response to PJC inquiry on this topic we will progress evaluating practical applications of where and how assurance over internal controls may be in the public interest
Update of ASA 700 to reflect AASB 101 changes	Still to be commenced by the IAASB

21. The AUASB will also continue to monitor and report to the AUASB on all IAASB projects currently in progress (as described further in Agenda Item 5):

- ISA 500 - Audit Evidence
- ISA 570 - Going Concern
- Update of IAASB Standards for changes in the IESBA PIE & Listed Entity Definition
- ISA 240 - Fraud
- Separate Standard for the Audit of Less Complex Entities

NB: A copy of the most up to date IAASB 2022-23 Work Plan has been included in the Supplementary Papers pack at **Agenda Item 3.1** should any AUASB members wish to obtain further information about current and planned IAASB activities.

22. Already to date in the first 2 months of the 2022-23 reporting period the following projects have either commenced or been completed by the AUASB technical staff:

- Joint submission to ISSB on Sustainability Reporting Exposure Drafts (completed July 2022)
- KAM reporting beyond Listed Entities (NB: refer to Project Plan at Agenda Item 8)
- AUASB Agenda Consultation Process (NB: As covered in this paper)
- GS 023 - Engagement Leader Responsibilities Guidance for Public Sector auditors (NB: refer update at Agenda Item 6)
- GS 003 – Update of AFSL Guidance Statement (NB: for approval at Agenda Item 7)
- Qualitative interviews of Audit Committee Chairs on perceptions of Audit Quality (NB: to be discussed at Agenda Item 2).

23. Based on feedback from the agenda consultation process we have added the following AUASB Projects to the 2022-23 AUASB Technical Work Program:

AUASB Project	Details
Update of GS 019 <i>Auditing Fundraising Revenue of Not-for-Profit Entities</i>	Consider if the Guidance Statement should be updated or withdrawn, and determine the need to consider the impacts of digital fundraising for NFPs
Review of GS 007 <i>Audit Implications of the Use of Service Organisations for Investment Management Services</i>	Evaluate what changes to the Guidance Statement may be required and develop a project plan to make any necessary updates.
Review legislative drafting of assurance requirements (aka Prescribed Reports)	A project has been launched working with the Office of Parliamentary Counsel to streamline new audit or assurance requirements in future legislation.
Upload of AUASB Guidance Statements to Standards Portal	Currently the Digital Portal contains only Auditing and Assurance Standards, and needs to be updated to include all AUASB Pronouncements.

AUASB Agenda Paper

AUASB Project	Details
Review Engagement Guidance	Develop new guidance to clarify and promote the differences between audits and review engagements, in particular for ACNC regulated entities where an audit is not mandatory.
Update of APRA related Guidance Statements	Determine what updates may be necessary to certain Guidance Statements as a result of changes to APRA prudential requirements and other reporting requirements (e.g. AASB 17 implementation)

24. Based on the IAASB work plan for 2022-23 we have added the following International Projects to the 2022-23 AUASB Technical Work Program:
- Changes to PIE/Listed Entity definitions (in progress – refer Agenda Item 10) - AUASB Consultation Paper released & Submission to be submitted by 4 October 2022
 - ISA 500 Audit Evidence - AUASB Consultation Paper to be developed & Submission to IAASB (Timing TBD)
 - Going Concern - AUASB Consultation Paper to be developed & Submission to IAASB – (Timing TBD)
 - IAASB Strategy 2024-2027 - AUASB Outreach and Submission to IAASB (Timing TBD)
 - Monitor and provide input into the IAASB Sustainability Project (Ongoing)
 - Evaluate proposed changes to the audit report potentially being recommended by IAASB Task Forces, considering how the public interest and expectation gap are being improved or disadvantaged through the IAASB's planned exposure drafts on different topics (Ongoing)
- NB: A copy of the most up to date IAASB 2022-23 Work Plan has been included in the Supplementary Papers pack at **Agenda Item 3.1**.
25. A detailed 2022-23 AUASB Technical Work Program addressing all the priority areas and projects described in the paragraphs above has been developed by the AUASB Technical Director under the supervision and approval of the AUASB Chair. The detailed 2022-23 AUASB Technical Work Program is monitored fortnightly by staff and will be reported against each quarter to the AUASB.

Disclosing outcomes from the AUASB Agenda Consultation process and other AUASB corporate reporting

26. To ensure public accountability and provide transparency about the outcomes from the AUASB Agenda Consultation Process the AUASB Technical Group propose to develop a short feedback statement that summarises the feedback received, and updates made to the AUASB Priorities and Technical Work program. It is proposed that this feedback statement, expected to be 2-3 pages long and in a 'fact sheet' type format, will be approved out of session by the AUASB Chair based on the information in this Board paper, then published on the AUASB Website and promoted through the usual AUASB communications channels.
27. In addition, the AUASB Chair and technical staff have recently contributed to the development and finalisation of the joint AASB-AUASB 2022-23 Corporate Plan and 2021-22 Annual Report. These documents (or in the case of the Annual Report which is yet to be published, extracts of) are available for AUASB members to review in the Supplementary Papers pack at **Agenda Item 3.2** (Corporate Plan) and **Agenda Item 3.3** (AUASB Chairs Report, Performance Report and Output Statement).

Collaboration with NZAuASB and other standard setters

28. The AUASB technical staff will share the details of the updated 2022-23 Technical Work Program with NZAuASB staff to identify common projects where collaboration will benefit both boards.

International Agenda IAASB Papers on Sustainability – September 2022

Agenda paper 4.0

AUASB Meeting 6 September 2022 (M131)

Memo to the AUASB

1. The purpose of this slide pack is to highlight to the AUASB the main areas relating to Sustainability, due to be discussed by the IAASB at the upcoming September 2022 IAASB meeting; and to seek AUASB input on various elements of the proposals.
2. The ATG intends to talk through the slides at the September AUASB meeting.
3. Where the ATG is specifically seeking AUASB input, this is highlighted within a blue text box (some text boxes may contain questions / some may contain information notes).
4. Depending on where a project is within the cycle, AUASB members have been provided with links to the international papers. The ATG have specified where the links are for information purposes only, or where the ATG considers that the time is appropriate for AUASB members to review the draft standard. The level of detail of such review is up to each AUASB member. **For this meeting, the ATG encourages AUASB members to read [the contents page](#) of the proposed sustainability standard** (NB: this has also been provided in our second mail out at [Agenda Item 4.1](#)).



Sustainability – IAASB matters

1. Project Proposal

- overarching standard that addresses the conduct of an assurance engagement in its entirety (i.e., addresses all elements of the engagement from engagement acceptance through to reporting)
- more specificity for areas of the engagement where priority challenges have been identified
- principles-based and be suitable for assurance engagements for all topics, information disclosed about the topics and mechanisms for reporting
- International Standard on Sustainability Assurance™ (ISSA) 5000 , *General Requirements for Sustainability Assurance Engagements*
 - Standalone standard. Identify defined terms + Identify relevant requirements and application material in ISAE 3000 and ISAE 3410 + ISAs + EER Guidance + 'new'
- ED September 2023, Standard Q1 2025

2. Contents page outlined – LCE/3000/3410 (circulated to AUASB – refer Agenda Item 4.1)

3. Definitions

4. Criteria for determining which ISAs may be considered

5. Started drafting requirements parts 1-3 (3000/3410/ISAs/EER)

Question to the AUASB: The proposed new standard is not expected to cover specific areas in detail (e.g. estimates, experts) – are there any areas that members consider we do something domestically to assist our stakeholders?



Memo to the AUASB

1. The purpose of these slides is to highlight to the AUASB the main areas of consideration, due to be discussed by the IAASB at the upcoming September 2022 IAASB meeting; and to seek AUASB input on various elements of the proposals.
2. The ATG intends to talk through the slides at the September AUASB meeting.
3. Where the ATG is specifically seeking AUASB input, this is highlighted within a blue text box (some text boxes may contain questions / some may contain information notes).
4. Depending on where a project is within the cycle, AUASB members have been provided with links to the international papers. The ATG have specified where the links are for information purposes only, or where the ATG considers that the time is appropriate for AUASB members to review the draft standard. The level of detail of such review is up to each AUASB member. **For this meeting, the ATG encourages AUASB members to read the requirements of the [draft ISA 500](#) (audit evidence); the [draft Authority for the LCE Standard](#) (NB: previously emailed to the AUASB and included at Agenda Item 5.1); and [the contents page](#) to the proposed sustainability standard (included at Agenda Item 4.1).**

IAASB Topics – September 2022

1. Sustainability (NB: covered separately under Agenda item 4)
2. Less Complex Entities (slides 3 – 5)
3. Going Concern (slides 6 – 10)
4. Fraud (slides 11 – 13)
5. Audit Evidence (slide 14)
6. Disruptive Technology (slide 15)



LCE – Authority of Standard

Authority of Standard

- Specific prohibitions +
 - Laws or Regulations
 - Listed
 - PIE
 - Group entities/business units listed or PIE / use of component auditors: qualitative characteristics to be included in the Authority
- Qualitative characteristics – individually and in combination (see next slide) +
- Quantitative characteristics
 - Legislative/regulatory authorities – anticipated to determine
 - Draft guidance will accompany the Authority – to assist jurisdictions

Question for the AUASB: Does the amended authority as proposed, particularly the qualitative and quantitative elements, lead to less subjectivity than in the ED and as such is it possible to achieve consistency in application? **For AUASB members reference the new Authority of the Standard is available [here](#)**. Note: the AUASB previously did not support the blanket prohibition of listed entities and public interest entities (PIEs) and considered that this may unintentionally undermine confidence in the standard. The AUASB previously did not support the exclusion of group audits.



LCE – Qualitative Characteristics

Qualitative Characteristics:

Business Activities, Business Model & Industry	<p>The entity's business activities, business model or the industry in which the entity operates do not give rise to significant pervasive business risks.</p> <p>There are no specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements).</p> <p>The entity's transactions result from few lines of business or revenue streams.</p>
Organizational Structure and Size	<p>The organizational structure is relatively straightforward, with few reporting lines or levels and a small key management team (e.g., 5 individuals or less).</p>
Ownership Structure	<p>The entity's ownership structure is straightforward and there is clear transparency of ownership and control, such that all individual owners and beneficial owners are known.</p>
Nature of Finance Function	<p>The entity has a centralized finance function, including centralized activities related to financial reporting.</p> <p>There are few employees involved in financial reporting roles (e.g., 5 individuals or less).</p>
Information Technology (IT)	<p>The IT environment of the entity, including its IT applications and IT processes, is straightforward.</p> <p>The entity uses commercial software and does not have the ability to make any program changes other than to configure the software (e.g., the chart of accounts, reporting parameters or thresholds).</p> <p>Access to the software is generally limited to one or two designated individuals for the purpose of making the configurations.</p> <p>Few formalized general IT controls are needed in the entity's circumstances.</p>
Application of the Financial Reporting Framework and Accounting Estimates	<p>Few accounts or disclosures in the financial statements of the entity necessitate the use of significant management judgment in applying the requirements of the financial reporting framework.</p> <p>The entity financial statements typically do not include accounting estimates that involve the use of complex methods or models, assumptions or data.</p>

LCE – Estimates

- Qualitative characteristics

- Proposed new description: The entity's financial statements typically do not include accounting estimates that involve the use of complex methods or models, assumptions or data.
 - ED: The entity's accounting estimates are subject to a higher degree of estimation uncertainty or the measurement basis requires complex methods that may involve multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them
- Typically: allows for isolated or "one-off" accounting estimates or transactions that do not otherwise increase the complexity of the entity as a whole
- Other qualitative characteristics + specific limitations in use of standard is expected to limit use of the standard for entities with complex estimates
- Decided not to include inherent risk factors as qualitative characteristics as may be difficult to operationalise on an accounting estimate by accounting estimate basis, particularly given the evaluation for use of the proposed standard would be performed at the acceptance and continuance phase
- Way forward: Taskforce to evaluate any additional requirements that should be included and incorporate

Question for the AUASB: Does the amended characteristic of estimates lead to less subjectivity in application? Is the AUASB supportive of the proposed direction?



Going Concern – Major Issues being Discussed at IAASB meeting

1. Definition of MURGC (slide 7)
2. Strengthening risk assessment – uses ISA 315 framework but Going Concern specific (*Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control*)
3. Strengthening exercise of professional scepticism (slide 8)
4. Strengthening evaluation of managements assessment (slide 9)
5. Strengthening communication TCWG
 - *disclosures that describe the significant judgments made by management and the adequacy of the mitigating factors in management's plans that are of significance to overcoming the adverse effects of the events or conditions*
6. Transparency in the auditor's report (slide 10)

Question for the AUASB:

The AUASB is requested to provide their views on transparency in the auditor's report. In your deliberations please consider:

- each scenario as outlined;
- differential applicability;
- Boilerplate language

Please also consider transparency in view of all current IAASB projects impacting the auditor's report (e.g.: fraud, PIE)

Going Concern – MURGC

- Newly defined term – Material uncertainty (related to going concern)
 - Largely repurposed from Application Material
 - Material Uncertainty (related to going concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:
 - (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
 - (b) In the case of a compliance framework, the financial statements not to be misleading.
- If 'material uncertainty' not defined in financial reporting framework, for purposes of ISA 570:
 - uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are considered material when the combination of:
 - The likelihood of the events or conditions occurring; and
 - Their potential magnitude, should the events or conditions occur,could reasonably be expected to influence the economic decisions of intended users taken on the basis of the financial statements.



Going Concern – Professional scepticism

- Risk assessment:
 - risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory
- Evaluation of management's assessment
 - evaluate judgements and decisions – indicators of management bias
 - design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory



Going Concern – evaluation of management’s assessment

- Require the performance of audit procedures to evaluate management’s assessment of going concern, irrespective of whether events or conditions that have been identified.
- Clarity that the requirement is 2-fold:
 - Conclude on appropriateness of management’s use of GC basis AND
 - Determine whether material uncertainty exist
- Evaluate methods, assumptions and data used in management’s assessment – linkage to ISA 540 (Auditing Estimates)
- Strengthened requirement for evaluating management’s plans for future actions **(if events / conditions identified)**
 - Strengthen requirement to evaluate whether management has the intent to carry out specific courses s of action and has the ability to do so. Include in written representations

Going Concern – Transparency in the auditor’s report

Basis of Accounting is Appropriate, and:	Description	Applicability
No Material Uncertainty Exists	Under a heading GC: Providing explicit statements about Going Concern in the auditor’s report (see paragraphs 21A): <ul style="list-style-type: none"> A statement providing a conclusion that management’s use of the going concern basis of accounting is appropriate. A statement that no material uncertainties related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern have been identified. 	All entities
No Material Uncertainty Exists <i>Events or Conditions Have Been Identified that may Cast Significant Doubt on the Entity’s Ability to Continue as a Going Concern</i>	Unclear from requirements if include: <ul style="list-style-type: none"> As for “No Material Uncertainty Exists” above. 	All entities
	Under a heading GC: Enhanced informational content in the auditor’s report when events or conditions have been identified (see paragraph 21B): <ul style="list-style-type: none"> Drawing attention to notes in financial statements Requiring the auditor to describe how the events or conditions were addressed in the audit. 	Listed entities
Material Uncertainty Exists <i>Adequate Disclosure is Made in the Financial Statements</i>	Under a heading MURGC: Enhanced informational content for MURGC paragraphs in the auditor’s report by providing an explicit statement (see paragraphs 22): <ul style="list-style-type: none"> Drawing attention to notes in financial statements That the events/conditions may case a significant doubt and that the opinion is not modified A statement providing a conclusion that management’s use of the going concern basis of accounting is appropriate. 	All entities
	<ul style="list-style-type: none"> Requiring the auditor to describe how the events or conditions were addressed in the audit. 	Listed entities

Fraud – Transparency in reporting

- Feedback from DP – significant mixed views with limited user responses.
- Outreach with user group across the globe investigating / considering 5 options
 - *Option 1:* Describing the auditor's approach to fraud risks.
 - *Option 2:* Describing the identified and assessed fraud risks, and the auditor's response to the assessed fraud risks.
 - *Option 3:* Describing the identified and assessed fraud risks, the auditor's response to the assessed fraud risks, and the auditor's findings/observations when responding to the assessed fraud risks.
 - *Option 4:* Emphasizing the use of the existing requirements for the communication of Key Audit Matters (KAMs) for listed entities where there is a fraud risk.
 - *Option 5:* Reporting identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud.

Note to AUASB:

For AUASB members to consider what these options may potentially look like – the following IAASB paper has been provided [\[here\]](#). ATG will discuss with the AUASB the IAASB due process around sufficiency and appropriateness of user groups.



Fraud – Summary taskforce position after analysis of discussions with users

1. Enhance transparency in the auditor's report on fraud by including a separate section that encompasses a description:
 - The auditor's responsibilities as it relates to fraud in the audit of the financial statements;
 - The identified and assessed fraud risks and the auditor's response to the assessed risks; and
 - Identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements.
2. Seek IAASB input into views around scoping (PIE, Listed, all): mixed views across users and IAASB taskforce

Note to the AUASB: The AUASB commented in their response to the DP that if the auditor were required to disclose more in the audit report about the audit procedures undertaken in relation to fraud that this would be coupled with more transparency around the responsibilities of management and TCWG. Interviews of users noted that management and TCWG may be biased and therefore preferred the auditor to provide transparency on fraud in the auditor's report. They also noted that additional disclosures by management or TCWG are not a substitute for more transparency in the auditor's report.

Fraud – Question for the AUASB

1. The AUASB is asked for its views on the taskforces proposal to communicate in the auditor's report information about :

- The auditor's responsibilities as it relates to fraud in the audit of the financial statements;
- The identified and assessed fraud risks and the auditor's response to the assessed risks; and
- Identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements.

[note: in considering response, members are requested to consider all upcoming proposals re transparency in reporting holistically ie taking into account PIE and Going Concern]

2. The AUASB is asked for its views on whether the proposed changes should apply to listed entities or all entities.



Audit Evidence

1. No substantive changes to bring to AUASB's attention
2. Final read – fatal flaw – approval Exposure Draft
3. Exposure Period – 6 months, close period end April 2023
4. Expected approval of final standard – June 2024
5. Implementation period – 18 months after approval

Note to the AUASB: A link to the clean draft of ISA 500 is provided [\[here\]](#). The IAASB is expected to approve an ED of proposed ISA 500 at the September 2022 IAASB meeting. While the ATG have no specific questions of the AUASB, this is the last time for any fatal flaw issues with the proposals. The AUASB is requested to provide any feedback to the AUASB Chair as part of the AUASB's International Influencing Strategy.



Disruptive Technologies

1. Disruptive technology information gathering and research:

- Explore how the IAASB can respond to technology via new or revised Standards or nonauthoritative guidance
- Explore technology's effect on audit and assurance – both in the current environment and in the future – in order to be prepared for technology disruption and be able to respond appropriately to support audit and assurance quality

2. Some technology trends identified include:

- Cybersecurity and Data Governance
- Cloud and Edge Computing for flexible data storage
- Digital Twins for assessing asset performance
- Quantum Computing for enhanced processing power
- Immersive Technologies (Augmented/Virtual Reality/Metaverse) for enhanced user experience

Question to the AUASB: What technologies are currently being used by entities or practitioners that directly impact on assurance and what guidance if any may be required? What technology trends noted above are likely to have the greatest impact on assurance?



Sustainability

1. Project Proposal

- overarching standard that addresses the conduct of an assurance engagement in its entirety (i.e., addresses all elements of the engagement from engagement acceptance through to reporting)
- more specificity for areas of the engagement where priority challenges have been identified
- principles-based and be suitable for assurance engagements for all topics, information disclosed about the topics and mechanisms for reporting
- International Standard on Sustainability Assurance™ (ISSA) 5000 , *General Requirements for Sustainability Assurance Engagements*
 - Standalone standard. Identify defined terms + Identify relevant requirements and application material in ISAE 3000 and ISAE 3410 + ISAs + EER Guidance + 'new'
- ED September 2023, Standard Q1 2025

2. Contents page outlined – LCE/3000/3410 (circulated to AUASB)

3. Definitions

4. Criteria for determining which ISAs may be considered

5. Started drafting requirements parts 1-3 (3000/3410/ISAs/EER)

Question to the AUASB: The proposed new standard is not expected to cover specific areas in detail (e.g. estimates, experts) – are there any areas that members consider we do something domestically to assist our stakeholders?





AUASB Agenda Paper

Title:	Public Sector Audit Issues: Engagement Leader Role and Responsibilities (GS 023 update)	Date:	6 September 2022
Strategic Objective:	Develop/Maintain Australian Specific Guidance for topics not addressed by IAASB	Agenda Item:	6
ATG Staff:	Johanna Foyster	AUASB Sponsor:	Julie Crisp

Recommendations and Questions for the Board

Question No.	ATG Recommendations	Questions for the Board
Question 1	The ATG recommend that supplementary guidance be developed for inclusion in GS 023 to address key issues identified in applying ASA 220 in the public sector, based on the input received from the AUASB Public Sector PAG.	Does the AUASB have any comments on the key issues identified by the PAG and the proposed GS 023 Supplementary Guidance included in this paper?

Background

1. The AUASB's Public Sector Audit Issues Project is an ongoing AUASB Strategic Project with the objective to develop and issue guidance that is specifically targeted to address the needs of public sector auditors.
2. GS 023 will be incrementally updated to address issues identified in the project plan, as well as any further emerging issues that may arise in applying AUASB Standards to public sector engagements.
3. To date the AUASB has developed and issued, in consultation with its Public Sector Audit Issues Project Advisory Group (**PAG**), guidance related to ASA 210 *Agreeing the Terms of Audit Engagements* (December 2021) and ASA 570 *Going Concern* (June 2022).
4. The third priority identified in the PAG's Terms of Reference will focus on the role and responsibilities of the Engagement Leader (**EL**) under ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

General Information Gathering Activities

5. AUASB Staff performed a general literature search to identify information that may be relevant to the topic:
 - a) INTOSAI's GUID 2900 *Guidance to the Financial Auditing Standards* does not include any further guidance on the topic of Engagement Leader responsibilities, and there is no indication that guidance will be updated in the short term to reflect the revised ISA 220.



- b) *IAASB Signing Partner Project (2018-2021)*
- The IAASB in 2018 considered the circumstances in which an individual other than the EP signs the auditor's report and whether it was necessary to include further application guidance in ASA 220 to address the role of the SP in such circumstances, including their responsibility for quality.
 - In 2020, the IAASB conducted a Signing Partner Survey to enhance its understanding of issues and to gather information on the different policies and practices in place to address issues.
 - The IAASB in 2021 decided that due to the variety of situations that could arise in practice, and the fact that this was common practice in only some sectors such as the public sector, it would be better dealt with by national standard setters.
- c) A limited review of private sector audit firm policies provided insight on policies and practices that govern the situation where one audit partner has taken responsibility for the conduct of all or most of the audit, including making key decisions or judgements on all significant matters for the audit, and another partner, while also taking overall responsibility for the audit, physically signs the auditor's report.

Matters for Consideration:

6. Members of the PAG were requested to:
- (a) consider whether the definitions in ASA 220 of 'EP', 'partner' and 'firm' were appropriate for application in the public sector context and, if not, to identify the issues that presented challenges in applying the definitions in the public sector context and/or complying with the requirements of auditing standards;
 - (b) provide information to show how the issues were being dealt with in each jurisdiction (policies, procedures, guidance); and
 - (c) consider whether the [Revised ASA 220](#)¹ would address any of the concerns raised.
7. AUASB Staff used this PAG feedback to prepare an Issues Paper for consideration and further discussion by the PAG at its August 2022 meeting. At this meeting, the PAG supported AUASB Staff's recommendation:
- to develop additional Application and Other Explanatory Material for inclusion in an updated GS 023, to address the issues identified as presenting challenges in applying the ASA 220 definition of EP in the public sector.
 - for guidance to be high-level and principles-based to cater for the different scenarios that may present in each jurisdiction due to differences in audit mandates, legislation and internal Office delegations of the authority and powers of Auditors-General to staff.
 - that GS 023 be used as a vehicle to 'unpack' the sector neutral ASA 220 requirements that are perceived as being problematic and then provide guidance to assist public sector auditors in interpreting and applying ASA 220 to the specific circumstances unique to the public sector.

¹ Operative for financial reporting periods commencing on or after 15 December 2022.



Key Issues identified by the PAG

8. In the public sector, challenges can arise in relation to ASA 220 when the individual fulfilling the EP responsibilities in practice is not also the individual signing the auditor's report (the 'Signing Officer' (**SO**)). This often happens in the public sector where:
 - a) legislation may require an Auditor-General (A-G) (or delegate) to sign the auditor's report for certain entities under ASA 700 (and who may or may not be a qualified accountant)², and
 - b) either an employee of the Audit Office or a contracted Audit Service Provider is responsible for the audit engagement and its performance under ASA 220.
9. There was consensus that further guidance would be helpful to acknowledge the different delivery mechanisms for an audit in the public sector, and to provide guidance on the ability of the SO to delegate some or even all the EL responsibilities to another individual.
10. For practical reasons an individual A-G is unlikely to have the capacity or detailed knowledge required to be the EL for each audit engagement, let alone have the physical or operational capability to perform the role of EL in practice on all audits. A-Gs are generally permitted either to authorise or to legally delegate to others the performance of certain functions and the exercise of certain powers.
11. ASA 220, other than stating by way of footnote that "the definitions of 'EP', 'partner' and 'firm' is to be read as referring to their public sector equivalents where relevant", does not provide further guidance on how these definitions are to be applied in the public sector context.
12. Several jurisdictions pointed out that the ASA 220 definition of EP may be interpreted as providing for two dimensions of responsibility – that is: (a) over the audit engagement and its performance, and (b) issuance of the auditor's report. It was suggested that supplementary ASA 220 application material could clarify whether responsibility for "issuance" of the auditor's report meant "signing" the auditor's report or making a recommendation to the SO about the nature/form of the opinion to be issued and providing clearance for the report to be issued. In these Offices, the function of SO was seen as being separate from the EL role.
13. ASA 220 does not specify the EP has to sign the auditor's report; nor does ASA 700 require this. The term 'Signing Partner' (**SP**) is not defined in the ASAs and ASA 700 does not include specific requirements as to the role and responsibilities of the individual responsible for issuing/signing the auditor's report, including what responsibility this individual has for the quality of the audit.³
14. Furthermore, ASA 220 does not provide specific guidance for application of the definition of EP to audits contracted out to Audit Service Providers and where the duties of the EP are, in practice, mostly fulfilled by the contractor EP. Feedback from the PAG indicated that, although legislation may allow for a contractor EP to take overall responsibility for an audit, different Office policies are applied in practice in response to this scenario. PAG Members considered further guidance would be useful to clarify the roles and responsibilities of the in-house EL and contracted EP under ASA 220 and ASQM 1.

² Legislation in the public sector may require an A-G to sign the auditor's reports for certain public entities, even when the A-G is not the EP.

³ ASA 700 deals with the auditor's responsibility to form an opinion on the financial report based on an evaluation of the conclusions drawn from the audit evidence obtained – see ASA 700, paragraphs 10-15. It also deals with the form and content of the auditor's report issued. Paragraph 47 requires "the auditor's report shall be signed" with no further guidance on the role and responsibilities of the signing partner.



15. Audit Offices have internal policies and procedures in place to respond to signing arrangements and to clarify the respective roles and responsibilities of the EL and SO. However, there is not a consistent approach about what the SO is required to do before signing the auditor's report when the SO has not been the EL.
16. PAG Members suggested that if clarity is provided on the roles and requirements of both the EL and SO functions, then application of ASA 220 requirements would not be of concern.

Proposed GS 023 Supplementary Guidance

17. The key matters to be addressed by the proposed new guidance include:
 - Interpret and apply the ASA 220 definitions of 'EP', 'partner', engagement team' and 'firm' in the public sector context and address practical implementation issues of the ASA 220 EP role and responsibilities in the public sector.
 - Acknowledge the common audit delivery models/mechanisms that may be encountered in the public sector and identify a framework by which the roles and responsibilities of the SO and EL may vary under different models. Separate the decision around the legal delegation of the A-G's role versus their responsibilities as SO or EL under ASA 220 and ASA 700.
 - Provide guidance on the policies that need to be in place to address the circumstances where the SO and EL are not the same individual. Clarify that all ASA 220 responsibilities need to be addressed but that it will be up to each Audit Office to determine which elements of ASA 220 are allocated to the different roles.
 - Provide guidance on the role and responsibilities of the SO under ASA 220/ASA 700, to provide a consistent basis for Audit Offices to use as guide to develop internal policies and practices that are fit for purpose in each jurisdiction. This will include guidance on the SO's expected level of involvement throughout the engagement, the SO's responsibility for achieving and managing quality on the engagement, and typical procedures the SO may consider performing before signing the auditor's report, in order to meet the requirements of ASA 220/ASA 700.
 - Incorporate guidance to address relevant requirements of ASQM 1, for example, in relation to quality management of contracted-out engagements (Audit Service Providers)

Next steps/Way Forward

Action	Timing
AUASB Technical Staff develop guidance material to address issues	Sept 22
First Draft of proposed new guidance shared with PAG Members for consideration and feedback/further input	Early Oct 22
Updated Draft considered/discussed/agreed at PAG meeting Same Draft shared with NZAuASB members who has relevant public sector experience	First week Nov 22
Updated GS 023, which includes the proposed new guidance material, presented to AUASB for consideration and approval to issue	28/29 Nov 22



AUASB Agenda Paper

Title	GS 003 <i>Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001</i> (GS 003)	Date:	6 September 2022
Strategic Objective:	Standards and Guidance - Develop and maintain Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required	Agenda Item:	7.0
ATG Staff:	Marina Michaelides	AUASB Sponsor:	Bill Edge

Recommendations and Questions for the Board

Question No.	ATG Recommendations	Questions for the Board
Question 1	The ATG consider that appropriate consultation and due process have been undertaken to address the narrow scope amendments proposed to GS 003.	Does the AUASB have any comments on the process undertaken by the ATG?
Question 2	The ATG recommend that the proposed narrow scope amendments to GS 003 are approved by the AUASB.	Does the AUASB agree with the ATG recommendation to approve the proposed narrow scope amendments to GS 003 at Agenda Item 7.1?

Background and Previous Discussions on Topic

- 1 The AUASB received an update from the ATG in September 2020 on the Guidance Statement Revision Project that recommended the ATG review GS 003 for any required updates noting relevant legislation has changed but relevant AUASB standards have not changed since the issue of GS 003.
- 2 The ATG have therefore reviewed GS 003 for narrow scope amendments primarily in light of the recent changes to the reporting framework under ASIC Form 70. From 1 July 2021 ASIC has updated the financial reporting requirements of Licensees in Form FS 70. Licensees reporting under Chapter 2M and Chapter 7 of the *Corporations Act 2001* will be required to prepare general purpose financial statements (GPFS). Subject to some transitional arrangements, from 1 July 2021, special purpose financial statements (SPFS) will no longer be able to be prepared. Instead, Licensees will prepare either Tier 1 or Tier 2 GPFS depending on whether they meet the definition of public accountability set out in AASB 1053 *Application of Tiers of Australian Accounting Standards*. ASIC may also specify that certain licensees are required to prepare Tier 1 GPFS.



- 3 The ATG worked closely with the AASB on the proposed amendments to GS 003 to reflect the recent changes to the financial reporting framework under ASIC Form 70 and AASB 1053.

Matters for Discussion and ATG Recommendations

- 4 The ATG have reviewed GS 003 (issued September 2015) applying the narrow scope amendment provisions under the AUASB Due Process Framework for the following purposes:
- a. Reporting Framework changes under ASIC Form FS 70 and AASB 1053. Refer paragraph 22 of GS 003 for these proposed amendments; and
 - b. To consider any other amendments that may be required by the AUASB at this time. The ATG has undertaken discussions with stakeholders from the firms, Accounting Bodies and ASIC regarding any “fatal flaw” changes that might be required to GS 003 under the AUASB Due Process for narrow scope amendments. These amendments are generally minor in nature and have occurred mainly due to:
 - i. Changes to ASIC Regulation (Regulation Guide 166: *Licensing Financial Requirements* reissued in April 2021) or legislation (*Corporations Act 2001*); or
 - ii. Changes to ASIC Form FS 70 and FS 71 *Auditor’s Report for AFS Licensee* reissued 1 July 2022.

These proposed amendments are reflected throughout GS 003 see **Agenda Item 7.1**.

The above approach was adopted for the review of GS 003 due to the ATG’s understanding that there were likely to be a limited number of targeted changes to the GS rather than the need for a full revision. The feedback from the initial discussions with key stakeholders confirmed this understanding and position.

Collaboration with NZAuASB and other standard setters

- 5 GS 003 pertains to auditors conducting assurance engagements relating to Australian financial services licensees (Licensees) reporting in accordance with the requirements of Chapter 7 of the *Corporations Act 2001* (the Act) and the associated *Corporations Regulations 2001* (the Regulations) and therefore not relevant to the NZAuASB.

Next steps/Way Forward

- 6 The AUASB to adopt the changes to GS 003 as approved by the AUASB. The ATG to complete the Office of Best Practice (OBPR) Regulatory Impact Assessment (RIA) process for approval.
- 7 The ATG will then proceed to reissue GS 003 as agreed by the AUASB and implement a communications plan accordingly.

Materials Presented

Agenda Item	Description
7.1 (*SP)	Updated GS 003 (Marked Up version)

*SP: AUASB Supplementary Papers Pack





AUASB Agenda Paper

Title:	Quality Management Conforming Amendments	Date:	6 September 2022
Strategic Objective:	Issue Australian Auditing and Assurance Standards based on IAASB equivalents	Agenda Item:	8
ATG Staff:	See Wen Ewe	AUASB Sponsor:	Bill Edge

ATG Recommendation	Question for the Board
That the AUASB approve: <ul style="list-style-type: none">the proposed amendments in ED 01/22 <i>Proposed Conforming and Consequential Amendments to the Australian-Specific AUASB Standards as a result of the New and Revised Quality Management Standards</i>; andthe conforming and consequential amendments to the other AUASB Standards to align to the IAASB Other Standards in ED 02/22.	Does the AUASB approve the proposed amendments in ED 01/22 and ED 02/22?

Background and Previous Discussions on Topic

- In May 2022, the AUASB exposed [ED 01/22 Proposed Conforming and Consequential Amendments to the Australian-Specific AUASB Standards as a result of the New and Revised Quality Management Standards](#) for 30 days (see [Agenda Item 5 of the April 2022 AUASB Agenda Papers](#)).
- In June 2022, the AUASB exposed [ED 02/22 Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards](#) for 60 days (see [Agenda Item 6.1 of the June 2022 AUASB Agenda Papers](#)). The amendments proposed in ED 02/22 relate to:
 - references made to ASQM 1 or requirements that are at least as demanding; and
 - references made to relevant ethical requirements together with National requirements that are more restrictive.

Matters for Discussion and ATG Recommendations

- One written submission was received from IPA for ED 01/22. The submission received for ED 01/22 was supportive of the changes proposed. As a result of feedback, a minor editorial has been made to ASRE 2405. Refer to Exhibit 1 of **Agenda Item 8.1** in the supplementary papers pack for details.

AUASB Agenda Paper

4. One written submission was received from IPA on ED 02/22. The submission received for ED 02/22 was generally supportive of the changes proposed. The ATG draws the AUASB's attention to the comment received on Question 2 and the ATG's response to that comment, refer Exhibit 2 of **Agenda Item 8.1**.
5. In addition, the CAANZ and CPA Australia staff have provided informal feedback via email on ED 02/22. They were supportive of the changes and effective date proposed, and did not suggest any further amendments to ED 02/22 were required.

Next steps/Way Forward

6. The ATG will incorporate any feedback received from the AUASB and compile the amendments in ED 01/22 and ED 02/22 to the other AUASB Standards. Upon completion, the ATG will publish the PDF version on the AUASB website and update the digital portal.

Materials Presented

Agenda Item	Description
8.1 (*SP)	Comments and Disposition on ED 01/22 and ED 02/22

*SP: AUASB Supplementary Papers Pack



AUASB Agenda Paper

Title	Auditor Reporting: Key Audit Matters	Date:	6 September 2022
Strategic Objective:	Develop and issue Australian Auditing and Assurance Standards	Agenda Item:	9.0
ATG Staff:	Anne Waters	AUASB Sponsor:	Bill Edge

Recommendations and Questions for the Board

Question No.	ATG Recommendations	Questions for the Board
Question 1	For the AUASB to approve the Auditor Reporting: Key Audit Matters Project Plan at Agenda Item 9.1 .	Does the AUASB have any feedback or amendments to the proposed Project Plan?

Background

- At the time of issuing ASA 701 in 2015 the AUASB committed to conducting a post implementation review (PIR) in relation to whether the scope of ASA 701 (i.e. the communication of key audit matters) should be expanded beyond listed entities. Refer to the ASA 701 [Basis of Conclusions](#) for more information.
- The AUASB Technical Group consider it appropriate to commence a project now to evaluate whether the communication of KAMs be mandated for other types of entities (including PIEs). This is to ensure the AUASB has appropriate information and evidence:
 - to influence the IAASB in a timely manner; and
 - when considering whether it is in the public interest to expand KAM reporting in Australia beyond listed entities.

Matters for Discussion and ATG Recommendations

- The AUASB have prepared a Project Plan for the AUASB to consider and approve on this topic. (NB: The AUASB is required to approve Project Plans for all major projects - see [paragraphs 95-96 and 151-153](#) of the AUASB Due Process Framework for further information.

Next steps/Way Forward

- Subject to approval of the Project Plan, the ATG will commence drafting a Consultation Paper for consideration and approval by the AUASB at its December 2022 meeting. Feedback from stakeholders will be requested by March 2023 to enable the AUASB to consider at its May or June 2023 meeting.

Materials Presented

Agenda Item	Description
9.1	Auditor Reporting: Key Audit Matters Project Plan



AUASB Project Plan

Project Title: Auditor Reporting: Key Audit Matters
Date Prepared: 15 August 2022
ATG Member: Anne Waters
AUASB Member: Bill Edge

Overview of Project

Background

1. The purpose of communicating key audit matters (KAMs) is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed¹.
2. The IAASB determined that ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* should be applicable for listed entities only as there are many users who do not have ready access to management and those charged with management, and who may benefit from this communication. Importantly auditors may elect to report KAMs for other types of entities.
3. At the time of issuing ASA 701 back in 2015 the AUASB considered whether the scope should be listed entities only (consistent with ISA 701) or should be expanded to public interest entities (PIEs). The AUASB agreed not to extend the application of ASA 701 at this time and committed to conducting a post implementation review (PIR) particularly in relation to whether the scope of ASA 701 should be expanded to other entities. Refer to the ASA 701 [Basis of Conclusions](#) for more information.
4. In September 2021 the IAASB completed their auditor reporting PIR and published a [feedback statement](#). When concluding on whether auditors of entities other than listed entities should also communicate KAMs in their audit report the IAASB determined that there was:
 - support for mandatory communication of KAM for public interest entities (PIEs) with a strong preference for this to remain a jurisdictional decision, i.e., retain focus in the ISA on listed entities.
 - lack of broad support to extend the communication of KAM beyond PIEs as costs were considered to exceed benefits for entities other than PIEs.
 - some support to require KAM for financial institutions, regulated entities, non-governmental organizations (or similar, depending on jurisdiction), and donor funded projects.
5. The IAASB agreed that the communication of KAMs for PIEs would be considered by Listed entity / PIE project Task Force. The PIE Task Force intends to present proposals at the IAASB's December 2022 meeting.

¹ ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* paragraph 2

6. The AUASB Technical Group consider it appropriate to commence a follow up project now to evaluate whether the communication of KAMs be mandated for other types of entities (including PIEs). This is to ensure the AUASB has appropriate information and evidence:
 - (a) to influence the IAASB in a timely manner; and
 - (b) when considering whether it is in the public interest to expand KAM reporting in Australia beyond listed entities.

Scope and objective of this project

7. The scope and objective of this project is to determine whether there is communicative value and benefit to users in the communication of key audit matters (ASA 701) in the auditor's reports of other types of entities in addition to listed entities.
8. This project will not include other components of the auditor's report.

Why is this in the public interest?

9. The AUASB as an independent standard-setter serves the public interest by developing, issuing and maintaining high-quality audit-related standards and guidance that enhance audit and assurance quality and consistency, thereby contributing to stakeholder confidence in the Australian economy, including its capital markets, and enhanced credibility in external reporting through independent auditing and assurance.²
10. The AUASB's *Public Interest Framework for the Development of AUASB Pronouncements*³ does not define public interest however provides a framework and considerations to provide structure to the AUASB when considering whether proposals are in the public interest.
11. The ATG consider that it is in public interest to seek stakeholder views on expanding the communication KAMs for other types of entities. Based on this feedback the AUASB will assess the in the following steps as detailed in the framework:
 - (a) Identify the perspectives and needs of groups with legitimate interests.
 - (b) Define the desired goal that would allow the standard/guidance to best serve user needs.
 - (c) Identify criteria to assess responsiveness to the goal.
 - (d) According to the criteria, reasonably weigh input from different groups.
 - (e) Assess the expected contribution of the standard/guidance to meeting its goal and consider whether it is responsive to the public interest.

² See [AUASB Corporate Plan](#).

³ See [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications, Appendix 1](#)

What information has been gathered and what additional is required

12. Since the introduction of the enhanced auditor's report the AUASB have conducted extensive outreach to understand stakeholders' views on the benefits, as well as monitoring if there are any implementation issues. It is widely acknowledged that the addition of KAMs has been an improvement in the communicative value of the auditor's report.
13. In 2020 the AUASB Technical Group (ATG) formally sought views on all aspects of the enhanced auditor's report to inform the AUASB in its response to the IAASB's survey, which was a main component of their PIR. This included a specific question on whether communication of KAMs should be mandated beyond listed entities? The feedback we received, mainly from auditors, was:
 - There is no benefit in mandating the communication of KAMs beyond listed entities. The decision on the whether to communicate KAMs should be left to auditors and their clients based on their specific circumstances, including who are the users of the financial report.
 - Some Auditor General offices are already reporting KAMs for significant public sector entities.
 - The inclusion of KAMs in the audit reports of significant PIEs (such as Public Superannuation Funds) has not been widely adopted. This matter has been discussed with APRA and representatives from the Superannuation Industry, and to date there has not been any appetite to mandate the reporting of KAMs for APRA regulated superannuation funds.
14. We have received (or observed) some favourable feedback on the benefits of KAM reporting for listed entities from:
 - (a) The AUASB and FRC surveys to Audit Committee Chairs and Professional investors
 - (b) Some preparer and user groups (Australian Shareholders Association, Proxy Advisors such as Ownership Matters and the AICD).

However, this feedback was based on a general question about KAMs (ie. Is the communication of KAMs an improvement to the auditor's report?) and did not explore views on whether there is benefit in expanding KAMs to other types of entities.
15. In order to inform the AUASB on this matter the ATG intend to seek views from representatives of all stakeholders in the financial reporting eco-system, on whether there is benefit in communicating KAMs for different types of entities. The matters to consider are:
 - (a) Who are the users?
 - (b) Will they benefit from increased transparency about the audit that was performed?

What type of entities to consider

16. In the ATG's view the types of entities isn't just about PIEs. It is important to consider the differential reporting requirements in Australia based on our *Corporations Act 2001* and Australian Accounting Standard [AASB 1053 Application of Tiers of Australian Accounting Standards](#).

17. Based on this the different class of entities to consider are:
- All PIEs or a subset of PIEs.
 - Entities subject to APRA regulation.
 - Consistent with *Corporations Act 2001* and AASB 1053 principles of public accountability:
 - All entities required to prepare and lodge audited financial reports prepared in accordance with the AAS under the *Corporations Act 2001* (All disclosing entities, public companies, companies limited by guarantee, large proprietary companies, registered managed investment schemes, small proprietary companies that are foreign-controlled); or
 - Entities who have public accountability under the AASs⁴ and therefore are required to prepare Tier 1 general purpose financial statements (i.e. exclude Tier 2)
 - Large Registered Charities and Not-for-Profit entities who are required to lodge audited financial statements with the ACNC.
 - Public sector entities.
18. In considering these entities the question is are there users of the financial report where the communication of key audit matters will be beneficial.

Relevant stakeholders and how to engage

19. Views will be sought from:
- Auditors
 - Regulators (ASIC, ACNC and APRA)
 - Preparers / Directors
 - Users
20. The ATG propose issuing an AUASB Discussion Paper asking stakeholders to respond with feedback on the costs and benefits in communicating KAMs for different types of entities (as outlined in Paragraph 15 above). The majority of respondents are likely to be auditors, so the ATG will also reach out to the following to elicit feedback from these other stakeholders to ensure the needs and considerations of users of the auditor's report:
- ASIC
 - APRA
 - AICD
 - Investor representatives (i.e. the Australian Shareholder's Association, Proxy Advisors, etc)
 - Academic community

⁴ AASB 1053

Action Plan

- A) Draft Discussion / Consultation Paper for consideration and approval by the AUASB at its December 2022 meeting.
- B) Feedback requested by end of March 2023 to enable AUASB to consider at its May or June 2023 meeting.

Risks/Issues

Risk/Issue	Mitigation
KAMs are reported for entities however there is little value to users.	Seek feedback from a wide range of stakeholders for different types of entities
We do not receive feedback from a wide range of stakeholders.	We will target specific stakeholders in particular representatives from TCWG and users.

Harmonisation with New Zealand

- 21. New Zealand have already expanded the reporting of KAMs beyond listed entities to FMC reporting entities considered to have a higher level of public accountability. The ATG will consult with NZAuASB colleagues to understand what drove this requirement in New Zealand and consider as part of the development of the AUASB Discussion Paper.



AUASB Agenda Paper

Title:	IAASB PIE Project - Proposed Narrow Scope Amendments to ISA 700 and ISA 260 in response to revisions to the IESBA Code – Draft AUASB Response to the IAASB	Date:	26 August 2022
Strategic Objective:	Influence international standards and guidance to achieve public interest outcomes	Agenda Item:	10.0
ATG Staff:	Johanna Foyster	AUASB Sponsor:	Bill Edge

Recommendations and Questions for the Board

Question No.	ATG Recommendations	Questions for the Board
1	The ATG recommend that the AUASB consider the draft AUASB staff response to IAASB Exposure Draft <i>Proposed Narrow Scope Amendments to ISA 700 and ISA 260 as a result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose when a Firm has Applied the Independence Requirements for PIEs (IAASB Exposure Draft)</i> . Refer to Agenda Item 10.1).	Does the AUASB have feedback on the initial draft response to the IAASB Exposure Draft, prepared by AUASB technical staff?
2	The ATG recommend that the AUASB support the suggested approach for finalising and approving the AUASB submission to the IAASB out-of-session in late September 2022.	Does the AUASB agree with the suggested approach for finalising and approving the AUASB submission to the IAASB out-of-session in late September 2022?

Background

- As advised in the AUASB technical staff summary of the June 2022 IAASB Meeting (shared with AUASB Members via email on 22 June 2022), the IAASB unanimously approved the proposed amendments to ISA 700 (Revised) and ISA 260 (Revised) for exposure.

AUASB Consultation Paper

- As part of the AUASB's consultation on the proposed IAASB amendments, the AUASB on 21 July 2022 issued the [IAASB Exposure Draft](#) for comment in Australia without modification, with a wrap-around [AUASB Consultation Paper](#) to provide information about the key IAASB proposals, as well as an overview of how the AUASB is requesting feedback from Australian stakeholders. To ensure a suitable exposure period for stakeholder consideration of the IAASB's proposals (close to 60 days), AUASB Members were requested to review and approve the AUASB Consultation Paper



out-of-session. The AUASB Consultation Paper has been included for reference in the supplementary papers pack at **Agenda Item 10.2**.

3. The closing date for comments to the AUASB is 15 September 2022, to allow sufficient time for AUASB technical staff to collate feedback, and for the AUASB to consider and approve the AUASB's submission to the IAASB, which is due on 4 October 2022.

Joint APESB and AUASB Webinar on PIEs

4. As part of the AUASB's outreach activities associated with the AUASB Consultation Paper, AUASB staff have co-hosted a [Webinar](#) with APESB staff on 26 August 2022. The webinar provided stakeholders with information and explained the key proposals of the AUASB Consultation Paper/IAASB Exposure Draft and the APESB's recently released [Exposure Draft – Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 Code of Ethics](#).
5. Webinar participants were also given the opportunity to provide feedback directly to the AUASB and APESB during the session. No specific issues were raised in connection with the IAASB's proposed narrow scope revisions to ISA 700/ISA 260.

Matters for Consideration

AUASB Feedback on the Draft AUASB Submission to the IAASB

6. AUASB Members are requested to consider the [IAASB Exposure Draft](#) (and accompanying Explanatory Memorandum included in the Exposure Draft - see **Agenda Item 10.2**) and, in particular, the IAASB's proposed amendments to ISA 700 and ISA 260 - specifically the proposed amendment in paragraph 28(c) of ISA 700, which introduces a transparency requirement for firms to disclose in the auditor's report when the independence requirements for PIEs have been applied in an audit.
 - The AUASB's July 2022 [Consultation Paper](#) provides an outline of the IAASB's key proposals - see paragraphs 20-28.
 - Appendix A of this Agenda Paper shows the marked-up change to ISA 700, paragraph 28(c) and examples of how this amendment could impact the Auditor's Report.
 - For the specific matters identified by the IAASB for comment, refer to *Section 3 Request for Comments* in the IAASB's Explanatory Memorandum (included in the IAASB Exposure Draft).
7. AUASB Members are requested to consider and provide feedback on the initial draft response to the IAASB (see **Agenda Item 10.1**), prepared by AUASB technical staff based on initial feedback from AUASB Members and AUASB technical staff, and consideration of an initial response to the IAASB prepared by NZAuASB staff.
8. The draft response supports the IAASB's proposal to introduce narrow-scope amendments to ISA 700 and ISA 260 that operationalise the IESBA transparency requirement. We agree that, in the circumstances, the proposed changes to the auditor's report is the most appropriate mechanism for the IAASB to facilitate the IESBA Code's new requirement.
9. However, the draft response notes that, notwithstanding our support for the proposals in the Exposure Draft, we have reservations about the current trend of multiple IAASB projects advocating for additional information to be included in the auditor's report (e.g. Going Concern, Fraud). In particular, we express concern that the compound effect of these changes may increase the



complexity and length of the auditor's report, and rather than improve transparency actually reduce its understandability and utility.

10. It is suggested that, instead of considering each of the current project proposals for additional audit report disclosures on an incremental basis, the IAASB holistically review all potential changes to the auditor's report currently under consideration, and assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect. We suggest further research and evidence gathering may be necessary to determine the benefits to users of such additional content in the auditor's report.
11. For the AUASB's draft feedback on the specific questions raised in the IAASB ED, refer to Appendix A of the draft response.

Collaboration with NZAuASB and other standard setters

12. Like the AUASB, the NZAuASB have requested feedback from New Zealand stakeholders on the IAASB's proposed amendments to ISA 700 and ISA 260, with comments requested by 16 September 2022. The AUASB and NZAuASB staff have agreed to share feedback received from both jurisdictions and coordinate our responses to the IAASB where appropriate.
13. The NZAuASB at its 10 August 2022 meeting, considered and provided feedback on a first draft comment letter to the IAASB with initial responses prepared by NZAUASB technical staff.

Next steps/Way Forward

14. AUASB technical staff will capture and consider feedback from all stakeholders and interested parties, including AUASB Members at and following this meeting, feedback from participants attending the AUASB/APESB webinar and submissions received in response to the AUASB Consultation Paper.
15. AUASB comments are due to the IAASB by 4 October 2022. As the next AUASB meeting is only in late November 2022, AUASB technical staff is proposing that an updated final draft of the AUASB's proposed submission to the IAASB be shared with AUASB Members out-of-session in the last week of September, for consideration and approval to issue.

Materials Presented

Agenda Item	Description
10.1	Draft AUASB submission to the IAASB with initial responses prepared by AUASB technical staff
10.2	AUASB Consultation Paper (published 21 July 2022) - <i>Exposure of the IAASB's Proposed Narrow Scope Amendments to:</i> <ul style="list-style-type: none">• <i>ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements;</i><i>and</i>• <i>ISA 260 (Revised), Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)</i>



Appendix A

1. Proposed Narrow Scope Amendments to paragraph 28(c) of ISA 700 (Revised) – marked up Requirements

...

Auditor's Report

...

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)

...

- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code). In circumstances when the relevant ethical requirements require the auditor to publicly disclose that differential independence requirements that are applicable to audits of financial statements of certain entities were applied, the statement shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to the audits of those entities; and (Ref: Para. A34–A39)

Note

The requirement in extant ASA 700 paragraph Aus 28.1(c) differs from its international equivalent in that it requires the auditor to identify the relevant ethical requirements applicable within Australia when providing the basis for opinion. ASA 700 does not also refer to the IESBA Code.

Paragraph 28(c) of extant ISA 700 has been deleted by the AUASB and replaced by Aus 28.1(c):

Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the relevant ethical requirements applicable within Australia; and (Ref: Para. Aus A34.1–A39)

The proposed narrow scope revisions to ISA 700 will not impact the above difference between extant ASA 700 and ISA 700.



2. Proposed audit report disclosures – Extracts from IAASB ED, Appendix – Illustrations 1 and 2

Illustration 1 - Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework (not a group audit)

It is assumed for this example that the relevant ethical requirements that apply to the audit comprise the IESBA Code, together with the ethical requirements relating to the audit in the jurisdiction, and the auditor refers to both.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the IESBA Code, as applicable to public interest entities, together with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in *[jurisdiction]*, ~~and~~ we have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Illustration 2 - Auditor's Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

It is assumed for this example that the relevant ethical requirements that apply to the audit are those of the jurisdiction.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements for public interest entities that are relevant to our audit of the consolidated financial statements in *[jurisdiction]*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.¹ We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

¹ IAASB ED Illustration 2 has been marked up as follows to show the changes to the example report in extant ISA 700:

We are independent of the Group in accordance with ~~the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)~~ (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code the ethical requirements for public interest entities that are relevant to our audit of the consolidated financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements.



Australian Government
Auditing and Assurance Standards Board

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[X] October 2022

Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor, New York
New York 10017 USA

Dear Willie,

IAASB Exposure Draft Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) in response to recent revisions to the IESBA Code

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to provide comments on the IAASB's Exposure Draft *Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)* (IAASB ED).

The AUASB supports the IAASB's proposal to introduce narrow-scope amendments to ISA 700 and ISA 260 that operationalise the IESBA transparency requirement for public disclosure when the auditor has applied the relevant ethical requirements for independence for certain entities in an audit. We agree that, in the circumstances, the proposed changes to the auditor's report is the most appropriate mechanism for the IAASB to facilitate the IESBA Code's new requirement.

However, notwithstanding our support for the proposals in this Exposure Draft, the AUASB expresses reservations about the current trend of multiple IAASB projects advocating for additional information to be included in the auditor's report (e.g. Going Concern, Fraud). In particular, we are concerned that the compound effect of these changes may increase the complexity and length of the auditor's report, and rather than improve transparency actually reduce its understandability and utility.

Instead of considering each of the current project proposals for additional audit report disclosures on an incremental basis, we encourage the IAASB to holistically review all potential changes to the auditor's report currently under consideration, and assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect. The AUASB considers further research and evidence gathering may be necessary to determine the benefits to users of such additional content in the auditor's report.

The AUASB's feedback on the questions raised in the IAASB ED is attached in Appendix A to this letter.

Should you have any queries concerning our submission, please contact the AUASB Technical Director, Matthew Zappulla, via email at mzappulla@auasb.gov.au.

Yours sincerely,

W R Edge
Chair, AUASB

Request for Specific Comments

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities applied in Performing Audits of Financial Statements

Q1. Do you agree that the auditor's report is the appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as independence requirements for PIEs in the IESBA Code?

Q2. Please answer question 2A or 2B based on your answer to question 1:

2A. If you agree:

- (a) Do you support the IAASB's proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirements as explained in paragraphs 18-24 of the Explanatory Memorandum?**
- (b) Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?**

2B. If you do not agree, what other mechanism(s) should be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph 400.20 of the IESBA Code?

Response

1. The AUASB supports the IAASB's proposal to introduce narrow-scope amendments to ISA 700 and ISA 260 that operationalise the IESBA transparency requirement for public disclosure when the auditor has applied the relevant ethical requirements for independence for certain entities in an audit. We agree that, in the circumstances, the proposed changes to the auditor's report is the most appropriate mechanism for the IAASB to facilitate the IESBA Code's new requirement.
2. However, notwithstanding our support for the proposals in this Exposure Draft, the AUASB expresses reservations about the current trend of multiple IAASB projects advocating for additional information to be included in the auditor's report (e.g. Going Concern, Fraud). In particular, we are concerned that the compound effect of these changes may increase the complexity and length of the auditor's report, and rather than improve transparency actually reduce its understandability and utility.
3. Instead of considering each of the current project proposals for additional audit report disclosures on an incremental basis, we encourage the IAASB to holistically review all potential changes to the auditor's report currently under consideration, and assess how useful a longer and more detailed audit report will be to users should all the proposed changes across these projects come into effect. The AUASB considers further research and evidence gathering may be necessary to determine the benefits to users of such additional content in the auditor's report.

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities applied in Performing Reviews of Financial Statements

Q3. Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?

Q4. If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in Section 2-C?

Response

4. The AUASB believes that consistency across audit and review reports is desirable. As Part 4A of the IESBA Code applies to both audit and review engagements, the revisions to the IESBA Code regarding listed entity and PIE, including the transparency requirement, also apply to review engagements conducted in accordance with the ISREs.
5. Therefore, the AUASB believes it would be appropriate for the IAASB to consider updates to both ISRE 2400 and ISRE 2410 as part of Track 2 of this project, to address transparency about the relevant ethical requirements for independence applied for certain entities, using an approach consistent with the proposed narrow scope amendments to ISA 700.
6. The AUASB does not agree with the IAASB's rationale set out in Section 2-C of the Explanatory Memorandum for considering updating ISRE 2400 but not ISRE 2410. In the limited circumstances where a review of a PIE's financial statements is required, we consider such a review will likely be undertaken in accordance with ISRE 2410 rather than ISRE 2400. Therefore, should the IAASB decide to update the review engagement standards in a manner consistent with the approach proposed for ISA 700, we consider it is more relevant and appropriate to update ISRE 2410 in the first instance. However, our preference is for both review standards to be amended.
7. As both ISRE 2400 and ISRE 2410 are out of date, we believe it would be appropriate for the IAASB to add a project to its workplan to undertake a comprehensive revision of the suite of review standards in order to modernise the standards and ensure the standards reflect all current IAASB standards, as appropriate.

Matter for IESBA Consideration

Q5. To assist the IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioner's report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

Response

8. Australian Standard [ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity](#) conforms with its international equivalent ISRE 2410. In 2009, extant ASRE 2410 was reissued by the AUASB in clarity format. Additionally in 2019, following consultation with stakeholders in Australia, further amendments to ASRE 2410 were made to align the reporting requirements with the revised auditor reporting requirements contained in ISA 700/ASA 700. These amendments include additional reporting requirements which are not contained in ISRE 2410. The main differences between ASRE 2410 and ISRE 2410 are outlined in the *Conformity with International Standards on Review Engagements* section on page 7-9 of the Australian Standard.
9. Specifically, [ASRE 2410, paragraph 35\(c\)](#) requires the *Basis for Conclusion* section of the auditor's review report to include "a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit of the annual financial report, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements". (NB: Notwithstanding ASRE 2410 applies to the Review of a Financial Report, as this standard is applicable to the auditor of the entity the relevant ethical requirements that apply to such an engagement are the same as the requirements for an audit).



AUASB Agenda Paper

Title:	Amendments to Explanatory Statements	Date:	6 September 2022
Strategic Objective:	Issue Australian Auditing and Assurance Standards based on IAASB	Agenda Item:	11
ATG Staff:	See Wen Ewe	AUASB Sponsor:	Bill Edge

ATG Recommendation	Question for the Board
That the AUASB reapprove the explanatory statement accompanying ASA 600 <i>Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)</i> .	Does the AUASB approve the revised ES to ASA 600 as contained in Agenda Item 11.1 ?

Background

1. The AUASB originally approved the explanatory statement for ASA 600 in May 2022 when the Standard and associated conforming amendments were also approved.
2. Recently the AUASB via the Treasury received an email request from the Senate Standing Committee for the Scrutiny of Delegated Legislation regarding ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*. The Senate Standing Committee for the Scrutiny of Delegated Legislation assesses legislative instruments against scrutiny principles outlined in Senate standing order 23.
3. The committee expected that explanatory statements to instruments which are exempt from sunseting should set out the source of the exemption from sunseting and also provide a thorough justification for the exemption, noting the effect of the exemption on parliamentary oversight.
4. Standards made under section 336 of the *Corporations Act 2001* are exempted from sunseting based on section 12 of the *Legislation (Exemption and Other Matters) Regulation 2015* – see [item 18](#).
5. Historically, this sunseting exemption is not stated anywhere in the standard nor the explanatory statement accompanying the standard. Nonetheless the AUASB has to date specified this exemption when lodging the instrument with the Federal Register of Legislation.
6. The AASB has received similar comments from the Senate Standing Committee and the ATG has consulted with AASB staff and sought to align our responses.

Matters for Discussion and ATG Recommendations

7. To address the Senate Standing Committee's concerns the ATG is proposing an amendment to the ASA 600 explanatory statement, which explicitly sets out the source of exemption from sunseting and justification for the exemption. See **Agenda Item 11.1** for the marked-up version of the explanatory statement of ASA 600.

Next steps/Way Forward

8. The ATG will resubmit the explanatory statement of ASA 600 to Federal Register of Legislation.
9. Going forward, the ATG will include this amendment in all future explanatory statements.

Materials Presented

Agenda Item	Description
11.1 (*PP)	Marked-up version of ASA 600 Explanatory Statement

*PP: AUASB Primary Papers Pack

ASA 600
(May 2022)

Explanatory Statement

ASA 600 Special Considerations —Audits of a Group Financial Report (Including the Work of Component Auditors) and ASA 2022-1 *Amendments to Australian Auditing Standards*

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

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

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Reasons for Issuing Auditing Standard ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* and ASA 2022-1 Amendments to Australian Auditing Standards

The AUASB issues Auditing Standard ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* and ASA 2022-1 Amendments to Australian Auditing Standards pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a Non Corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, *inter alia*, to develop auditing standards that have a clear public interest focus and are of the highest quality.

The Auditing Standard conforms with ISA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* and the IAASB's Conforming Amendments to ISAs and Related Material Arising from the Group Audit standard.

Purpose of Auditing Standard ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* and ASA 2022-1 Amendments to Australian Auditing Standards

The purpose of the Auditing Standard represents the Australian equivalent of ISA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* and will replace the current ASA 600 *Special Considerations—Audits of a Group Financial Report* by the AUASB in June 2020 (as amended). ASA 2022-1 Amendments to Australian Auditing Standards includes the consequential and conforming amendments to other Auditing Standards as a result of changes to ASA 600.

Main Features

ASA 600 strengthen the auditor's approach to planning and performing a group audit and clarifies the interaction of ISA 600 to the other ISAs by

- Keeping the Group Audit standard fit for purpose;
- Encouraging proactive management of quality at the engagement level;
- Fostering an appropriately independent and challenging sceptical mindset of the auditor; and
- Reinforcing the need for robust communication and interactions during the audit

Operative Date

Operative date for audits of a group financial report for periods beginning on or after 15 December 2023, with early adoption being permitted and encouraged.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

Explanatory Statement ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* and ASA 2022-1 *Amendments to Australian Auditing Standards*

- have a clear public interest focus and are of the highest quality;
- use, as appropriate, the text of the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop Australian Auditing Standards;
- make amendments to ISAs as necessary to conform with the Australian regulatory environment and statutory requirements; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard, by exposing the international ED-ISA 600, along with an associated Australian Explanatory Memorandum. ED-ISA 600 was exposed within Australia with a 80 day comment period.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulatory Impact Statement

A Regulatory Impact Statement (RIA) has been prepared in connection with the preparation of ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*. The RIA has been cleared by the Office of Best Practice Regulation (OBPR).

Exemption from Sunsetting

ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* and ASA 2022-1 *Amendments to Australian Auditing Standards* are made under section 336 of the *Corporations Act 2001* and are exempted from sunseting under section 12 of the *Legislation (Exemption and Other Matters) Regulation 2015*. Parliamentary oversight is retained through the AUASB's extensive review process. The AUASB's Standards incorporate Standards set by the International Auditing and Assurance Standards Board. A more stringent review process than sunseting applies to the Standards and is retained to ensure Australia's Auditing Standards regime remains consistent with international Standards.

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Auditing Standard ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* and ASA 2022-1 *Amendments to Australian Auditing Standards***

These Legislative Instruments are compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard ASA 600

The purpose of the Auditing Standard represents the Australian equivalent of ISA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* and will replace the current ASA 600 *Special Considerations—Audits of a Group Financial Report* by the AUASB in June 2020 (as amended). ASA 2022-1 *Amendments to Australian Auditing Standards* includes the consequential and conforming amendments to other Auditing Standards as a result of changes to ASA 600.

Main Features

ASA 600 strengthen the auditor's approach to planning and performing a group audit and clarifies the interaction of ISA 600 to the other ISAs by

- Keeping the Group Audit standard fit for purpose;
- Encouraging proactive management of quality at the engagement level;
- Fostering an appropriately independent and challenging sceptical mindset of the auditor; and
- Reinforcing the need for robust communication and interactions during the audit.

Human Rights Implications

These Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.

IAASB Detailed Quarterly Work Plan Table for 2022–2023 (Issued November 2021)

The following sets out the detailed quarterly forward work plan (work plan table) for the IAASB's proposed Work Plan for 2022–2023 to be approved at the IAASB's December 2021 meeting, and is subject to approval by the Public Interest Oversight Board (PIOB) in the first quarter of 2022. If necessary, an updated version of the work plan table will be published on the IAASB website, subsequent to these meetings.

The IAASB approved its [Strategy for 2020-2023](#) in December 2019, and the strategic objectives set out therein remain applicable during this work plan period. Changes to targeted dates for projects that have been previously communicated are detailed in **Note I** below.

OUR DETAILED WORK PLAN		2022				2023			
Project		March	June	Sept	Dec	March	June	Sept	Dec
I. Increasing the Emphasis on Emerging Issues to Ensure that Our International Standards Provide a Foundation for High-Quality Audit, Assurance and Related Services Engagements									
<i>Revising and Developing Standards – Audit</i>									
Audit Evidence (Notes I, VII)		X	X	E			X	X	X
Fraud (Note VII)		X	X		X	X	E		
Going Concern (Note I) – moves from information gathering and research in Q2 2022			X	X	E		X	X	F
<i>Reducing Complexity and Improving Understandability</i>									
Audits of Less Complex Entities – Development of a Separate Standard (Note I)			X	X	X	F			
Complexity, Understandability, Scalability and Proportionality (CUSP) (Note I)		R							
<i>Narrow Scope Maintenance of Standards</i>									
Implications of IESBA Listed Entity and PIE Project (Notes I, VII) – moves from information gathering and research in Q2 2022			X	E		X	X	F	
New Project(s) Placeholder (Note II) (no other projects expected at this stage)									
<i>Activities to Support Implementation – Development of Non-Authoritative Guidance and Other Activities Related to Standard Setting</i>									
Technology (incl. focused efforts on Disruptive Technologies) (ongoing) (Note III)		X		X		X		X	
Professional Skepticism (ongoing) (Note III)									
Auditor Reporting (ongoing) (Note III)									
Strategy and Work Plan 2024–2027					X	C		X	F
Handbook–updates and digitization									

OUR DETAILED WORK PLAN		2022				2023			
Project		March	June	Sept	Dec	March	June	Sept	Dec
Activities to Support Implementation—First-time Implementation Activities (Note IV)									
Group Audits: First Time Implementation Materials									
Audits of Less Complex Entities – Development of a Separate Standard: First Time Implementation Materials									
Information Gathering and Research (Notes V; VI)									
Going Concern (Note I) – moves to active standard setting in Q2 2022		P							
Implications of IESBA Listed Entity and PIE Project (Note I) – moves to active standard setting in Q2 2022		P							
Other – Information Gathering and Research (New Topic(s)) (Category B or C) (Notes II; V)		X		X	X	X	X	X	X
Other – Information Gathering and Research (New Topic(s)) (Category B or C) (Notes II; V)							X		X
Category A Monitoring			X		X		X		
ISA 540 (Revised) Post-Implementation Review (Notes I; VI)								X	
II. Innovate Our Ways of Working to Strengthen and Broaden Our Agility, Capabilities and Capacity									
Strengthening collaboration efforts with NSS and the International Federation of Accountants (IFAC)									
III. Maintain and Deepen Our Relationships with Our Stakeholders									
Outreach program									
Coordination with the International Ethics Standards Board for Accountants (IESBA)				X				X	
Liaison activities with the International Accounting Standards Board (IASB)		X				X			

Key to Our Detailed Work Plan:

Appendix 1 of the IAASB's proposed Work Plan for 2022–2023 sets out a description of the projects and workstreams included in the work plan table above, which also categorizes the projects and workstreams by strategic action.

Note I below, explains any changes from the previously public Work Plan information regarding targeted timelines.

Cells with:

- *A green highlight indicates expected Working Group, Task Force, Consultation Group or Staff activity in 2022 and 2023). The **darker** the shade of color, the more time and activity is needed for that particular workstream.*
- *A letter within a cell indicates plenary time as follows:*
 - ❖ *'X' indicates that IAASB plenary meeting time is scheduled for Board discussions.*
 - ❖ *'R' indicates **recommendations** for a way forward.*
 - ❖ *'C' indicates a **consultation** (may be public or targeted)*
 - ❖ *'P' indicates the **targeted** approval of project proposal.*
 - ❖ *'E' indicates the **targeted** approval of an Exposure Draft (ED).*
 - ❖ *'F' indicates the **targeted** final approval by the IAASB of a new or revised standard. In the case of the Strategy and Work Plan, this indicates approval of the Strategy and Work Plan.*

Notes to work plan table:

I = Changes to previously communicated timelines—as the IAASB assesses its priorities on an ongoing basis, and continues to remain agile to its stakeholder needs, changes to previously communicated timelines have become necessary. In addition, the ongoing nature of the pandemic and the need to remain in a virtual environment has also affected the progression of some projects.

The following describes the changes made to previously communicated timelines which have been reflected in the detailed work plan table above:

Project / Initiative	Change
Audit Evidence	This project had reduced plenary time in 2021 owing to certain prioritizations because of the ongoing effects of the pandemic. ED expected in September 2022 (reported as such in the work plan table 'as of May 2021'). Completion is now expected in March 2024 (previously December 2023), taking into account the expected exposure period and activities post-ED.

Audits of Less Complex Entities – Development of a Separate Standard	The approval of the final standard is now targeted for March 2023 (no longer December 2022 as estimated in the project proposal) due to the extended exposure period and expected volume of comments received on exposure.
Going Concern	Information gathering and research activities until project proposal targeted for March 2022 (changed from October 2021). Moves to active standard setting in Q2 2022 with an expected exposure draft at the end of 2022.
Complexity, Understandability, Scalability and Proportionality (CUSP)	Owing to competing priorities during the pandemic, Board plenary time for discussion of the recommendations from the development of the drafting principles and guidelines has now been planned for Q1 2022 (including discussion of findings from the consultation process).
Implications for IAASB Standards of IESBA Project, Definitions of Listed Entity and PIE	A new project to address the changes from the IESBA project, <i>Definitions of Listed Entity and PIE</i> has been included on the basis of a project that will include only targeted changes. A project proposal for the targeted changes will be discussed with the Board in March 2022. Based on the Board's direction in October 2021, the project proposal will include bifurcating the project in two tracks to be responsive to certain priorities from IESBA's final proposals. The work plan table will be updated in due course to reflect the timing of these two tracks.
ISA 540 (Revised) Implementation	A post implementation review has preliminary been planned to commence in 2023 allowing time for the standard to be fully implemented (previously indicated as 2021, but this did not allow sufficient time for implementation and application experiences of the revised standard). A final decision about the timing of a post-implementation review will be taken in accordance with the IAASB Framework for Activities (the Framework).

II = New Project Placeholders—These represent a placeholder for a new project(s) where topics are currently within Categories B and C of the 'information gathering and research component' such as going concern). As the nature of future workstreams is still to be determined (i.e., standard setting / narrow scope amendments / support for the implementation of standards), each of the placeholders is indicative (at this

time) about future work (i.e., what and when) that will be undertaken and may therefore change. Board plenary time, and expected outputs, will also be determined once the nature of the project has been decided. The number of projects we will undertake may also vary; it may be one significant standard-setting project, or one or more smaller project(s) (which will be determined based on resources and capacity available at the time).

III = Ongoing initiatives—includes activity by dedicated consultation groups to work with task forces or working groups of other projects, or with Staff, to provide input and support, as needed, on relevant matters related to a specific topic

IV = Activities to Support Implementation—Activities in the six to nine months following the approval of a new or revised standard to support implementation of new or revised standards (although using limited Board plenary time). These activities may include the development of guides (e.g., a ‘first-time implementation guide’ explaining the substantial changes made), fact sheets, flow charts, frequently asked question documents, video panel discussions or focused presentations relating to the changes.

V = Information Gathering and Research Topics—Topics in Category A within the information gathering and research component of the Framework will be monitored by a dedicated resource within the IAASB, with an annual update provided to the IAASB as to the status of the topics within Category A, as well as relevant discussions when a topic should be more actively pursued. As capacity opens up, discussion with the IAASB regarding next topics to move to Category B information gathering and research (i.e., more active consideration of the topic) is planned for the 2022 and 2023 period.

In relation to Categories B and C, the expected time in the information gathering and research component is indicated by the green activity blocks (shaded according to expected level of activity). It is expected that those topics that have been named in Categories B and C will transfer to another component of the Framework at the time that activities related to information gathering and research end or a project proposal is approved by the Board (subject to the outcome of the Board’s discussions, and the Board’s decision(s), in relation to such topics).

The outcomes of information gathering and research activities may result in standard-setting or other projects or workstreams, such as narrow-scope maintenance of standards or the development of non-authoritative support materials, or no further action.

VI = Post-Implementation Reviews—Findings from a post-implementation review may result in further information gathering and research activities, or a project or other workstream activity for the IAASB depending on the findings from the review and the Board’s consideration of recommendations.

VII = After approval of an ED: In the case of an exposure period of 120 days from when the ED is published (normally in the month following approval of the ED), and allowing for proper analysis of responses and developing initial Task Force views, the work plan table indicates two quarters with no Board plenary time subsequent to approval of an ED. Activity in this time continues, including outreach as needed, as well the analysis of responses and Task Force deliberations after the consultation closes. This may be different for certain projects in the work plan table if we anticipate that a shorter or longer exposure period may be required as provided for in the [IAASB’s Due Process](#) (a decision about exposure period is made at the time of approval of the ED; therefore, targeted timelines in the work plan table may need to be updated).

Australian Accounting Standards Board
Auditing and Assurance Standards Board

Corporate Plan

2022-2023



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Preface

The following Corporate Plan for the Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) outlines our strategy for continuing our work in the dynamic environment we find ourselves in; one that is fast-moving, susceptible to outside forces and requires an agile approach.

For the has continued to operate with flexible working arrangements with employees attending the office for some of their work hours and completing the remainder remotely. The office has benefited from the relocation to a newly fitted out office located in the Melbourne CBD. Board meetings have become hybrid meetings with the members of the public being invited to join remotely, which has been a favorable advantage reflected in increased observation of the meetings. Face-to-face attendance of international meetings has resumed in the latter half of 2022. Whilst Stakeholder engagements of roundtables has been a mix of face-to-face and hybrid meetings, including our first Research Forum as a virtual format, that allowed us to cater to large audience's from around the globe.

Together, we (AASB and AUASB) have continued to work together to communicate standards and guidance. Our plan for 2023 is to continue providing also continuing our work on economic drivers that impact the domestic and global economy.

Our ability to produce excellent outcomes in response to external forces allows us to influence key global stakeholders such as the International Accounting Standards Board, and the International Auditing and Assurance Standards Board, whose mission it is to create one set of globally-applicable standards that stakeholders world-wide can use with confidence, pursuant to the chief goals of transparency, accountability, reliability and comparability in financial statement reporting.

The following Corporate Plan outlines our strategy for continuing our work in the dynamic environment we operate in.



Figure 1: Dr Keith Kendall, AASB Chair



Figure 2: Mr William (Bill) Edge, AUASB Chair



Introduction

As agreed with the Department of Finance, the 2022-23 Corporate Plans for the Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) have been prepared as a single document, with the specific purpose and significant activities of each Board separately presented where required by Subsection 35(1) of the *Public Governance, Performance and Accountability Act 2013*.

Accountable authority approval Australian Accounting Standards Board

I, Dr Keith Kendall, as the accountable authority of the Australian Accounting Standards Board, present the 2022-23 AASB Corporate Plan, which is prepared for the 2022-23 period and covers the periods 2022-23 to 2025, as required under paragraph 35(1) (b) of the Public Governance, Performance and Accountability Act 2013.

29 August 2022

Auditing and Assurance Standards Board

I, William Edge, as the accountable authority of the Auditing and Assurance Standards Board, present the 2022-23 AUASB Corporate Plan, which is prepared for the 2022-23 period and covers the periods 2022-23 to 2025, as required under section 35(1)(b) of the Public Governance, Performance and Accountability.

29 August 2022



The AASB and AUASB Corporate Plan

About Australian Accounting Standards Board

AASB

The Australian Accounting Standards Board (AASB) is an Australian non-corporate Government Entity responsible for developing, issuing and maintaining accounting standards under section 334 of the Corporations Act 2001 for the purposes of the corporations' legislation.

The AASB also formulates accounting standards and or guidance for other purposes and participates in, and contributes to, the development of a single set of international accounting standards for worldwide use. The AASB's vision and strategies are set out on page 5.

Office of the AASB

The Office of the AASB provides technical and administrative services, information and advice to the AASB. The Chair of the AASB is also the Chief Executive Officer of the Office of the AASB, however the CEO responsibilities have been delegated (to the maximum extent permitted) to the Managing Director.

AASB's 22-strong workforce is based across Australia with the majority based in the Melbourne office.

The Minister

The Minister appoints the Chair of the AASB. The Chair of the AASB is accountable to the Minister regarding the operations of the AASB and the Office of the AASB.

Financial Reporting Council

Responsible to the Minister, the FRC provides broad strategic direction and advice to the AASB and has oversight of the process for setting accounting standards in Australia. The FRC appoints Board members to the AASB.

Membership

Chair

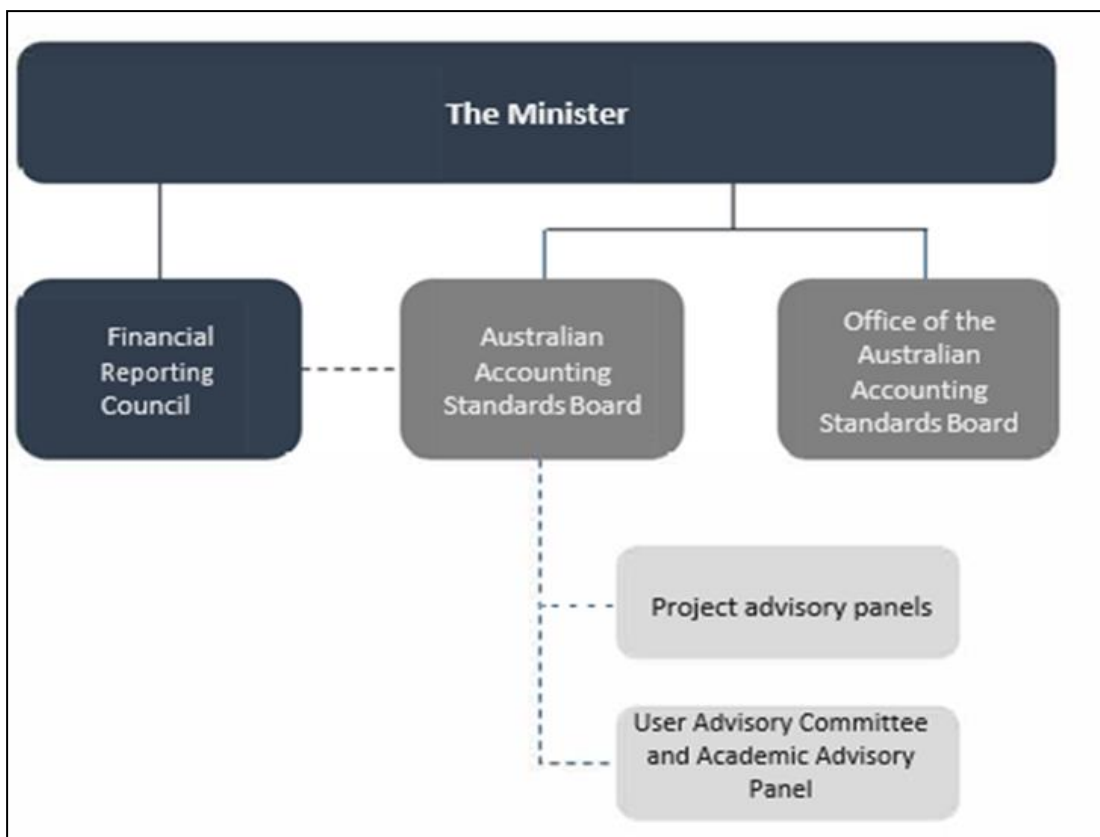
Keith Kendall was appointed as Chair of the AASB and CEO of the Office of the AASB for a five-year term from 3 May 2020 to 2 May 2025. The duties of the Chair and CEO of the AASB are outlined in sections 235D to 235J of the Australian Securities and Investments Commission Act 2001.

As Chair of the AASB, Keith Kendall is also a member of the FRC and a member of the NZASB.



Board Members

To be eligible for appointment as a member of the AASB, a person must have knowledge of, or experience in, business, accounting, law or government. Initial appointment is for a maximum of 3 years with possible extensions for a further 2 terms.



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

The elements of the AASB's operations are:





About Auditing and Assurance Standards Board

AUASB

The AUASB an Australian non-corporate Government Entity responsible for making auditing standards under section 336 of the Corporations Act 2001 for the purposes of the corporation's legislation. The AUASB also formulates auditing and assurance standards for other purposes and participates in and contributes to the development of a single set of international auditing standards for worldwide use. The AUASB's vision and strategies are set out on page 7.

Office of the AUASB

The Office of the AUASB provides technical and administrative services, information and advice to the AUASB. The Chair of the AUASB is also the Chief Executive Officer of the Office of the AASB, however the CEO responsibilities have been delegated (to the maximum extent permitted) to the Managing Director.

AUASB has eight employees in its workforce with the majority in the Melbourne office.

The Minister

The Minister appoints the Chair of the AASB. The Chair of the AUASB is accountable to the Minister regarding the operations of the AUASB and the Office of the AUASB.

Financial Reporting Council

Responsible to the Minister, the FRC provides broad strategic direction and advice to the AUASB and has oversight of the process for setting auditing and assurance standards in Australia. The FRC appoints Board members to the AUASB.

Membership

Chair

William Edge (Bill) was appointed as Chair of the AUASB and CEO of the Office of the AUASB for a 12-month term from 1 July 2021 following on from a short-term appointment. Effective from the 1st July 2022, Bill has been appointed as the Chair of the AUASB for a further 12mth term.

The duties of the Chair and CEO of the AUASB are outlined in sections 235D to 235J of the Australian Securities and Investments Commission Act 2001.

As Chair of the AUASB, he is also a member of the FRC and a member of New Zealand Auditing and Assurance Standards Board (NZAuSB).



Board Members

To be eligible for appointment as a member of the AUASB, a person must have knowledge of, or experience in, auditing, business, accounting, law or government. The initial appointment is for a maximum of 3 years with possible extensions for a further 2 terms.





The elements of the AUASB's operations are:

Purpose, Vision and Mission

Why we exist - Contribute to stakeholder confidence in the Australian economy, including its capital markets, and enhanced credibility in external reporting through independent auditing and assurance.

Financial Reporting Council Directives

- Develop standards that have a clear public interest focus and are of the highest quality using, as appropriate, the IAASB standards as a base
 - Develop auditing and assurance standards and guidance other than for historical financial information as well
 - Participate in audit research that is conducive to, and benefits, the standard-setting activities of the AUASB

AUASB Strategic Objectives

Our areas of focus, using an evidence informed approach, Collaboration, Communication, and Education to achieve our purpose

Strategy Objective 1

Develop and issue Australian Auditing and Assurance Standards that are in the public interest and meet the needs of stakeholders based on IAASB equivalents in accordance with AUASB functions and our direction from the Financial Reporting Council (FRC).

Strategy Objective 2

Develop and maintain Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required.

Strategy Objective 3

Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards.

Strategy Objective 4

In conjunction with the Financial Reporting Council, identify and implement initiatives designed to enhance Audit Quality in Australia.

Strategy Objective 5

Demonstrate thought leadership through robust evidence-based research to inform strategic projects that address emerging areas of auditing and assurance

Strategy Objective 6

Partner with the AASB and others to reform the Australian external reporting and assurance frameworks.

Strategy Objective 7

Monitor the Australian Assurance Environment and build strong stakeholder relationships to inform our AUASB priorities and facilitate consistent implementation of the AUASB's Standards.

Strategic Priorities

Our priorities to achieve our strategies

Brand and Reputation

Strategies 1-7

Stakeholder Engagement

Strategies 1-7

People and Culture

Strategies 1-7

Technology

Strategies 1-7

Operational and Business Excellence

Strategies 1-7

Program and Project Management

Strategies 1-7



The Purpose of the AASB and AUASB

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

Contribute to stakeholder confidence in:

- the Australian economy, including its capital markets,
- external reporting
- enhanced credibility of external reporting through independent auditing and assurance by:

AASB

Developing, issuing and maintaining principles-based Australian accounting and external reporting standards and guidance that meet user needs and enhance external reporting consistency and quality.

AASB

Contributing to the development of a single set of accounting and external reporting standards for world-wide use.

AUASB

Developing, issuing and maintaining in the public interest, Australian auditing and assurance standards and guidance that aid in reducing the cost of capital and enable Australian entities to compete effectively, both domestically and internationally, by enhancing audit and assurance consistency and quality.

AUASB

Contributing to the development of a single set of auditing and assurance standards and guidance for world-wide use



Strategic Objectives (Key Activities)

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

AASB	AUASB
1. Develop, issue and maintain principles-based, Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced. For 'publicly accountable' ¹ entities maintain IFRS ² compliance; for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian-specific standards and guidance.	1. Develop and issue Australian Auditing and Assurance Standards that are in the public interest and meet the needs of stakeholders based on IAASB equivalents in accordance with AUASB functions and our direction from the Financial Reporting Council (FRC).
2. With the AUASB, play a leading role in reshaping the Australian external reporting framework by working with the regulators to develop objective criteria on: <ul style="list-style-type: none"> • who prepares external reports (including financial reports) • the nature and extent of assurance required on these external reports. 	2. Develop and maintain Australian-specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required.
3. Actively influence IASB, ⁴ IPSASB ⁵ standards and other international accounting and external reporting standards and guidance, by demonstrating thought leadership and enhancing key international relationships.	3. Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards.
4. Attain significant levels of key stakeholder engagement, through collaboration, partnerships and outreach.	4. In conjunction with the Financial Reporting Council, identify and implement initiatives designed to enhance Audit Quality in Australia.
5. Influence initiatives to develop standards and guidance that meet user needs for external reporting integral to financial reporting.	5. Demonstrate thought leadership through robust evidence-based research to inform strategic projects that address emerging areas of auditing and assurance.
6. Monitor and respond to, or lead on, emerging issues impacting the development of accounting and external reporting standards, including changing technologies.	6. Partner with the AASB and others to reform the Australian external reporting and assurance frameworks.
7. Develop guidance and education initiatives, or promote development by others, to enhance the consistent application of accounting and external reporting standards and guidance.	7. Monitor the Australian Assurance Environment and build strong stakeholder relationships to inform our AUASB priorities and facilitate consistent implementation of the AUASB's Standards.

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

2. International Financial Reporting Standards

3. International Auditing and Assurance Standards Board

4. International Accounting Standards Board

5. International Public Sector Accounting Standards Board



Environment

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

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

The AASB has a Conceptual framework that sets out the purpose of preparing financial statements, the key elements of financial statements (assets, liabilities, revenue, expenses and equity) and provides guidance on how to set standards. Accounting standards generally set recognition, measurement, classification, presentation and disclosure requirements for the elements of financial statements.

The transparency, comparability and accountability required by accounting standards underpin public and investor confidence in the Australian economy. Accounting standards reduce information gaps and enable more efficient resource/capital allocations. To be effective, they must be capable of being audited and enforceable by other regulators

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

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

The AASB and AUASB are responsible for setting standards in three sectors, being for-profit companies, not-for-profit private sector entities (e.g. charities and incorporated associations) and the public sector. The complexities of setting standards appropriate for all three sectors increases the challenges of achieving appropriate stakeholder understanding of the AASB's and AUASB's roles and engagement with their standard-setting activities.





How we operate

The Boards and their Offices

Each entity has two arms:

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

The Boards of the AASB and AUASB are technical boards contributing to the strategic direction of the entities. The Boards do not have supervisory powers in respect of the functions and administration of the Offices of the AASB and the AUASB, which are the responsibility of the respective Chairs.

Our Board members have a diverse range of skills, experiences, professional affiliations, geographies and industry and sector experience to enhance the quality of our standards. Board members serve on Project Advisory Panels and Groups and participate in a range of public forums. In addition:

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

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



Photo of the AUASB Board and Staff June 2022



Financial Reporting Council and Minister Oversight

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

The FRC has directed the **AASB** to:

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

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

- Develop Australian Auditing Standards that have a clear public interest focus and are of the highest quality;
- Use, as appropriate, International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop Australian Auditing Standards;
- Make such amendments to ISAs as necessary to accommodate and ensure that Australian Auditing Standards both exhibit and conform to the Australian regulatory environment and statutory requirements, including amendments as necessary for Australian Auditing Standards to be legally enforceable under the requirements of the Corporations Act 2001;
- Monitor and review auditing and assurance standards issued by other standard-setting bodies in other national jurisdictions; and
- Continue to develop auditing and assurance standards for other than historical financial information as well as develop and issue other guidance on auditing and assurance matters, and participate in audit research that is conducive to, and which significantly benefits, the standard-setting activities of the AUASB.

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

Although our funding is provided by government, we are independent as the ASIC Act expressly limits the FRC's and Minister's ability to direct the AASB or AUASB in relation to the development, or making, of a particular standard. The FRC and Minister do not have the power to veto a standard made, formulated or recommended by the AASB or the AUASB in that neither the FRC nor the Minister can direct a particular technical outcome.





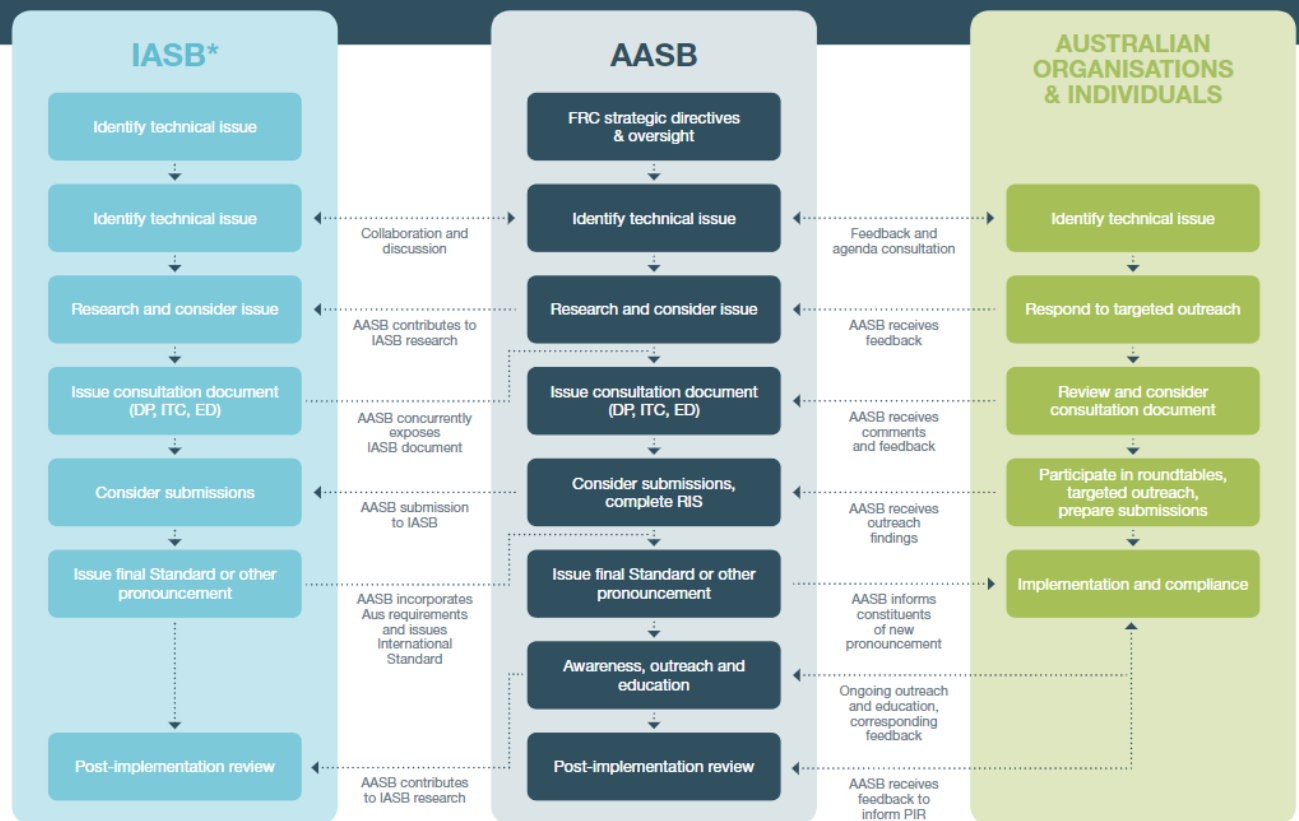
The Standards as Legislative Instruments

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

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

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

AASB Standard-Setting Process



* To a limited extent, applicable for IPSASB, ISSB.





Evidence-informed

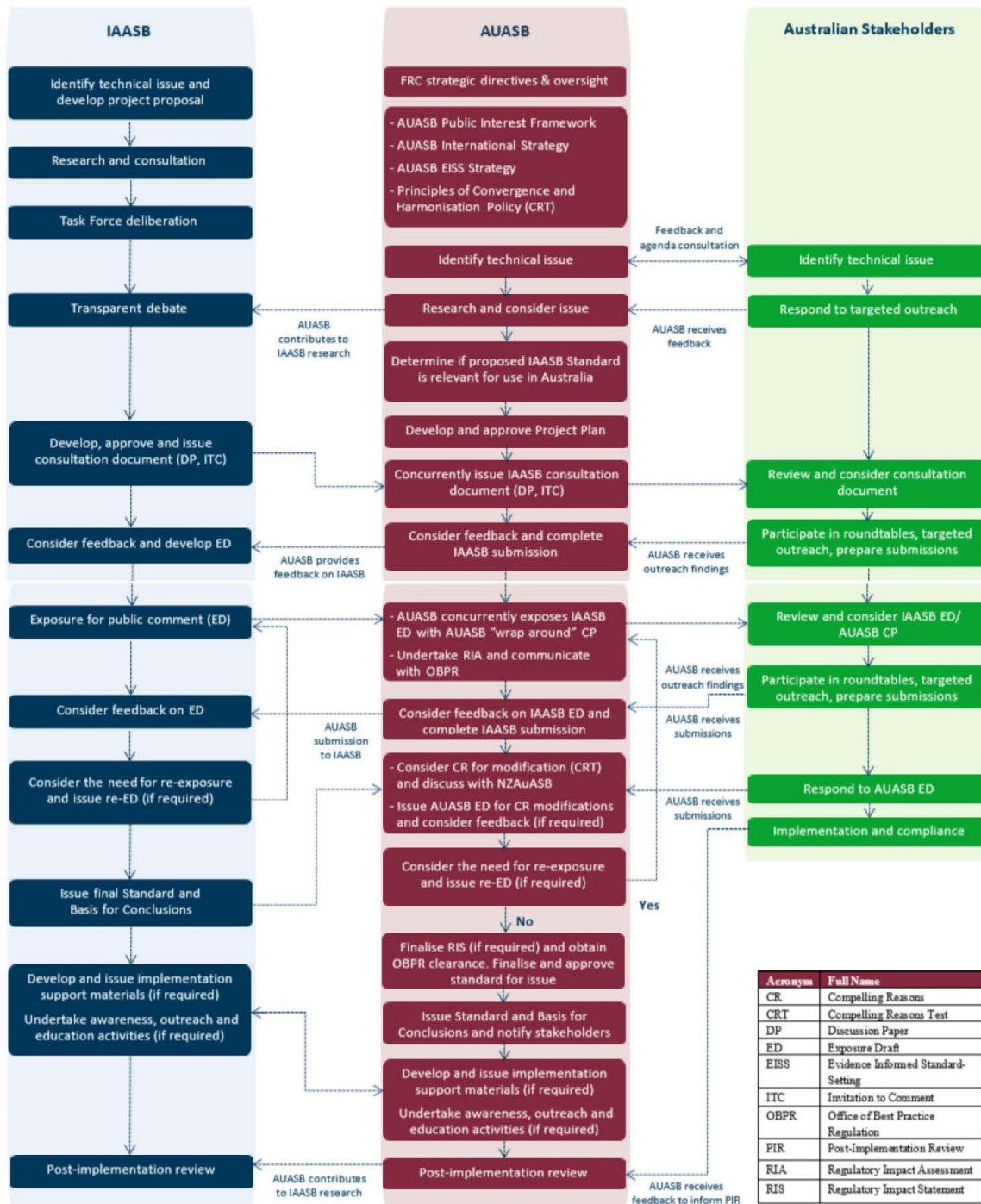
The AUASB uses its Due Process and Evidence-Informed Standards-Setting Strategy to ensure the quality of its standards and that the benefits of its standards outweigh the costs. This includes use of empirical research from Australian and international academics to support the identification of issues, analysis of possible solutions and evidence of effectiveness once a standard has been finalised, as well as a means of influencing internationally. The AASB and AUASB process for issuing IAASB Exposure Drafts (EDs) in Australia, is that the EDs are issued concurrently with their release internationally.



The AUASB's Standard-Setting process is set out below.



AUASB Due Process Framework for Setting Standards

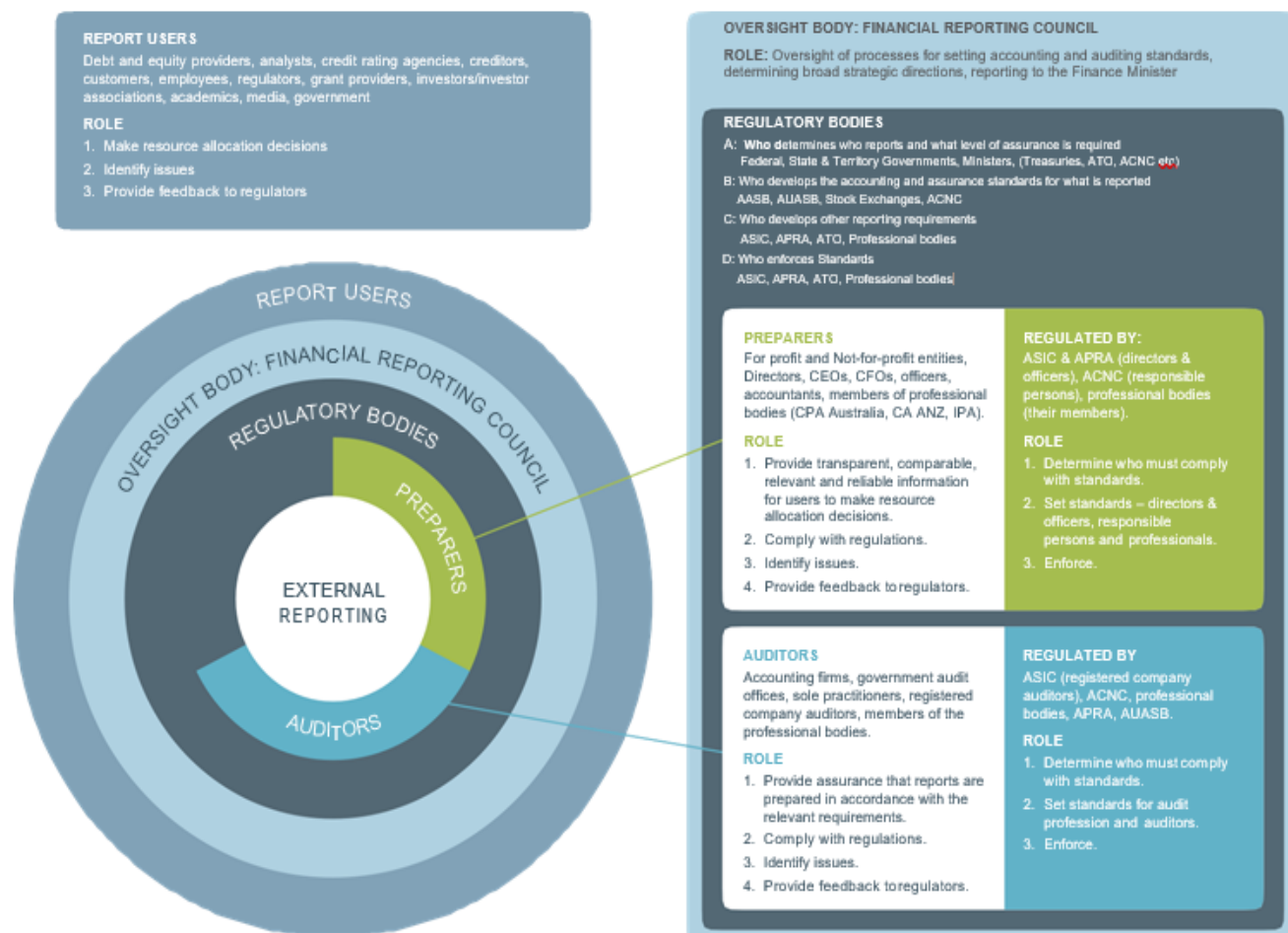




Stakeholders (Cooperation)

AASB and AUASB is actively developing new strategic partners while strengthening its existing strong, open and collaborative relationships with key customers and stakeholders

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



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



External and internal factors

People

The AASB and the AUASB are committed to the development of a high-performing team culture. This commitment leverages off work that the AASB conducted in the prior year's. Both organisations are utilising internal and external expertise including training needs analysis, coaching and mentoring, and team sessions to enhance individual and team culture and performance.

AASB

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

The AASB continues to invest into our staff professional development program, which includes coaching and mentoring, secondment opportunities, as well as opportunities for staff to engage with the Boards, Regulators, other international standard setters, professional accounting firms and corporates.

A key focus for 2022-2023 will be to successfully integrate new recruits to develop a strong core group of standard setters, supported by secondments for specialist skills needed for particular projects where we lack expertise in-house.

AUASB

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

Our technical staff are supported, from time-to-time, by AUASB Academic Scholars. The AUASB Academic Scholar Role provides an opportunity for highly respected auditing and assurance academics to work with the Chair and the Technical Group on research topics that are mutually agreed and relevant to the outcomes of the AUASB.





Technology

The AASB and the AUASB continue to use online platforms (i.e. websites, social media, event management tools, broadcasting, webinars) to engage with and educate their constituents. The introduction of hybrid meetings has substantially increased stakeholder engagement.

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

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

This financial year, the entities will remain focused on implementing an Information and Communications Technology (ICT) strategy involving further pronouncement digitalization (via the AASB and AUASB Standards Portal's), enhanced document access via cloud storage and backup to allow the teams to operate anywhere, any time and on any device. This will ensure that the entities' core operations can be completed efficiently and securely in a flexible and adaptable work environment. The ICT strategy is designed to address compliance risks such as access, security, document control and record retention.

The AASB and AUASB standards portal continue to be enhanced and have been positively received by stakeholders.

Other Regulators

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

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



Global Standards

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

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

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

- For-profit private sector “publicly accountable” entities (e.g. listed entities or those with significant fiduciary responsibilities like banks and insurance companies) benefit most from global comparability. The AASB ensures they can claim IFRS and New Zealand compliance in their financial statements.
- Other for-profit private and public sector entities. The AASB applies its For-Profit Standard Setting Framework to tailor IFRS standards appropriately, and provide a second tier of reporting that has the same recognition and measurement requirements, but simplified disclosures.
- Other not-for-profit private and public sector entities. The AASB applies its Not-for-profit Standard Setting Framework to use transaction neutrality (like transactions should be accounted for in the same way), and modifies IFRS as needed to cater for the unique characteristics of the sector. This includes developing appropriate Australian standards and guidance and providing a second tier of reporting that has the same recognition and measurement requirements, but with simplified disclosures.

The AUASB is required, under its directive from the FRC,¹ to use the International Standards on Auditing of the International Auditing and Assurance Standards Board, as appropriate, as a base from which to develop Australian Auditing Standards (ASAs) and then make such amendments to the ISAs² that are necessary to accommodate and ensure that the ASAs both exhibit and conform to the Australian regulatory environment and statutory requirements. Both the ASAs and the ISAs are principles based, rely on the application of professional judgment and professional skepticism and are sector and framework neutral

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

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

¹ www.aasb.gov.au/admin/file/content102/c3/FRC_Broad_Strategic_Direction.pdf
www.auasb.gov.au/admin/file/content2/c7/AUASB_Strategic_Direction_1242266219416.pdf

² As well as International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs)



appropriate base for public sector accounting.

To help ensure international standards remain appropriate for use in Australia, the AASB aims to ensure

International Environment

Australia remains at the forefront of international accounting practices. The key international and domestic bodies the AASB seek to engage are set out below:

	Standard Setters	Advisory/Consultative Groups	Standard Setter Forums	Interpretation Committees	Oversight
International	IASB	ASAF	IFASS	IFRS-IC	IFRS Trustees
	ISSB	SSAF	WSS		
	IPSASB		AOSSG		
Australia	AASB				FRC

Glossary

Standard setters

AASB – Australian Accounting Standards Board

IASB – International Accounting Standards Board

ISSB – International Sustainability Standards Board

IPSASB – International Public Sector Accounting Standards Board

Advisory /Consultative Groups

ASAF – Accounting Standards Advisory Forum

SSAF – Sustainability Standards Advisory Forum

Standard setter Forums

IFASS – International Forum of Accounting Standard Setters

WWS – World Standard Setters

AOSSG – Asian-Oceanian Standard-Setters Group

Interpretive Committees

IFRS – IC – IFRS Interpretations Committee

Oversight

IFRS Trustees – IFRS Foundation Trustees

FRC – Financial Reporting Council



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

	Standard Setters	Advisory/Consultative Groups ???	Standard Setter Forums	Interpretation Committees	Oversight
International	IAASB	CAG	IAASB NSS		PIOB
Australia	AUASB				FRC

Glossary

Standard setters

AUASB – Auditing and Assurance Standards Board
IAASB – International Auditing and Assurance Standards Board

Advisory /Consultative Groups

CAG – Consultative Advisory Group

Standard setter Forums

IAASB NSS – IAASB National Standards Setters Group

Oversight

PIOB – Public Interest Oversight Board
FRC – Financial Reporting Council

In 2022-23 the AUASB will continue to implement initiatives to drive increased sharing and collaboration across the global National Standards Setting (NSS) network, including attending and presenting relevant topics at regional and global IAASB NSS meetings.

The Australian and Global Economy

Although it is expected that some will cease to operate as a natural part of their life cycle, in difficult economic conditions, accounting and auditing standards come under extra scrutiny. As well as economic uncertainty, there are also documented changing expectations and declining trust in the services accountants and auditors provide, partially due to high profile corporate failures in some overseas jurisdictions. Stakeholders' expectations are also changing about what the standards should require. This has resulted in there being numerous parliamentary or regulatory inquiries undertaken in Australia and around the globe, triggered by corporate collapses or poor audit inspection outcomes.



In Australia, the report of the Parliamentary Joint Committee on Corporations and Financial Services (the PJC report) was released in November 2020. The AASB and AUASB, in connection with the FRC and other relevant standard setters and regulators, have been working extensively with other regulators and standard setters to evaluate potential responses arising from the recommendations in advance of the formal reply by the Australian Government. Once the Australian Government has made its determination on the PJC report recommendations, the AASB and AUASB will undertake all actions as necessary to implement all recommendations as relevant to AASB and AUASB.

Risk Management

AASB and AUASB are committed to risk management as fundamental to achieving its strategic objectives and is demonstrated through the company's comprehensive Risk Management Framework and risk governance structure.



The Executive encourage a strong risk culture and promotes a hands-on approach to managing. The Audit and Risk Committee and the Executive oversee the implementation of the Risk Management Framework and are responsible for monitoring risk performance to ensure threats and opportunities are appropriately identified, assessed, communicated and managed.

The framework includes an overarching policy direction for risk management across the organisation's and outlines ASC's Risk Appetite Statement. It's design and operation aligns with AS/NZS ISO 31000:2018 Risk Management – Principles and Guidelines (ISO 31000) and describe the AASB and AUASB's approach to the risk management process including risk identification, evaluation, treatment, monitoring, reporting and continuous improvement.



The approach to risk management is reflected by the 2001 Comcover Risk Management Benchmark Report reported our entities' overall risk maturity as Embedded.



The AASB's and AUASB's key strategic risks and how they are managed are set out in the table on the following page.

The following table outlines the strategic risks and the approaches we use to manage them.

Strategic risks	Impact	How we will manage these risks
<p>Quality of international standards on which AASB and AUASB rely is not adequate.</p> <p>International standard-setting bodies unduly influenced by national or regional stakeholders.</p>	<ul style="list-style-type: none"> • Australian user needs are not met • Inability to influence internationally • Brand and reputation issues • Loss of funding 	<ul style="list-style-type: none"> • Influence IASB, IPSASB, IAASB board members and staff by nominating/providing board/advisory committee/Task Force members, participating in working groups, by providing input into all significant exposure drafts and other consultation documents, being seen as thought leaders and problem solvers • Apply established standard-setting frameworks that outline when quality is not acceptable to be adopted in Australia • Establish close working relationships and alliances with other national standard setters, particularly New Zealand
<p>Quality of Australian standards not seen as appropriate or contributing to confidence in the Australian economy.</p> <p>Value of financial reporting and auditing perceived as diminishing.</p>	<ul style="list-style-type: none"> • Standards not capable of being consistently implemented • Australian user needs are not met, loss of confidence in capital markets • Costs of standards outweigh benefits • Brand and reputation issues • Loss of funding • Not-for-profit sector no longer supports IFRS as a base, tailoring not seen as sufficient • Perceived or actual loss of independence of the Board and ability to act in the public interest 	<ul style="list-style-type: none"> • For-profit, Not-for-profit Standard-Setting, Due process and Evidence-informed frameworks followed, including obtaining appropriate evidence, consulting extensively, assessing costs and benefits of change • Public and transparent process, basis for conclusions in all standards • Post-implementation reviews of standards • Diverse board membership, use of technical advisory panels and Project Advisory Groups to enhance quality of standards Submissions and presentations to public enquiries when requested (e.g. Joint Parliamentary Inquiry into the Regulation of auditing in Australia.)
<p>Multiple other regulators requiring and/or enforcing accounting and auditing standards.</p>	<ul style="list-style-type: none"> • Accounting and auditing standards: <ul style="list-style-type: none"> ◦ required inappropriately ◦ not enforced appropriately • Stakeholders not understanding AASB and AUASB responsibilities • Brand and reputation issues as standards not seen as fit for purpose 	<ul style="list-style-type: none"> • Regular liaison with other key regulators • Collaboration with other regulators when developing standards • Working with regulators and practitioners to develop guidance in response to inspection review findings



Strategic risks	Impact	How we will manage these risks
Economic conditions contribute to entities' financial collapse.	<ul style="list-style-type: none"> Difficult economic conditions result in more corporate collapse and more pressure on whether standards are fit for purpose Changing expectations of standard setters to respond quickly 	As above
Not regarded as a competitive employer in the marketplace.	<ul style="list-style-type: none"> Difficult to recruit and retain quality staff 	<ul style="list-style-type: none"> Use of HR consultants to identify People and Culture gaps Appropriate systems of reward and recognition established Monitoring of employee engagement Performance development process implemented to provide timely constructive feedback, career paths, development opportunities
Increasing complexity of businesses, technological advances, the rise in the importance of non-financial reporting and assurance, stakeholder demands for clearer, better communication and more frequent information, new business practices.	<ul style="list-style-type: none"> Not responding on a timely basis No response to key changing issues Lack of credibility or subject matter experts for external reporting integral to financial statements Exceeding mandated scope of accounting standards Brand and reputation issues 	<ul style="list-style-type: none"> Regular monitoring of domestic and international environments Use of advisory panels and secondees to provide adequate skills and credibility Engagement with stakeholders on major accounting and auditing issues impacting our standards Influencing reporting and audit thresholds to reduce red tape for small and medium entities Adapting standards for different sectors so fit for purpose
Financial risk of inadequate funding to perform mandate.	<ul style="list-style-type: none"> Limited finances, headcount flexibility and IT spend impact on the quality of standards 	<ul style="list-style-type: none"> Maximise use of existing resources, collaborate with other government agencies MOU for shared services between AASB and AUASB regularly reviewed Regular benchmarking of Australian standard-setting process against international counterparts Identify joint projects and opportunities to leverage resources with other like-minded standard setters



Strategic risks	Impact	How we will manage these risks
Operational legislative requirements and government policies are numerous, complex and subject to frequent change. Inadequate technology to deliver on objectives.	<ul style="list-style-type: none"> • Non-compliance • Critical business systems failure (data security, business continuity) • Brand and reputation issues • Financial impact • Combined Chair and CEO role not recommended best practice corporate governance 	<ul style="list-style-type: none"> • Oversight by the Audit and Risk Committee with independent members, compliance with Commonwealth Risk Management Policy • Software to assist in meeting compliance requirements • Risk Register and Fraud Control Plan reviewed quarterly by the Chairs and the ARC • Regular training of AASB and AUASB staff on PGPA and APS Code of Conduct requirements • Regular review of IT strategy and capability
Cyber Security Risk	<ul style="list-style-type: none"> • Risk that the entity faces denial of service attack, loses access to key organisational files (finance/HR/standards), has personal information breached by an external party 	<p>Appropriate safeguards over critical business systems including:</p> <ul style="list-style-type: none"> • System access controls • System documentation • Business continuity/disaster recovery plans • Legal contracts • Outsourced IT team • Agreed DRP/BCP solution involves Productivity Commission support • Incident management process • Management and compliance with Government Information Security requirements
Individual Person Risk	<ul style="list-style-type: none"> • Individual key person risk (legal, either private or professional) resulting in perceived issues relating to delivery of business requirements, reputation of business and/or confidence in organisation 	<ul style="list-style-type: none"> • Oversight of risk by Audit and Risk Committee • Separation and segregation of duties • Disclosure by staff of any legal issues that may have brand/reputation issues within a centrally maintained register

Performance: Delivering Our Strategy

Activities mapped to strategy and KPIs for measuring success

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

The strategies, deliverables and performance criteria are aligned to the AASB's and the AUASB's Portfolio Budget Statements ('PBS') for 2022-2023.



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

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

AASB activities mapped to strategies and KPIs for measuring success

Strategic Priority 1 - Performance Activity Focus: Brand/Reputation

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		22	23	24	25	
Strategy 2 PBS Outcome 1 ³ Program 1 Deliverables 3	Develop appropriate reporting frameworks for each of the three sectors - for-profit (e.g., listed and large proprietary companies), not-for-profit (e.g. charities) and public sector	X	X	X	X	<ul style="list-style-type: none"> Develop appropriate frameworks for not-for-profit private and public sector
Strategy 1,5,6 PBS Outcome 1 Program 1 Deliverables 1,2,4,7,8 KPIs 1, 2,	Agree on 3-year program of work and deliver <ul style="list-style-type: none"> Maintain IFRS and New Zealand compliance for for-profit Private sector “publicly accountable” entities Tailor IFRS appropriately for other sectors, including developing Australian specific guidance Develop guidance on external reporting integral to financial reporting Develop guidance on emerging issues related to financial reporting 	X	X	X	X	<ul style="list-style-type: none"> Annual program of standards issued, delivered to plan agreed with the Board IASB equivalent Standards issued within two months of the release of the IFRS for for-profit entities IFRS and NZ compliance maintained for the for-profit private sector “publicly accountable” entities Feedback from NFP sector positive regarding the appropriateness of the IFRS tailoring
Strategy 3 PBS Outcome 1 Program 1 Deliverables 5,6 KPIs	<ul style="list-style-type: none"> Enhance profile domestically and internationally Maintain and enhance key international relationships with IASB, IPSASB, NZASB, AOSSG, ISSB, International Financial Reporting for NPOs 	X	X	X	X	<ul style="list-style-type: none"> Be viewed as experts as measured by stakeholder, IASB and IPSASB feedback Two thought leadership pieces completed per annum and presented internationally
Strategy 4 PBS Outcome 1 Program 1 Deliverables 1,2 KPIs 5,6,7,13,14	<ul style="list-style-type: none"> Due process followed to ensure the quality of standard-setting: Evidence-informed approach to standard setting activities supports need for regulation and proposed solution 	X	X	X	X	<ul style="list-style-type: none"> Due process followed for all significant projects Positive feedback from the FRC and the stakeholders

³ Link to AASB PBS https://treasury.gov.au/sites/default/files/2021-05/pbs_2021_AuASB.pdf



Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		22	23	24	25	
	<ul style="list-style-type: none"> appropriate consultation in accordance with the due process framework preparation of regulatory impact statement assessing costs and benefits 					
Strategy 1,3,4 <i>PBS Outcome 1</i> <i>Program 1</i> <i>Deliverables 1,2</i>	Post-implementation reviews conducted (PIR) for all significant projects to assess quality of standard-setting	X	X	X	X	<ul style="list-style-type: none"> No significant changes needed PIR feedback is acted upon No evidence not contributing to the confidence in the economy. Feedback from ASIC, APRA, ACNC surveillance reviews does not indicate loss of confidence due to accounting standard issues No significant decline in relevance of financial statements in the capital market
Strategy 7 <i>PBS Outcome 1</i> <i>Program 1</i> <i>Deliverables 10,11</i>	Improve consistency of implementation: <ul style="list-style-type: none"> Educate stakeholders on the AASB standards, support materials available, including why standards introduced Support and encourage high quality teaching of the Australian financial reporting framework and standards at Australian educational institutions 	X	X	X	X	<ul style="list-style-type: none"> Education initiatives, such as webinars, providing appropriate educational materials to key stakeholders for all significant projects FAQs, illustrative examples, staff publications developed on significant interpretive issues Feedback from ASIC, APRA, ACNC surveillance reviews indicates no significant interpretive issues impacting the consistency of implementation Positive stakeholder feedback on education initiatives



Strategic Priority 2 - Performance Activity Focus: Stakeholder Engagement

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		22	23	24	25	
Strategy 4 PBS Outcome 1 Program 1 Deliverables 12,13 KPIs 3,5	Enhance stakeholder engagement	X	X	X	X	<ul style="list-style-type: none"> Maintain relationships with key stakeholders and planned program of engagement executed as planned Positive stakeholder feedback on the consultation process Increase in engagement results (newsletter, website, LinkedIn, Twitter, webinar, outreach numbers)
Strategy 4 PBS Outcome 1 Program 1 Deliverables 15 KPIs 5,	Conduct Agenda consultations to determine projects and priorities				X	<ul style="list-style-type: none"> Agenda consultation conducted at least every 5 years

Strategic Priority 3 - Performance Activity Focus: People & Culture

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		22	23	24	25	
Strategies 1-7 PBS Outcome 1 Program 1	Develop and implement People and Culture strategy	X	X	X	X	<ul style="list-style-type: none"> Employee survey, employee engagement Building towards high-performance team as measured by Board and stakeholder feedback on delivery of program and all other measures of success
	New starter processes improved to support flexible subject matter expert involvement	X	X	X	X	<ul style="list-style-type: none"> New team members embedded successfully within six months of starting as measured by internal and external stakeholders' feedback (as appropriate)
	Understand current capability (talent mapping)	X	X	X	X	<ul style="list-style-type: none"> Continuous review of external talent pool to timely identify when/where to buy or borrow capability
	Resource planning to develop skills and allocate them appropriately	X	X	X	X	<ul style="list-style-type: none"> KPIs for all employees Leveraging diversity of skills and people as measured by employee and Board feedback and delivering an agreed program of work Retain core group of technical experts and leaders Fair allocation of workload measured by employee and Board feedback



Strategic Priority 4 - Performance Activity Focus: Technology

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				(Measures of success outputs & outcomes)
		22	23	24	25	
Strategies 1-7 <i>PBS Outcome 1 Program 1</i>	Develop and implement an IT strategy that enables flexible, seamless working via cloud	X	X	X	X	<ul style="list-style-type: none"> Independent of on Premises hardware by 30 June 2023 IT supports flexible work including remote locations
Strategy 4 <i>PBS Outcome 1 Program 1 Deliverables 12, KPIs 5,</i>	Continuous digital communications improvements to enhance stakeholder experience and engagement	X	X	X	X	<ul style="list-style-type: none"> Plan to be monitored for additional improvement over coming financial years. Development of new standards portal to improve user access by 30 June 2023

Strategic Priority 5 - Performance Activity Focus: Operational & Business Excellence

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
Strategies 1-7 <i>PBS Outcome 1 Program 1</i>	Refresh strategy supporting operational excellence and regulatory compliance	X	X	X	X	<ul style="list-style-type: none"> Regularly revisit current strategy to determine impact of implementation. Comply with regulatory obligations
	Knowledge and information sharing support flexible subject matter expert involvement	X	X	X	X	<ul style="list-style-type: none"> Key knowledge imparted across teams within six months of joining
	Continuous improvement of operational processes to achieve planned outcomes	X	X	X	X	<ul style="list-style-type: none"> Review of operational processes on an ongoing basis



Strategic Priority 6 - Performance Activity Focus: Program & Project Management

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
Strategies 1-7 <i>PBS Outcome 1</i> <i>Program 1</i>	Develop, implement and improve program and project management	X	X	X	X	<ul style="list-style-type: none"> Continuous review and improvement of program and project management approach
	Identify and establish frameworks and processes to allocate resources appropriately, establish and monitor accountabilities	X	X	X	X	<ul style="list-style-type: none"> Review processes and frameworks so team members are clear and deliver on expectations Further enhancements implemented based on regular program and project management meetings
	Allocate resources efficiently and effectively	X	X	X	X	<ul style="list-style-type: none"> Deliver agreed program of work as planned



AUASB activities mapped to strategy and KPIs for measuring success.

Strategic Priority Area One: Standards and Guidance

Strategic Objective One - Develop and issue Australian Auditing and Assurance Standards that are in the public interest and meet the needs of stakeholders based on IAASB equivalents in accordance with AUASB functions and our direction from the Financial Reporting Council (FRC).

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
PBS Outcome 1 PBS Program 1 PBS Deliverable 1 PBS Performance Criteria 1, 3, 4, 6 & 7	Issue all IAASB-based AUASB standards and guidance in a timely manner with accompanying implementation materials and communications that are tailored for Australian stakeholders	X	X	X	X	<ul style="list-style-type: none"> Issue all Australian IAASB equivalent Standards and Exposure Drafts within 3 months of PIOB clearance or 1 month of AUASB approval Release Exposure Drafts/Discussion Papers via the AUASB Website within two weeks of approval by AUASB AUASB implementation support materials and activities for all new IAASB/AUASB standards in place before effective date
	Seek feedback on relevance, effectiveness and public interest of these standards through stakeholder feedback, outreach programs and post-implementation reviews	X	X	X	X	<ul style="list-style-type: none"> Communications plan developed and implemented for each new IAASB pronouncement Responses to each IAASB Exposure Draft or Discussion Paper developed with appropriate AUASB input and sent to the IAASB by the closing date Obtain evidence appropriately evaluating implementation of IAASB equivalent issued AUASB Standards in Australia

Strategic Objective Two: Develop and maintain Australian-specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required.

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
PBS Outcome 1 PBS Program 1 PBS Deliverable 1 PBS Performance Criteria 2, 3, 5 & 6	Issue Australian-specific AUASB standards and guidance in a timely manner with accompanying implementation materials and communications that are tailored for Australian stakeholders	X	X	X	X	<ul style="list-style-type: none"> Issue all Australian-specific Pronouncements and Exposure Drafts within one month of AUASB approval Complete and publish conforming amendments and compilation standards arising from changes to AUASB standards in accordance with legislative timeframes and in advance of effective dates
	Seek feedback on relevance, effectiveness and public interest of Australian-specific standards and guidance through stakeholder feedback, outreach programs and post-implementation reviews	X	X	X	X	<ul style="list-style-type: none"> Communications plan developed and implemented for each new AUASB pronouncement Conduct post-implementation reviews of Australian specific AUASB Standards, within 2-3 years of their operative date.



Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
	Identify gaps in the AUASB Framework where guidance is required and issue Guidance Statements or Bulletins to address these	X	X	X	X	<ul style="list-style-type: none"> Review and update other AUASB Framework Pronouncements, as required.

Strategic Priority Area Two: International Influence

Strategic Objective Three: Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards.

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
PBS Outcome 1 PBS Program 1 PBS Deliverable 3 PBS Performance Criteria 1, 3, 4 & 7	Build and maintain strong international relationships with the IAASB and like-minded Global and National Auditing Standard Setters, particularly New Zealand and Canada.	X	X	X	X	<ul style="list-style-type: none"> Collaborate with the IAASB and likeminded National Auditing Standards Setters ("NSS", particularly New Zealand and Canada) on common global and other projects relevant to the AUASB work program Identify and implement initiatives to collaborate on international auditing and assurance focus areas with other key national standard-setters
	Demonstrate the AUASB's influence on major international auditing and assurance developments by implementing the AUASB's International Strategy	X	X	X	X	<ul style="list-style-type: none"> AUASB Chair and Technical Team member to attend all IAASB meetings and participate in relevant IAASB Task Forces/Working Groups IAASB papers reviewed and responded to by AUASB staff ahead of each AUASB and IAASB meeting Summary of main IAASB outcomes shared with the AUASB after each IAASB meeting
	Provide input to the international standard setting process through responding to international pronouncements using input from Australian stakeholders	X	X	X	X	<ul style="list-style-type: none"> Responses to each IAASB Exposure Draft or Discussion Paper developed with appropriate AUASB input and sent to the IAASB by the closing date Engagement with Australian Stakeholders on all IAASB Projects
	Maintain harmonisation of auditing and assurance standards in Australia and New Zealand in accordance with relevant agreements and protocols	X	X	X	X	<ul style="list-style-type: none"> Attend and contribute to NZAuASB meetings as required Identification and prioritisation of joint AUASB/NZAuASB projects, with AUASB and NZAuASB staff to ensure appropriate levels of collaboration in accordance with the AUASB Policy on Harmonisation of Standards

Strategic Priority Area Three: Audit Quality

Strategic Objective Four: In conjunction with the Financial Reporting Council, identify and implement initiatives designed to enhance Audit Quality in Australia.

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
PBS Outcome 1 PBS Program 1 PBS Deliverable 7 PBS Performance Criteria 3, 5 & 6	With the FRC, devise and complete activities to implement the FRC's Audit Quality Action Plan and contribute to improved audit quality outcomes in the Australian auditing environment	X	X	X	X	<ul style="list-style-type: none"> Contribute to the development of the FRC Audit Quality Plan and deliver all AUASB Audit Quality activities as required AUASB staff to develop auditing and assurance related papers for FRC meetings
	Work with ASIC, the AASB, practitioners and other stakeholders to identify and address significant inspection findings associated with accounting and auditing standards	X	X	X	X	<ul style="list-style-type: none"> Undertake consultation with ASIC and practitioners to identify improvements needed to auditing standards and develop relevant guidance materials addressing common inspection findings in key audit areas Monitor and respond to recommendations arising from Parliamentary Inquiries or other external reviews that are relevant to the AUASB

Strategic Priority Area Four: Thought Leadership

Strategic Objective Five: Demonstrate thought leadership through robust evidence-based research to inform strategic projects that address emerging areas of auditing and assurance.

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
PBS Outcome 1 PBS Program 1 PBS Deliverable 5 PBS Performance Criteria 3, 4, 5, 6 & 7	Develop thought leadership and implement strategic projects to improve auditing and assurance practice in priority areas such as Extended External Reporting (EER), Audits of Less Complex Entities (LCEs) and the use of Technology in the Audit	X	X	X	X	<ul style="list-style-type: none"> Project plans are developed with key outputs identified for each AUASB strategic priority area (including outreach plans with subject matter experts and key stakeholders) AUASB board members or staff to publish or contribute to articles or publications on selected strategic thought leadership project areas



Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
	Support the development and publishing of relevant and high-quality auditing and assurance evidence-based research in accordance with the AUASB Evidence Informed Standard Setting (EISS) Strategy	X	X	X	X	<ul style="list-style-type: none"> Promote research opportunities in strategic priority areas through academic networks and conferences in accordance with the EISS strategy Work with AUASB Research Scholars and other researchers to develop relevant and timely research reports on AUASB strategic priority areas Communicate benefits of EISS Strategy to, and encourage broader participation from, academic community at conferences and technical forums

Strategic Priority Area Five: Frameworks

Strategic Objective Six: Partner with the AASB and others to reform the Australian external reporting and assurance frameworks.

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
PBS Outcome 1 PBS Programs 1 PBS Deliverable 2 PBS Performance Criteria 2, 3, 5 & 6	Seek feedback on proposed changes to assurance requirements to ensure they are fit for the intended purpose and support changes to the external reporting framework	X	X	X	X	<ul style="list-style-type: none"> Engage with AASB and relevant stakeholders to determine assurance issues related to changes to the external reporting framework Work with the AASB to conduct outreach and develop appropriate guidance materials on any changes to assurance requirements relating to changes to the external reporting framework
	Support initiatives that promote consistency and understanding of the nature and extent of assurance required for external reporting requirements in Australia	X	X	X	X	<ul style="list-style-type: none"> Share and collaborate with the AASB on common areas of focus for Reporting and Assurance Frameworks, including relevant research reports and discussion papers Issue AUASB publications and guidance that support and promote consistency and understanding of the AUASB's Assurance Framework



Strategic Priority Area Six: Stakeholder Engagement

Strategic Objective Seven: Monitor the Australian Assurance Environment and build strong stakeholder relationships to inform our AUASB priorities and facilitate consistent implementation of the AUASB's Standards.

Link to strategy (Impact)	What do we need to do? (Objectives)	Year				Measures of success outputs & outcomes
		22	23	24	25	
PBS Outcome 1 PBS Program 1 PBS Deliverable 4 All PBS Performance Criteria	Increase engagement with stakeholders through new and existing AUASB communications activities and events	X	X	X	X	<ul style="list-style-type: none">▪ Maintain and update the AUASB Digital Standards Portal▪ Develop various AUASB publications and guidance for stakeholders based on evidence and existing AUASB requirements, incl. quarterly AUASB Update Newsletters▪ Promote availability of AUASB guidance through various communication channels, including greater use of online tools to communicate AUASB outputs and activities▪ Develop and maintain technical content for the AUASB Website▪ For all AUASB Meetings ensure board papers are available on the AUASB website a week in advance, Highlights are available within two working days after each AUASB meeting, and draft Board Minutes are sent to AUASB members within two weeks of each AUASB meeting.

Appendix 1

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

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



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



AUASB activities mapped to strategy and KPIs for measuring success.

<p>Strategic Objective</p> <p>Function</p>	<p>Make auditing standards under section 336 of the <i>Corporations Act</i> for the purposes of the corporations legislation.</p>	<p>Formulate auditing and assurance standards for other purposes.</p>	<p>Formulate guidance on auditing and assurance matters.</p>	<p>Participate in and contribute to the development of a single set of auditing standards for world-wide use.</p>	<p>Advance and promote the core objectives of auditing and assurance standard-setting as required by Part 12 of the ASIC Act.</p>
<p>1. Develop and issue Australian Auditing and Assurance Standards that are in the public interest and meet the needs of stakeholders based on IAASB equivalents in accordance with AUASB functions and our direction from the Financial Reporting Council (FRC).</p>	<p>✓</p>	<p>✓</p>		<p>✓</p>	<p>✓</p>
<p>2. Develop and maintain Australian-specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required.</p>		<p>✓</p>	<p>✓</p>		<p>✓</p>
<p>3. Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards</p>	<p>✓</p>	<p>✓</p>		<p>✓</p>	<p>✓</p>



Strategic Objective	Function	Make auditing standards under section 336 of the <i>Corporations Act</i> for the purposes of the corporations legislation.	Formulate auditing and assurance standards for other purposes.	Formulate guidance on auditing and assurance matters.	Participate in and contribute to the development of a single set of auditing standards for world-wide use.	Advance and promote the core objectives of auditing and assurance standard-setting as required by Part 12 of the ASIC Act.
4. In conjunction with the Financial Reporting Council, identify and implement initiatives designed to enhance Audit Quality in Australia.		✓	✓	✓	✓	✓
5. Demonstrate thought leadership through robust evidence-based research to inform strategic projects that address emerging areas of auditing and assurance			✓	✓	✓	✓
6. Partner with the AASB and others to reform the Australian external reporting and assurance frameworks.			✓	✓	✓	✓
7. Monitor the Australian Assurance Environment and build strong stakeholder relationships to inform our AUASB priorities and facilitate consistent implementation of the AUASB's Standards.		✓	✓	✓	✓	✓



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

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



Australian Government
Australian Accounting Standards Board



Australian Government
Auditing and Assurance Standards Board



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Agenda Item 4-B

DRAFT STRUCTURE FOR THE REQUIREMENTS OF PROPOSED INTERNATIONAL STANDARD ON SUSTAINABILITY ASSURANCE™ (ISSA) 5000, GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

Objective of this Document

1. The purpose of the discussion with the IAASB is to solicit input on the overall draft structure of the requirements for Proposed ISSA 5000. The draft structure for the requirements will assist in:
 - (a) Organizing the requirements in a logical and structured manner; and
 - (b) Managing the project, by bifurcating the requirements into areas, and using the areas as a roadmap to addressing elements of the standard in a structured and coordinated manner.
2. Given the standard has yet to be developed, the structure is a working document and will continue to evolve over the life of the project. In some sections, the sub-headings are at a more specific level than other sections. The sub-headings have been included for illustrative and tracking purposes, and were largely based on existing content in ISAE 3000 (Revised)¹ and ISAE 3410,² or have already identified by the Sustainability Assurance Working Group (SAWG) as requiring further elaboration (e.g., because it addresses a priority area). As a result, the sub-headings are incomplete and will need to be elaborated or adjusted as the standard is developed.
3. Within the structure, the SAWG has highlighted the areas most likely impacted by the priority areas (in turquoise), which are as follows:
 - (a) The difference in work effort between limited and reasonable assurance, including sufficiency of evidence.
 - (b) The suitability of the reporting criteria, including addressing concepts such as double materiality.
 - (c) The scope of the assurance engagement.
 - (d) Evidence, including the reliability of information and what comprises sufficient appropriate evidence.
 - (e) The entity's system of internal control and its impact on the ability of the practitioner to obtain sufficient appropriate evidence, including the reliability of the information to be used as evidence.
 - (f) Materiality in the context of the assurance engagement, including materiality in the context of narrative and qualitative information.

¹ International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

² ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

The SAWG's Approach in Developing a Draft Structure for the Requirements for Proposed ISSA 5000

4. The SAWG used the following approach in developing the structure of the requirements for Proposed ISSA 5000:
 - (a) The SAWG considered the existing headings used in ISAE 3000 (Revised) and ISAE 3410 and the structure of the headings.
 - (b) The SAWG considered the structure of the [Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities](#). Specifically, the SAWG noted that Proposed ISSA 5000 also will be developed as a stand-alone standard that addresses all the elements of the engagement in a single standard.
 - (c) The SAWG considered content elements that would need to be added or emphasized in Proposed ISSA 5000 (e.g., the priority areas for which more specificity will be provided as the development of the standard is progressed).

Matters for IAASB Consideration:

4. The IAASB is asked to share their views on the draft structure of the requirements of Proposed ISSA 5000. In particular, the IAASB is asked to share their views on:
 - (a) The SAWG's proposal to follow a similar approach as the ISA for LCEs, by separating the content into Parts; and
 - (b) Whether the draft structure and sequence of the requirements of Proposed ISSA 5000 appears logical and follows the flow of the engagement.

Draft Structure of the Requirements for Proposed ISSA 5000

Introduction

Scope

Effective Date

Objectives

Definitions

Requirements

Part 1: Conduct of an Assurance Engagement in Accordance with ISSA

- 1.1 Complying with this ISSA
- 1.2 Text of an ISSA
- 1.3 Complying with Relevant Requirements
- 1.4 Failure to Achieve an Objective

Part 2: Fundamental Concepts, General Principles and Overarching Requirements

- 2.1 Relevant Ethical Requirements, Including Those Related to Independence
- 2.2 Firm-level Quality Management
- 2.3 Engagement-level Quality Management
 - 2.3.1 Characteristics of the Engagement Partner
 - 2.3.2 Responsibilities of the Engagement Partner
- 2.4 Work Performed by Others
 - 2.4.1 Work Performed by a Practitioner's Expert
 - 2.4.2 Work Performed by Another Practitioner
 - 2.4.3 Work Performed by the Internal Auditor Function
- 2.5 Professional Skepticism, Professional Judgment, and Assurance Competence
- 2.6 Fraud
- 2.7 Law or Regulation
- 2.8 Communication with Management and Those Charged with Governance

Part 3: Engagement Scope and Other Preconditions for a Sustainability Assurance Engagement

3.1 Engagement Scope and Other Preconditions for the Engagement

3.1.1 Appropriate Sustainability Subject Matter

3.1.2 Suitability and Availability of Criteria

3.1.3 Rational Purpose

3.1.4 The Scope of the Engagement

3.1.5 Other Matters Related to the Preconditions for the Engagement

3.2 Additional Considerations in Assurance Engagement Acceptance and Continuance

3.2.1 The Firm's Policies or Procedures

3.2.2 Limitation on Scope Prior to Acceptance of the Assurance Engagement

3.2.3 Assurance Report Prescribed by Law or Regulation

3.3 Terms of the Assurance Engagement

3.3.1 Agreeing the Terms of the Assurance Engagement

3.3.2 Changing the Terms of the Assurance Engagement

Part 4: Evidence and Documentation

4.1 Designing and Performing Procedures to Obtain Sufficient Appropriate Evidence

4.1.1 Work Performed by the Practitioner on Other Engagements for the Entity

4.2 Information Intended to be Used as Evidence

4.2.1 Information Intended to be Used as Evidence Prepared by the Entity's Expert

4.2.2 Doubts About the Relevance and Reliability of Evidence

4.3 Documentation Requirements

4.4 Assembly of the Final Engagement File

Part 5: Planning

5.1 Planning Activities

5.2 Materiality

5.2.1 Revision as the Assurance Engagement Progresses

Part 6: Risk Identification and Assessment

6.1 Procedures for Identifying and Assessing Risks of Material Misstatement

6.1.1 Understanding the Entity and Its Environment

6.1.2 Understanding the Entity's Internal Control

6.2 Identifying and Assessing Risks of Material Misstatement

6.3 Revision of Risk Assessment in a Reasonable Assurance Engagement

Part 7: Responding to Assessed Risks of Material Misstatement

7.1 Procedures Responsive to the Assessed Risks of Material Misstatement

7.1.1 Test of Controls

7.1.2 Substantive Procedures

- 7.1.3 Substantive Analytical Procedures
- 7.1.4 Selection of Items for Testing
- 7.2 Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement
- 7.3 Specific Focus Areas
 - 7.3.1 Estimates, Including Forward-looking Information
 - 7.3.2 Procedures Regarding the Entity's Aggregation Process for the Sustainability Information
- 7.4 Accumulating Identified Misstatements

Part 8: Concluding

- 8.1 Consideration of Identified Misstatements
 - 8.1.1 Communicating and Correcting Misstatements
 - 8.1.2 Evaluating the Effect of Uncorrected Misstatements
- 8.2 Evaluating the Description of Applicable Criteria
- 8.3 Subsequent Events
- 8.4 Written Representations from Management and Those Charged with Governance

Part 9: Forming a Conclusion and Reporting

- 9.1 Forming the Assurance Conclusion
- 9.2 The Assurance Report
 - 9.2.1 Reference to the Practitioner's Expert in the Assurance Report
 - 9.2.2 Assurance Report Prescribed by Law or Regulation
 - 9.2.3 Other Paragraphs in the Assurance Report
- 9.3 Modifications to the Conclusion
- 9.4 Other Communication Responsibilities
- 9.5 Comparative Information
- 9.6 Other Information

Agenda Item 5-A

Audits of Less Complex Entities – Proposed Authority

This agenda item presents revised drafting of Part A, *Authority of the ISA for Audits of Financial Statements of Less Complex Entities* and is tracked from the version presented at the [June 2022 Board Meeting](#).

A. **[Draft]** Authority of the ISA for Audits of Financial Statements of Less Complex Entities

Content of this Part

Part A describes when the ISA for LCE is appropriate for use in undertaking an audit engagement. The standard is designed to enable the achievement of the overall objectives of the auditor, given the typical nature and circumstances of an LCE. There are limitations to the use of the ISA for LCE. sets out which include specific prohibitions, qualitative characteristics, [and quantitative thresholds] used for determining if the [draft] standard is appropriate for use in an audit of the financial statements of an LCE. Part A also describes the responsibilities for legislative or regulatory authorities or relevant local bodies with standard-setting authority to support the appropriate use of the standard.

For the purposes of this Part, the use of “LCE” or “entity” also refers to a group (i.e., where the audit is an audit of group financial statements).¹

The requirements in this ~~[draft]~~ ISA for LCE have been designed to be proportionate to the typical nature and circumstance of an audit of an LCE (i.e., they do not address complex matters or circumstances). ~~This [draft] ISA for LCE is not permitted to be used for audits that are not audits of financial statements of LCEs.~~ If the ~~[draft]~~ ISA for LCE is used for an audit outside the intended scope of this ~~[draft]~~ standard, compliance with the requirements of the ~~[draft]~~ ISA for LCE will not be sufficient for the auditor to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion.

~~The responsibilities of legislative or regulatory authorities or relevant local bodies in determining the Authority of the standard for a specific jurisdiction are described at the end of this Part. The Supplemental Guidance for the Authority of the Standard (the Authority Supplemental Guide) provides further guidance for legislative or regulatory authorities or relevant local bodies with standard-setting authority when addressing their respective responsibilities as described in this Part.~~

~~In addition, the Supplemental Guidance for the Authority of the Standard (the Authority Supplemental Guide), further explains matters that may be relevant in the determination of use of the [draft] ISA for LCE for firms and auditors.~~

¹ As defined in **Appendix 1**, “group” is a reporting entity for which group financial statements are prepared and “group financial statements” are financial statements that include the financial information of more than one entity or business unit through a consolidation process. In addition, the term consolidation process refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also to the presentation of combined financial statements, and to the aggregation of the financial information of entities or business units such as branches or divisions.

Limitations for Using the ~~[Draft]~~ ISA for LCE

Limitations for using the ~~[draft]~~ ISA for LCE are designated into ~~[three]~~ categories:

- Specific classes of entities for which the use of the ~~[draft]~~ ISA for LCE is prohibited (i.e., specific prohibitions);
- Qualitative characteristics that describe an LCE, and if not exhibited by an entity would ~~generally~~ordinarily preclude the use of the ~~[draft]~~ ISA for LCE for the audit of the financial statements of that entity; and
- Quantitative thresholds to be determined by ~~the~~ legislative or regulatory authorities or relevant local bodies with standard-setting authority in each jurisdiction.

In determining the use of the ~~[draft]~~ ISA for LCE, all three categories ~~[are required]~~ to be considered.

Specific Prohibitions

Paragraph A.1. sets out the classes of entities for which the use of this ~~[draft]~~ standard is specifically prohibited.

A.1. The ~~[draft]~~ ISA for LCE shall not be used if:

- (a) Law or regulation:
 - ~~(i) Explicitly~~ prohibits the use of the ~~[draft]~~ ISA for LCE ~~(i.e., the [draft] standard is not broadly authorized for use in a particular jurisdiction);~~ or
 - ~~(ii) s~~Specifies the use of auditing standards, other than the ~~[draft]~~ ISA for LCE, for an audit of financial statements in that jurisdiction.
- (b) The entity is a listed entity.
- (c) ~~An~~The entity ~~falls into~~meets one of the following ~~classes~~criteria:²
 - (i) An entity one of whose main functions is to take deposits from the public;
 - (ii) An entity one of whose main functions is to provide insurance to the public;
 - (iii) ~~[An entity whose function is to provide post-employment benefits];~~
 - (iv) ~~[An entity whose function is to act as a collective investment vehicle and that issues redeemable financial instruments to the public];~~ or
 - (v) A class of entities where use of the ~~[draft]~~ ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.
- (d)- The audit is an audit of group financial statements³ and:
 - (i) Any of the group's individual entities and business units meets the criteria as described in paragraph A.1.(b) or A.1.(c); or

² As described in paragraph 11 of **Agenda Item 5**, for the purposes of initial revisions, brackets have been added around the two classes that would need to be removed in order to align A.1.(c) with the IESBA Public Interest entity (PIE) definition, however further coordination will continue with the IAASB's Task Force exploring whether changes should be made in the ISAs and International Standards on Quality Management (ISQMs) for the IESBA's Listed Entity & PIE definition.

³ Consistent with the proposed ISA 600 (Revised), Special Considerations–Audits of Group Financial Statements (Including the Work of Component Auditors), group financial statements are financial statements that include the financial information

(ii) [Component auditors are involved.]⁴

- A.2. The classes in paragraph A.1.(a) (b) and (d) are outright prohibitions and cannot be modified. Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.1.(c) but a class cannot be removed.

A.1.(c) sets out some classes of entities that may exhibit public interest characteristics. Entities that have public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the [draft] ISA for LCE. Modifications can be made by adding a class of entities to the list of prohibited entities, permitting specific sub-sets within a class to be able to use the [draft] standard or using quantitative thresholds to prohibit use of the [draft] standard. Legislative or regulatory authorities or relevant local bodies with standard-setting authority may subsequently remove or amend modifications that they have made.

Qualitative Characteristics

The requirements in this ISA for LCE have been designed to be proportionate to the typical nature and circumstance of an audit of an LCE.

The ISA for LCE has not been designed to address:

- Complex matters or circumstances relating to the nature and extent of the entity's business activities, operations and related transactions and events relevant to the preparation of the financial statements.*
- Topics, themes and matters that increase, or indicate the presence of, complexity, such as those relating to ownership, corporate governance arrangements, policies, procedures or processes established by the entity.*

The following list is not exhaustive and other relevant matters may also need to be considered. Each of the qualitative characteristics may on its own not be sufficient to determine whether the [draft] ISA for LCE is appropriate or not in the circumstances, therefore the matters described in the list are intended to be considered both individually and in combination. The characteristics are not intended to be absolute, i.e., if an entity does not exhibit all of these characteristics it would not necessarily exclude the use of [draft ISA for LCE] for that entity.

Notwithstanding that professional judgment is applied in determining whether the standard is appropriate to use, if there is uncertainty about whether an audit meets the criteria as set out in this Authority, the use of the ISA for LCE is not appropriate.

Also, the ISA for LCE does not include any requirements addressing:

- (a) Procedures or matters typically relevant to listed entities, including reporting on segment information or key audit matters.*
- (b) When the auditor intends to use the work of internal auditors, as this would ordinarily not be applicable to an audit of a typical LCE.*

- A.3. The following list describes characteristics of a typical LCE for the purpose of determining the appropriate use of the ISA for LCE. The list is not exhaustive nor intended to be absolute, and

~~of more than one entity or business unit through a consolidation process. The term consolidation process refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also to the presentation of combined financial statements, and to the aggregation of the financial information of entities or business units such as branches or divisions.~~

⁴ For discussion - see paragraphs 58—64 of **Agenda Item 5** for the Task Force views on the potential inclusion of a limitation in relation to the involvement of Component Auditors.

other relevant matters may also need to be considered. Each of the qualitative characteristics may on its own not be sufficient to determine whether the ISA for LCE is appropriate or not in the circumstances. Therefore, the matters described in the list are intended to be considered both individually and in combination. For the purpose of audits of group financial statements, these considerations shall apply to both the group and each of its individual entities and business units. The [draft] ISA for LCE is appropriate for the audit of the financial statements if the entity exhibits the following characteristics:

<u>Business Activities, Business Model & Industry</u>	<p>The entity's business activities, business model or the industry in which the entity operates does not give rise to significant pervasive business risks.</p> <p>and there are no specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements).</p> <p>The entity's transactions result from few <u>lines of</u> business activities or revenue streams.</p>
<u>Organizational Structure and Size</u>	<p>The organizational structure is relatively straightforward, with few reporting lines or levels and a small key management team (e.g., generally 5 individuals or less).</p>
<u>Ownership Structure</u>	<p>The entity's ownership structure <u>is straightforward and there is</u> facilitates clear transparency of ownership and control, <u>such that all individual owners and beneficial owners are known.</u></p>
<u>Nature of Finance Function</u>	<p>The entity has a centralized finance function, including centralized activities related to financial reporting, and with.</p> <p><u>There are</u> few employees involved in financial reporting roles (e.g., generally 5 individuals or less).</p>
<u>Information Technology (IT)</u>	<p>With regard to the entity's information technology: <u>The IT environment of the entity, including its IT applications and IT processes, is straightforward.</u></p> <p>The entity uses commercial software and does not have <u>the ability</u> access to the source code to make any program changes <u>other than to configure the software</u> (notwithstanding the ability to configure the software (e.g., the chart of accounts, reporting parameters or thresholds)).</p> <p>Access to the software is generally <u>limited to</u> one or two designated individuals <u>for the purpose of</u> with administrative access to the software to make <u>making</u> the configurations.</p> <p>Few formalized general IT controls are needed in the entity's circumstances.</p>

<u>Application of the Financial Reporting Framework and Accounting Estimates</u>	<p><u>When there is a need for significant management judgment in the application of the financial reporting framework, it involves few accounts or disclosures in the financial statements of the entity necessitate the use of significant management judgment in applying the requirements of the financial reporting framework and any related significant risk(s) of material misstatement (e.g., resulting from estimation uncertainty) is not pervasive to the entity and the financial statements as a whole.</u></p> <p><u>The entity financial statements typically do not include accounting estimates that involve the use of complex methods or models, assumptions or data.</u></p>
<u>Additional Characteristics Relevant for Audits of Group Financial Statements</u>	
<u>For audits of group financial statements, the following qualitative characteristics are to be considered in addition to those above:</u>	
<u>Group Structure and Activities</u>	<p><u>The group has few entities or business units (e.g., 5 or less).</u></p> <p><u>Group entities or business units are limited to few jurisdictions or geographical locations (e.g., 5 or less).</u></p>
<u>Access to Information or People</u>	<u>Management can provide access to all information and people within the group relevant to the preparation of the group financial statements.</u>
<u>Consolidation Process</u>	<u>The group has a simple consolidation process (e.g., no complex sub-consolidations, simple aggregation/-consolidation adjustments, non-complex intercompany transactions).</u>
<u>Financial Reporting Process</u>	<p><u>Financial information of all entities or business units have been prepared in accordance with the same accounting policies applied to the group financial statements.</u></p> <p><u>All entities or business units have the same financial reporting period-end as that used for group financial reporting.</u></p>
<u>Notwithstanding that professional judgment is applied in determining whether the standard is appropriate to use, if there is uncertainty about whether an audit meets the criteria as set out in this Authority, the use of the ISA for LCE is not appropriate.</u>	

Quantitative Thresholds

A.4. This Part provides for legislative or regulatory authorities or relevant local bodies with standard setting authority to determine quantitative threshold(s) for use of the ISA for LCE. The [draft] ISA for LCE is inappropriate if the following thresholds have been exceeded by the entity in the financial year [or equivalent] subject to audit:

- (a) [Employee headcount: [designated by jurisdiction [and/or]
- (b) Revenue of [designated by jurisdiction] [and/or]
- (c) Net Assets of [designated by jurisdiction] [and/or]

~~(d) — [Other]]~~

Setting quantitative thresholds assists in the consistent use of the ISA for LCE in a jurisdiction. Guidance on setting quantitative thresholds is described further in the Authority Supplemental Guide. Quantitative thresholds may be set, for example, for all entities within the jurisdiction in general, or for entities within a specific or certain industry(ies) or for certain classes of entities.

When determining whether the ISA for LCE is appropriate to use, quantitative thresholds are to be considered in addition to the specific prohibitions in paragraph A.1. and the qualitative characteristics in paragraph A.3.

Responsibilities of Legislative or Regulatory Authorities or Relevant Local Bodies

Decisions about the required or permitted use of the IAASB's International Standards (including the International Standards on Auditing (ISAs) and the ISA for LCE) rest with legislative or regulatory authorities or relevant local bodies with standard-setting authority (such as regulators or oversight bodies, jurisdictional / national auditing standard setters, professional accountancy organizations or others as appropriate) in individual jurisdictions. ~~This applies to the International Standards on Auditing (ISAs) and the [draft] ISA for LCE.~~

As part of the local adoption and implementation process, legislative or regulatory authorities or relevant local bodies with standard-setting authority:

- M~~ay~~ add or modify the classes of entities in paragraph A.1.(c) as set out in paragraph A.2.
- A~~re required to [encouraged to] anticipated to~~ determine ~~the~~ quantitative thresholds described in paragraph A.4.

In doing so, the specific prohibitions, ~~and the~~ qualitative characteristics and quantitative thresholds should be considered, as well as other specific needs that may be relevant in the jurisdiction. The Authority Supplemental Guide may be helpful when determining the permitted use of the ~~[draft]~~ standard for a jurisdiction.

GS 003
(September 20~~22~~²⁴)

Guidance Statement GS 003

Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001

Issued by the Auditing and Assurance Standards Board

Draft



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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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 003 *Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

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

This Guidance Statement does not prescribe or create new requirements.

Dated: ~~XXX30-September-2015~~

~~W R Edge~~
Chairman - AUASB

GUIDANCE STATEMENT GS 003

Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001

Application

1. This Guidance Statement (GS) has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors conducting assurance engagements relating to Australian financial services licensees (Licensees) reporting in accordance with the requirements of Chapter 7 of the *Corporations Act 2001* (the Act) and the associated *Corporations Regulations 2001* (the Regulations).

Issuance Date

2. This Guidance Statement is issued on ~~XXX~~30 September 2015 by the AUASB and replaces GS 003 *Audit and Review Requirements for Australian Financial Services Licensees under the Corporations Act 2001*, issued in ~~September~~October 2015⁷.

Introduction

3. In order to provide financial services in Australia, a person or entity is required by the Act to either hold an Australian Financial Services Licence (AFSL) (~~à~~ a Licensee) or be an authorised representative of the AFSL holder. The Australian Securities and Investments Commission (ASIC) has responsibility for assessing and granting AFSLs on the basis of criteria set out in the Act¹. In addition, ASIC enforces financial and assurance requirements for Licensees to meet their obligations under the Act.
4. The assurance requirements relating to Licensees may give rise to a number of special assurance considerations. Accordingly, this Guidance Statement has been developed to identify, clarify and summarise the responsibilities which the auditor has with respect to conducting such assurance engagements, and to provide guidance to the auditor on additional factors which the auditor may consider when planning, conducting and reporting in relation to the assurance engagements of Licensees.
5. This Guidance Statement does not extend the responsibilities of the auditor beyond those which are imposed by Auditing Standards, Standards on Assurance Engagements (ASAEs), the requirements of the Act and the Regulations, applicable ASIC regulatory documents, ~~and~~ and legislative instruments.
6. This Guidance Statement is to be read in conjunction with, and is not a substitute for referring to the requirements and application and other explanatory material contained in:
 - (a) The Auditing Standards;
 - (b) Applicable Standards on Assurance Engagements, including ASAE 3000,² ASAE 3100,³ ASAE 3150⁴ and ASAE 3450.⁵

¹ Part 7.6 Division 4 of the Act.

² See ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

³ See ASAE 3100 *Compliance Engagements*.

⁴ ASAE 3150 *Assurance Engagements on Controls* ~~is operative for assurance engagements commencing on or after 1 January 2016. Early adoption of ASAE 3150 is permitted only in conjunction with the adoption of revised ASAE 3000 prior to this date.~~

⁵ ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* is applicable when providing assurance around the cash needs requirements for AFSLs as required within section 4 of FS71.

- (c) Applicable ASIC regulatory documents including Regulatory Guide 166 *Licensing: Financial requirements* (RG 166) reissued in ~~April 2021~~⁴⁵ and Pro Forma 209 *Australian financial services licence conditions* (PF 209) reissued in July 20~~22~~⁴⁵; and
 - (d) Applicable ASIC Class orders including ASIC Class Order CO 13/760 *Financial Requirements for responsible entities and operators of investor directed portfolio services*; CO 13/761 *Financial requirements for custodial or depository service providers*; and CO 12/752 *Financial requirements for retail OTC derivative issuers*.
7. This Guidance Statement should not be used as a checklist of issues to be considered by the auditor. Furthermore, it is not intended that this Guidance Statement limits or replaces the auditor's professional judgement or limits the application of AUASB Standards on such engagements. AUASB Standards contain the basic principles and essential procedures to be applied to assurance engagements. Assurance engagement programs are to be designed by the auditor to meet the requirements of ~~a Licensee's~~^{the} particular circumstances, giving careful consideration to the size and type of the Licensee and the adequacy of its internal control structure.

Legislative Background

8. The *Financial Services Reform Act 2001* (FSR Act) and the overall AFS licensing regulatory regime, which is administered by ASIC, are operative for all Licensees under Chapter 7 of the Act.
9. The FSR Act provides a single licensing regime for financial advice and dealings in relation to financial products. The Act requires a person or an entity that operates a financial services business to hold an AFSL or be authorised by the Licensee.

Definitions

10. For the purposes of this Guidance Statement, the following items have the meanings attributed below:
- (a) Auditor — A registered company auditor⁶.
 - (b) AUASB Standards — Australian Auditing Standards and Standards on Assurance Engagements, Standards on Review Engagements and Standards on Related Services.
 - (c) Assurance Engagement — An engagement in which an auditor aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).
 - (i) Reasonable assurance engagement — An assurance engagement in which the auditor reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the auditor's conclusion. The auditor's conclusion is expressed in a form that conveys the auditor's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.
 - (ii) Limited assurance engagement — An assurance engagement in which the auditor reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence

⁶ Section 990B(1) of the Act.

obtained, a matter(s) has come to the auditor's attention to cause the auditor to believe the subject matter information is materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the auditor's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the auditor is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

Selected Regulatory Requirements for AFS Licensees

Corporations Act Requirements

11. The Act⁷ requires the Licensee to prepare and lodge a profit and loss statement and balance sheet with ASIC. In addition, Licensees other than limited Licensees,⁸ are required⁹ to lodge an auditor's report in ~~the~~ prescribed form with ASIC for each financial year. ASIC requires the ~~Licensee's financial statements profit and loss statement (Statement of Profit and Loss and Other Comprehensive Income) and balance sheet (Statement of Financial Position) and notes to the Statement of Profit and Loss and Other Comprehensive Income and Statement of Financial Position (the "financial report")~~ to be attached to the form: *Australian financial services licensees: profit and loss statement and balance sheet* (FS70). ~~The form also requires compliance with the accounting standards to the extent outlined in FS 70.~~ Form FS70 can be found on the ASIC website www.asic.gov.au.
12. Section 989D(1) of the Act and regulation 7.8.14A of the Regulations require the Licensee to lodge FS70 and ~~the form~~ *Auditor's Report for AFS Licensee* (FS71) with ASIC within the following timeframes:
 - (a) if not a body corporate – the day that is two months after the end of that financial year;
 - (b) if a body corporate that is a disclosing entity or a registered scheme – the day that is three months after the end of that financial year; or
 - (c) if a body corporate that is not a disclosing entity or registered scheme – the day that is four months after the end of that financial year.
13. Many Licensees lodge annual financial reports and the auditor's report under Chapter 2M of the Act (within three or four months of the financial year) with ASIC. The lodgement requirements under Chapter 2M and Part 7.8 of the Act are separate obligations, ~~and~~ so it is necessary for Licensees to lodge financial statements under both provisions. The lodgement requirements under Chapter 2M of the Act apply to companies in general, ~~and are not affected by the FSR Act.~~ Only the financial reports lodged under Chapter 2M are on public record, ~~while~~ FS70 and FS71 contain information that is not required under Chapter 2M. ~~Even if~~ ~~the~~ Licensee is not required to lodge annual reports under Chapter 2M, they are still required to lodge FS70 and FS71 with ASIC under Part 7.8 of the Act.
14. The Licensee can apply to ASIC for an extension of time to lodge FS70 and FS71 under Section 989D(3) of the Act.

⁷ Section 989B(1) and 989B(2) of Part 7.8 of the Act.

⁸ Limited licensees are defined in section 989B(4) of the Act (introduced by the Regulation 7.8.12A).

⁹ Section 989B(3) of Part 7.8 of the Act.

Financial Requirements for AFS Licensees

Financial Requirements for APRA Regulated Entities, Market and Clearing Participants

15. The base level financial requirements (refer paragraph 18) and other financial requirement conditions, as set out in ASIC Pro Forma 209 (PF 209), do not apply, but FS70 and FS71 are still required to be lodged with ASIC, if the Licensee is either:
- (a) a body regulated by the Australian Prudential Regulation Authority (APRA) as defined in Section 3(2) of the *Australian Prudential Regulation Authority Act 1998*;
 - (b) a market participant (other than a principal trader, unless the principal trade is a registered market trader) as defined in Key Terms in RG 166 as an entity that is a participant of a financial market on which financial products are traded. Financial markets are operated by:
 - (i) ASX Limited (ASX market) that is required to comply with, and complies with, the rules of the *ASIC Market Integrity Rules (ASX Market) 2010* that impose financial requirements, taking into account any waiver by ASIC;
 - (ii) ~~Cboe~~¹⁰ Australia Pty Limited (~~Cboe~~ market) and APX markets that are required to comply with, and comply with, the rules of the *ASIC Market Integrity Rules (Cboe Australia Market) 2011* and *APX market 2013* that impose financial requirements, taking into account any waiver by ASIC; or
 - (iii) Australian Securities Exchange Limited (ASX 24 market), that restricts its financial services business to participating in the ASX 24 market and incidental business¹⁰; and is required to comply with, and complies with, the rules of the *ASIC Market Integrity Rules (ASX 24 Market) 2010* that impose financial requirements, taking into account any waiver by ASIC; or
 - (c) a clearing participant as defined in Key Terms in RG 166 as a Participant defined in section 761A of the Act in relation to a clearing and settlement facility (“CS facility”), where that facility is the licensed CS facility operated by:
 - (i) ASX Clear Pty Limited, and the Licensee is required to comply with, and complies with, the operating rules of ASX Clear Pty Limited that impose financial requirements, taking into account any waiver of those requirements by ASX Clear Pty Limited; or
 - (ii) ASX Clear (Futures) Pty Limited, and the Licensee restricts its financial services business to participating in that CS facility and incidental business; and is required to comply with, and complies with, the operating rules of ASX Clear (Futures) Pty Limited that impose financial requirements, taking into account any waiver of those requirements by ASX Clear (Futures) Pty Limited.
16. Where a Licensee is a body regulated by APRA, PF 209 condition 27 requires the auditor’s opinion to state whether for the relevant period, the Licensee was a body regulated by APRA at the end of the financial year or for any period of time that ASIC requests. ASIC includes this licence condition confirmation as an *Application Statement* made under section 1 of FS71. The auditor completes the *Application Statement* in FS71.
17. Where a Licensee is a market participant or a clearing participant, PF 209 condition 28 requires the auditor’s opinion to state whether, during any part of the period for which the

¹⁰ ASIC Regulatory Guide RG 166.19886 explains that the relevant financial requirement in the ASIC market integrity rules may not be sufficient where an ASX 24 participant undertakes additional business.

Licensee relied on being a market participant or clearing participant, the Licensee was a participant in the market conducted by:

- (a) ASX market;
~~Chi-X market~~;
- (b) ASX 24 market, and restricted its financial services business to participating in the ASX 24 market and incidental business;
- ~~(c)~~ Cboe market;
- ~~(d)~~ FEX market;
- ~~(e)~~ NSX market;
- ~~(f)~~ SSX market;
- ~~(e)(g)~~ Licensed CS facility operated by ASX Clear Pty Limited;
- ~~(d)(h)~~ Licenced CS facility operated by ASX Clear (Futures) Pty Limited, and restricted its financial services business to participating in the licensed CS facility and incidental business; or
- ~~(e)~~ APX market.

ASIC includes this licence condition confirmation as an *Application Statement* made under section 1 of FS71. The auditor completes the *Application Statement* in FS71.

18. All Licensees that are not exempt from the base level financial requirements are required to comply with these requirements under the Act. The base level financial requirements (summarised in Appendix 3) include:
- (a) the solvency and positive net assets requirements;
 - (b) the cash needs requirement (appendix 6), unless a tailored cash needs requirement applies (refer paragraph 20 and 21).
19. In addition, there are financial requirements specified in PF 209 and RG 166 for:
- (a) trustee companies providing traditional services (net tangible assets requirement, refer to PF 209 condition 19B and RG 166 Appendix 5);
 - (b) issuers of margin lending facilities (net tangible assets requirement, refer to PF 209 condition 19A and RG 166 Appendix 6);
 - (c) foreign exchange dealers (tier one capital requirement, refer to PF 209 condition 20 and RG 166 Appendix 7);
 - (d) holding client money or property (tiered surplus liquid funds requirement, refer to PF 209 condition 21 and RG 166 Section C);
 - (e) transacting with clients as principal (adjusted surplus liquid funds (ASLF) requirement, refer to PF 209 condition 22 and RG 166 Section D); and
 - (f) reporting triggers for Licensees who are not APRA regulated and are not retail over the counter (OTC) derivative issuers (refer to PF 209 conditions 23-26 and RG 166.8~~23~~).

Financial Requirements for Responsible Entities, Operators of Investor Directed Portfolio Services (IDPS), Custodial or Depository Service Providers, ~~and~~ Retail OTC Derivative Issuers, Crowd Source Funding Intermediary and Corporate Director of Retail Collective Investment Vehicles

20. In addition to the standard solvency and positive net assets requirements specified in paragraph 18, tailored financial and assurance requirements apply to the following types of Licensees:
- (a) A responsible entity authorised to operate a managed investment scheme and IDPS operators.
 - (b) Custodial or depository service providers.
 - ~~(c)~~ Retail OTC derivative issuers.
 - ~~(d)~~ Crowd-sourced funding intermediary (CSF).
 - ~~(e)~~ Corporate Director of Retail Corporate Collective Investment Vehicles (CCIV).
21. Tailored financial and assurance requirements that apply to Licensees mentioned in paragraph 20 include:
- (a) tailored cash needs requirement (refer Appendix 4);
 - (b) tailored net tangible assets (NTA) requirement;
 - (c) tailored liquidity requirement; and
 - (d) tailored assurance requirement (refer Appendix 5).

Refer Appendix 3 for more details and relevant regulatory references.

Reporting ~~Framework~~ Entity Concept

- ~~22. Licensees are required to lodge their annual financial report and Form FS70 with ASIC. From 1 July 2021 ASIC has updated the financial reporting requirements of Licensees in Form FS 70. Licensees reporting under Chapter 2M and Chapter 7 of the Corporations Act 2001 will be required to prepare general purpose financial statements (GPFS). Subject to some transitional arrangements, from years commencing 1 July 2021, special purpose financial statements (SPFS) will no longer be able to be prepared¹¹. Instead, Licensees will prepare either Tier 1 or Tier 2 GPFS depending on whether they meet the definition of public accountability set out in AASB 1053 *Application of Tiers of Australian Accounting Standards*¹². However, ASIC also specifies that certain licensees are required to prepare Tier 1 GPFS¹³.~~

~~Licensees are required to lodge the annual financial report attached to the FS70. Where Licensees have not previously prepared a financial report or, in very rare circumstances, have previously prepared a special purpose financial report, then the auditor considers whether the Licensee is a reporting entity. Guidance as to what constitutes a reporting entity is contained~~

¹¹ Licensees that meet the requirements of the transitional arrangements can choose to defer the new financial reporting requirements by one year. Therefore, in respect of a financial year commencing from 1 July 2021 to 23 June 2022, eligible licensees can continue to prepare SPFS that disclose the profit and loss account and balance sheet and information necessary to give a true and fair view. The transitional arrangements also provide eligible licensees relief from presenting comparative information in their GPFS for financial years commencing before 23 June 2022, where that information was not presented in the financial statements in the immediately preceding period.

¹² In accordance with AASB 1053, an entity has public accountability if "its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses".

¹³ See ASIC Form FS 70 Part 1 Certification 11(a)(ii).

~~in Statement of Accounting Concepts SAC 1 Definition of the Reporting Entity issued by the Australian Accounting Standards Board (AASB). The decision as to whether an entity is a reporting entity needs to be made on a case by case basis in accordance with SAC 1. A requirement to prepare and/or lodge a financial report with ASIC pursuant to the Act does not, of itself, deem that entity to be a reporting entity.~~

~~In most circumstances the Licensee will be a reporting entity and hence lodge a “general purpose” financial report. A Licensee’s general purpose financial report may be subject to the reporting requirements under Accounting Standard AASB 1053 Application of Tiers of Australian Accounting Standards issued by the AASB and accordingly may be subject to reduced disclosure requirements.~~

Natural Persons

~~22.23.~~ ASIC has issued ~~class order CO-03/748~~ Instrument 2017/307 ASIC Corporations (Financial Reporting: Natural Person Licensees) ~~Reporting requirements under s989B~~ on reporting requirements for Licensees who are natural persons. A natural person is defined as an individual, as opposed to a company, partnership or trustee. Instrument 2017/307 CO-03/748 states that where the licensee is a natural person, the licensee may exclude from the profit and loss statement, the revenue and expense that do not relate to any business of the licensee or all the revenue and expenses that do not relate to a financial services business of the licensee.

~~23.24.~~ Alternatively, a natural person licensee can choose not to rely on Instrument 2017/307 CO-03/748 and instead include in a profit and loss statement all of their revenues and expenses, whether personal or business. The relief under Instrument 2017/307 CO-03/748 is confined to the preparation of the profit and loss statement. ASIC requires a natural person licensee to still prepare a balance sheet that discloses all of their assets and liabilities, including their personal assets and liabilities and the assets and liabilities of any other business.

FS71 Auditor Reporting Requirements

~~24.25.~~ The FS71 auditor’s report requires:

- (a) Confirmation as to whether an auditor’s report on the financial report was prepared separately to the FS71, in order to meet the licensee’s obligation to lodge it with ASIC in accordance with section 989B(3) of the Act, and attached to the financial report lodged with the FS70 (~~included within~~ see section 2 of FS71).
- (b) Reasonable assurance on the following matters as stated in Regulation 7.8.13(2) of the Regulations (included within section 2 of FS71):
 - (i) the effectiveness of internal controls used by the Licensee to comply with:
 - Divisions 2, 3, 4, 4A,¹⁴ 5 and 6 of Part 7.8 of the Act; and
 - Division 7 of Part 7.8 of the Act other than section 991A; and
 - (ii) whether each account required by sections 981B and 982B of the Act to be maintained by the Licensee has been operated and controlled in accordance with those sections; and
 - (iii) whether all necessary records, information and explanations were received from the Licensee.

¹⁴ Division 4A is added by virtue of regulation 7.8.12A of the Regulations.

- (c) Reasonable assurance that the Licensee complies with the specific financial requirements under the licence; and a combination of reasonable and limited assurance in relation to the relevant cash needs requirements either as outlined in:
 - (i) Appendix 4 and 5 if the Licensee is a responsible entity, an operator of IDPS, a custodial, a depository service provider or a retail OTC derivative issuer, that is subject to tailored cash and audit requirements (included within sections 4 and sections 6-8 of FS71); or
 - (ii) Appendix 6 if the Licensee is not a body regulated by APRA or a market or clearing participant or a body subject to tailored cash and audit requirements (refer paragraph 18(b)) (included within sections 4 and 5 of FS71).
- (d) A report that there are no matters that should have been reported to ASIC in accordance with section 990K of the Act during or since the financial year that have not previously been reported to ASIC, other than the matters detailed in FS71 (section 134 of FS71).

25:26. ASIC Pro Forma 209 Australian financial services licence conditions (PF 209), reissued in July 2022~~15~~, sets out the standard licence conditions which subject to individual circumstances, will usually be applied to licences authorising a person to provide financial services under the AFSL. It is important that the individual AFSL conditions are examined carefully so that the appropriate reporting and auditing obligations are met.

26:27. In addition, ASIC Class Orders CO 12/752, CO 13/760 and CO 13/761 set out the financial requirements applicable to specific categories of Licensees. It is important that these tailored requirements are examined carefully so that the appropriate financial and auditing obligations are met.

Exemptions From Lodging Form FS71

27:28. The holder of a limited AFSL is not required to lodge FS71 with ASIC. Regulation 7.8.12A and 7.8.13A of the Regulations exempts limited Licensees¹⁵ from lodging an auditor's report with ASIC, but requires the lodgement of a compliance certificate with ASIC. Under sections 989B(1) and 989B(2) of the Act, limited Licensees are still required to prepare and lodge with ASIC, a profit and loss statement and balance sheet in the approved form FS70 within the required timeframes. Where the licensee holds a limited AFSL for part of the financial year but holds a full license for the remainder of the year, the FS71 is required to be completed for the part of the year for which the full licence is held.

28:29. A foreign Authorised Deposit-taking Institution ("ADI") which holds the AFSL ~~that~~ has relief under ~~Instrument 2016/186 ASIC Corporations (Foreign Licensees and ADIs) Class Order 03/823~~ *Relief from licensing, accounting and audit requirements for foreign authorised deposit-taking institutions*, is not required to lodge FS71 with ASIC. It is exempt from the requirements of section 989B of the Act, where equivalent reports prepared for the overseas regulator of the foreign ADI are lodged with ASIC at least once in every calendar year and at intervals of not more than 15 months.

29:30. Where the foreign ADI is also regulated by APRA and the AFSL contains condition 27 in PF 209, then it is necessary for the foreign ADI to lodge an audit report (even if the foreign ADI is exempt under ~~Instrument 2016/186 Class Order 03/823~~), that states whether for the relevant period, on a reasonable assurance basis, the Licensee was a body regulated by APRA at the end of the financial year or for any period of time that ASIC requests. This is because the APRA regulation confirmation requirement is in addition to Section 989B of the Act or ~~Instrument 2016/186 Class Order 03/823~~. The format of this audit report does not need to be in accordance with FS71. To avoid any processing problems, ASIC requires the audit report

¹⁵ Limited licensees are defined in regulation 7.8.12A of the Regulations.

to be lodged and accompanied by a letter identifying the Licensee, licence number and financial year, and clearly stating the reasons why FS71 has not been lodged. ASIC requires this letter to include reference to the ~~instrumentclass order~~ and to the requirement for a report pursuant to the relevant licence condition.

~~30.31.~~ ~~Instrument 2016/186Class Order 06/68 Conditional relief for foreign licensees from financial reporting and record keeping obligations~~, issued ~~24 March 20163 February 2006~~ provides that a foreign company AFSL holder ~~-(other than a foreign ADI)~~ can lodge accounts prepared for their home regulator with ASIC to meet their AFSL requirements. As a result the foreign company does not have to comply with regulations made for the purposes of sections ~~998A~~, ~~9889B~~, ~~988D(a)~~ and ~~9889FC~~ of the Act and hence is not required to lodge FS70 or FS71.

~~31.32.~~ RG 166, ~~849~~ also states that if the Licensee is prudentially regulated overseas, they can apply to ASIC for relief from the financial requirements. ASIC will give this relief on a case-by-case basis if they are satisfied that the applicant is regulated in a way that is comparable to regulation by APRA for entities of that kind. If applicable, ASIC will consider the extent to which the relevant foreign prudential regulation is consistent with the Basel Committee guidelines for regulating deposit-taking institutions.

Considerations for the Auditor

~~32.33.~~ ASIC form FS70 is completed and lodged by the Licensee. The auditor does not have any reporting requirements in relation to FS70. The auditor inserts the date the FS70 was signed by the Licensee ~~within~~ Section 2 of FS71. ~~The auditor initials the financial report for identification purposes, that the lodged financial report is that which was audited. In~~ Within section 2 of FS71, the auditor confirms that the auditor's report was prepared for the licensee, in order for the licensee to meet their obligation to lodge it with ASIC, in accordance with section 989B(3) of the Act. Section 2 of FS71 also requires the auditor to confirm whether the auditor's report was qualified, otherwise modified or unmodified.

Those Who May Audit the AFS Licensee

~~33.34.~~ Section 990B(1) of the Act and regulation 7.8.16(1)(a) of the Regulations, requires the Licensee to ensure that at all times a registered company auditor who is not made ineligible through regulation 7.8.16 of the Regulations is engaged to audit the Licensee's financial report.

Agreeing on the Terms of the Engagement

~~34.35.~~ The auditor complies with the requirements contained in ASAE 3000, ASAE 3100, ASAE 3150 and ASAE 3450 when agreeing on the terms of the Licensee's assurance engagement in writing. Such terms may be outlined in an engagement letter,¹⁶ an example of which is provided in Appendix 1 to this Guidance Statement. ASA 210¹⁷ contains information that the auditor may find helpful when agreeing on the terms of the engagement in this context.

~~35.36.~~ The auditor may also use the engagement letter to clarify the respective roles of the Licensee and the auditor. In particular, it is important to highlight in the engagement letter the Licensee's obligation to establish and maintain effective internal control in relation to compliance with the requirements of the Act. It is the responsibility of the Licensee to comply with all the conditions under its AFSL, including all of the financial requirements. As part of the acceptance of the assurance engagement, the auditor may consider obtaining acknowledgment of this obligation from those charged with governance of the Licensee when obtaining agreement on the terms of the engagement.

¹⁶ Or other suitable form of audit contract.

¹⁷ See ASA 210 *Agreeing the Terms of Audit Engagements*.

Planning

36.37. The auditor plans the engagement in accordance with ASAE 3000, ASAE 3100, ASAE 3150 and ASAE 3450. In planning the auditor performs preliminary engagement activities to establish and document the overall assurance engagement strategy that sets the scope, timing and direction of the engagement, and guides the development of the engagement.

37.38. ASA 315¹⁸ contains information that the auditor may find helpful when obtaining an understanding of the entity and its environment, including its internal controls, to provide a basis for the identification and assessment of the risks of material misstatement in relation to financial requirements, compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Act and operating effectiveness of controls whether due to fraud or error, sufficient to design and perform further audit procedures.

Understanding the Entity and its Environment

38.39. In gaining an understanding of the entity and its environment, the auditor can draw on knowledge gained as part of the annual financial statement audit, however this understanding needs to be updated and broadened to address the subject matters included in an engagement on AFSLs issued under the Act.

- (a) ASAE 3100¹⁹ provides a list of matters to be considered by the auditor in understanding the entity and the compliance framework with respect to the compliance section of the engagement;
- (b) ASAE 3150 provides a list of matters to be considered by the auditor in understanding the entity with respect to the controls section of the engagement; and
- (c) ASAE 3450 provides a list of matters to be considered by the auditor in understanding the entity with respect to projections and the cash requirements section of the engagement.

39.40. In planning the reasonable assurance sections of the engagement, the auditor will usually conduct the following procedures in obtaining that increased understanding and assessing risk: enquiries, analytical procedures, observation, inspection and reperformance.

40.41. For the limited assurance sections of the engagement the auditor does not normally develop the depth of understanding of internal controls in relation to those areas, as is required in a reasonable assurance engagement, and gaining an understanding may be limited to enquiries.

Identifying and Assessing Risks of Material Misstatements, Compliance Breaches or Control Deficiencies

41.42. The auditor of the Licensee may consider:

- (a) Key responsibilities and risks identified by the Licensee;
- (b) Reliability and processes of reporting systems established by the Licensee to implement the licence conditions; and
- (c) Adequacy ~~of and~~ processes ~~and of~~ systems established by the Licensee to monitor adherence to the licence conditions and the Act requirements. The auditor may obtain from management a copy of the licence conditions, together with any documentation of the procedures and processes which the Licensee has established to ensure compliance with those licence conditions.

¹⁸ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

¹⁹ See ASAE 3100, paragraphs ~~30-46~~~~28-32~~ and 50.

42.43. In planning the assurance engagement and in assessing risk, the auditor considers matters including:

- The licence conditions.
- The nature and extent of any recent changes to the licence conditions and whether any detected breaches are deemed to be reportable in light of the revised licence conditions.
- The nature of and extent of any changes to the operations of the Licensee itself.
- Changes since the last reporting period to:
 - (i) the requirements of relevant AUASB Standards;
 - (ii) the Act and Regulations; and
 - (iii) relevant ASIC Regulatory Guides, ~~and~~ Class Orders and Legislative Instruments.
- Reports and other documents submitted to the board of the Licensee regarding the operation of the licence and its compliance functions.
- Previous auditor's reports, including the auditor's report on the financial report of the Licensee, and related management letters.
- History of non-compliance with licence conditions.

Overall Responses to Assessed Risks of Material Misstatement in Financial Requirements, AFSL Compliance Breaches and Deficiencies in Controls

43.44. The auditor designs and performs further assurance procedures which are responsive to the assessed risks of material misstatement, material compliance breach or deficiency in controls. In obtaining reasonable assurance, the auditor chooses a combination of assurance procedures, which may include: inspection, observation, confirmation, recalculation, re-performance, analytical procedures and enquiry.

44.45. ASAE 3000 clearly differentiates between the objectives of a limited versus a reasonable assurance engagement, and provides detail around the sufficiency of audit evidence on which to base conclusions. The nature, timing and extent of evidence gathering procedures which are conducted in any given circumstance is a matter of professional judgement and is determined in response to the auditor's determination of materiality, risk assessment and the results of the procedures conducted in response to assessed risks. As the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the auditor will perform will vary in nature from and will be less in extent than for a reasonable assurance engagement. In a limited assurance engagement procedures primarily involve enquiries and substantive analytical procedures and may not include tests of controls (except where the subject matter is controls).

45.46. Although procedures in a limited assurance engagement will be more limited in nature, timing and extent than for a reasonable assurance engagement, ASAE 3000, ASAE 3100 and ASAE 3150 require additional procedures to be conducted if the auditor becomes aware of a matter which causes them to believe the subject matter may be materially misstated or there may be material compliance breaches or control deficiencies. The auditor may conduct procedures more akin to a reasonable assurance engagement on this particular matter in order to satisfy themselves that either the subject matter is not materially misstated, it is materially compliant or the controls are operating effectively, in all material respects.

46-47. In a reasonable assurance engagement, procedures may include tests of controls as well as substantive testing. When conducting a reasonable assurance engagement, if the auditor is able to obtain evidence that the controls they wish to rely on are operating effectively, then the nature, timing and extent of substantive testing may be reduced or modified. If reliance is to be placed on the operating effectiveness of controls throughout the period, then testing will need to cover that period. Alternatively, if the identified controls are not operating effectively, then the nature, timing or extent of substantive testings will need to be increased or modified.

Materiality

47-48. The auditor considers materiality when determining the nature, timing and extent of assurance procedures. The objectives of setting materiality are to establish:

- (a) A tolerable level of misstatement in relation to financial requirements, deficiency in controls, or non-compliance with AFSL conditions;
- (b) The scope of assurance work to be performed; and
- (c) A reasonable basis for evaluating identified misstatements, deficiencies, or non-compliance.

Materiality is addressed in the context of the Licensee's auditor's objectives, which are developed having regard to the reasonable expectations of issues that would likely influence the decisions of the user(s).

48-49. The auditor sets materiality in accordance with ASAE 3000, ASAE 3100, ASAE 3150 and ASAE 3450. ASA 320²⁰ contains information that the auditor may find helpful in this context. In considering materiality the auditor exercises professional judgement having regard to the Licensee's obligations, together with the size, complexity and nature of the Licensee's activities. The auditor develops separate materiality levels for each section of the engagement as follows:

- (a) For the compliance sections of the engagement, materiality is set in accordance with requirements in ASAE 3000 and ASAE 3100;
- (b) For the controls sections on of the engagement, materiality is in accordance with requirements in ASAE 3150; and
- (c) For projections under the cash needs requirements, materiality is set in accordance with requirements in ASAE 3450.

49-50. As identified in ASAE 3000, ASAE 3100, ASAE 3150 and ASAE 3450, when assessing materiality, the auditor considers qualitative factors as well as quantitative factors.

50-51. Materiality is determined in the same way whether the engagement is a reasonable or limited assurance engagement. The difference between reasonable and limited assurance engagements lies in the nature, timing and extent of evidence gathering procedures, which will differ in order to reduce the risk of a material misstatement, compliance breach or control deficiency remaining undetected to an acceptably low level, in the case of a reasonable assurance engagement, or to a limited level, in the case of a limited assurance engagement. The risk of material misstatements, compliance breaches or control deficiency in a limited assurance engagement is not reduced to the same extent as in a reasonable assurance engagement, because of the more limited nature, timing and extent of procedures conducted. In a limited assurance engagement, the auditor seeks to obtain a meaningful level of assurance,

²⁰ See ASA 320 *Materiality in Planning and Performing an Audit*.

which is likely to enhance the intended users' confidence about the subject matter to a degree that is clearly more than inconsequential.

~~51.~~52. When determining materiality, the auditor considers ASIC Regulatory Guide RG 34 *Auditor's obligations: Reporting to ASIC* that contains information on the obligations of an auditor of a Licensee in terms of breach reporting and ASIC Regulatory Guide RG 78 *Breach Reporting by AFS licensees and credit licensees* that contains information on Licensees breach reporting obligations.

~~52.~~53. Although there is a greater risk that misstatements, control deficiencies or non-compliance may not be detected in a limited assurance engagement than an reasonable assurance engagement, the judgement as to what is material is made by reference to the subject matter on which the auditor is reporting and the needs of those relying on that information, as opposed to the level of assurance obtained.

Other Immaterial Matters Requiring Reporting to ASIC

~~53.~~54. An auditor may have concluded that it is appropriate to issue an unmodified opinion or conclusion but during the course of the engagement may have identified non-material matters. The auditor is not expected to modify their audit approach to detect such matters, ~~however it is only~~ non-material matters that may come to the auditor's attention as a result of their audit procedures in relation to:

- Report on internal controls and required accounts (section 2, FS71)
 - ◆ Specified internal controls not being effective; or
 - ◆ Required accounts not being operated or controlled as required; and/or
- Report on records, information and explanations (section 2, FS71)
 - ◆ Necessary records, information and explanations not received from the licensee; and/or
- Licensee not compliant with matters referred to in the auditor's opinions included in sections 4-~~108~~ of FS71 including:
 - ◆ Compliance with financial or other conditions of the licence;
 - ◆ Compliance with requirements of the Act;
 - ◆ Whether the licensee had the required cash flow projections;
 - ◆ Whether the projections were correctly calculated;
 - ◆ Whether the basis of assumptions used was unreasonable;
 - ◆ Whether the licensee had adequate RMSs

These non-material matters are included in section 119 of FS71 unless they have already been reported to ASIC under section 990K of the Act or have been included elsewhere in FS71.

Auditor Considerations Relating to FS71

Application Statements (FS71, section 1)

~~54.~~55. The auditor completes the Application Statements in section 1 of FS71. The Application Statements confirm the basis of the auditor's completion of the FS71.

Confirmation of Auditor's Report on the Licensee's Financial Report (FS71, section 2)

~~55.56.~~ Section 2 of FS71 requires the auditor to confirm whether an auditor's report on the financial ~~statements~~~~report~~ was prepared separately to the FS71, and attached to the financial report lodged with the FS70, in order for the licensee to meet their obligation under section 989B(3) of the Act. In addition, the auditor confirms whether the report was qualified, otherwise modified or unmodified.

Reasonable Assurance - Controls (FS71, section 2)

~~56.57.~~ Section 2 of the FS71 audit report requires reasonable assurance on the control environment to achieve compliance with the requirements of Divisions 2, 3, 4, 4A, 5 and 6 of Part 7.8 of the Act and Division 7 of Part 7.8 other than section 991A. These provisions include:

- Dealing with clients' money.
- Dealing with other property of clients.
- Special provisions relating to insurance.
- Obligations to report.
- Financial records, statements and audit.
- Other rules about conduct (i.e. giving priority to client orders, transmission of instructions through licensed markets, maintaining records of instruction, dealing with non-licensees and employees).

Planning Assurance on Controls

~~57.58.~~ In assessing the control environment, the auditor needs to determine which of the controls at the Licensee are necessary to achieve compliance with Divisions 2, 3, 4, 4A, 5 and 6 of Part 7.8 of the Act; and Division 7 of Part 7.8 of the Act (other than section 991A).

~~58.59.~~ Where the auditor is unable to identify controls which are suitable or controls as designed are not suitable to achieve compliance with each requirement, if operating effectively, this may constitute a deficiency in relation to the suitability of design which would result in the controls being ineffective.

~~59.60.~~ The auditor assesses the risk of the controls necessary to achieve the compliance requirements not operating effectively and uses professional judgement in determining the specific nature, timing and extent of procedures to be conducted.

Obtaining Evidence on Controls

~~60.61.~~ Controls to achieve compliance with Division 2 of Part 7.8 subdivision A of the Act relating to handling of client money need to ensure:

- Client money is identified.
- An approved trust account is established for client money.
- Client money is paid into the trust account within one business day.
- Money is only withdrawn from the trust account in accordance with regulation 7.8.02 of the Regulations.
- Client and Licensee money is properly separated in accordance with regulation 7.8.01 of the Regulations.

- Interest on client money is treated in accordance with requirements.
- Surplus liquid funds requirements are met if ~~no~~ client money is held.
- Appropriate processes for regularly reconciling the balances in the approved trust account.

61.62. The auditor establishes whether the Licensee has controls to identify client money received to ensure a trust account is appropriately established. The auditor performs procedures to determine whether the Licensee has designed controls that are suitable to meet the relevant requirements and then tests that those controls have operated effectively throughout the period.

62.63. Controls to achieve compliance with Division 2 of Part 7.8 subdivision B of the Act relating to monies paid to a Licensee by way of a loan from a client, need to ensure:

- Loans from clients are appropriately identified.
- An approved trust account is established.
- Money borrowed is paid into the trust account within 1 business day.
- The terms and conditions of use of the loan and the purpose for which funds will be used is given to the client in a statement.
- Funds are only used for the specified purpose outlined in the terms and conditions or subsequently agreed to in writing.

63.64. The auditor establishes whether the Licensee has controls in place to identify when the Licensee has received a loan from a client to ensure a trust account is appropriately established. The auditor performs procedures to determine whether the Licensee has designed controls suitable to meet the relevant requirements; and then designs procedures to test that those controls have operated effectively throughout the period.

64.65. Controls to achieve compliance with Division 3 of Part 7.8 of the Act relating to the handling of property other than money given to the Licensee, need to ensure:

- Client property is identified.
- Deposits or registration of client property is in accordance with the requirements.
- Property is held as security only in permitted circumstances.
- Secured property is returned to the client within one business day of the client settling their obligation to the Licensee.
- Clients are provided with statements of property held as security every three months.

65.66. The auditor establishes whether the Licensee handles client property. The auditor determines whether the Licensee has designed controls suitable to meet the requirements relating to client property and then designs procedures to test that those controls have operated effectively throughout the period.

66.67. Controls to achieve compliance with Division 4 of Part 7.8 of the Act relating to the receipt of client monies by Licensees who are insurance brokers and agents of general and/or life insurance contracts, but not the actual insurer, need to ensure:

- Client insurance money is identified.
- Insurance money is paid over to the insurer in accordance with the requirements

- ~~67-68.~~ The auditor determines whether the Licensee has designed suitable controls for handling client monies in accordance with the requirements and designs procedures to test that those controls are operating effectively throughout the period.
- ~~68-69.~~ No controls are required to achieve compliance with Division 5 of Part 7.8 of the Act which makes provision for the regulations to impose reporting requirements in relation to money to which Division 2 or 3 applies, or to a Licensee dealing in derivatives, as currently, there are no regulations relating to this Division.
- ~~69-70.~~ Division 6 of Part 7.8 of the Act relates to financial records, statements and audit. The auditor determines whether the Licensee has suitable controls to meet the relevant requirements and then designs procedures to test that these controls are operating effectively throughout the period.
- ~~70-71.~~ Division 7 of Part 7.8 of the Act (other than section 991A) relates to other rules about conduct in licensed markets. The auditor considers firstly whether the legislation is applicable to the Licensee. If the legislation is applicable, the auditor determines whether the Licensee has suitable controls to meet the relevant requirements and then designs procedures to test that these controls are operating effectively throughout the period.

Assurance - Financial Requirements (FS71, sections 4-~~108~~)

- ~~71-72.~~ The FS71 audit report requires a combination of reasonable assurance opinions and limited assurance conclusions on the Licensee's compliance with prescribed financial requirements and other relevant legislation. The auditor identifies the relevant financial requirements by referring to the licence conditions.
- ~~72-73.~~ Audit evidence for the matters requiring reasonable assurance may be gathered through a combination of enquiry and observation, tests of controls, substantive testing and representations from management. Audit evidence for the matters requiring limited assurance may be limited to enquiries. The amount of evidence from each source is a matter for the auditor's professional judgement. The nature and extent of procedures will be based on the complexity of the Licensee, nature of their business, risk assessment and level of assurance required. When auditing compliance with the Licensee's financial requirements throughout the period, it is important for the auditor to:
- (a) understand how the Licensee derives their calculations, so the auditor can conclude as to whether this method is in accordance with the requirements;
 - (b) ascertain whether all the calculations prepared during the period demonstrate a compliant position; and
 - (c) test a sample of calculations for accuracy based on underlying financial information.

Cash Needs Requirement – Assurance Considerations

- ~~73-74.~~ ASIC requires reasonable assurance and limited assurance on the entity's compliance with the Licensee's financial requirements throughout the year, not just at year-end. Hence, evidence-gathering procedures will need to include an understanding of the processes adopted by the Licensee to confirm compliance throughout the year, such as formal policies, monthly calculations, use of standard calculation templates and monitoring by the Licensee's board or appropriate delegate. The auditor considers testing to be performed on a sample basis depending on the assessment of effectiveness of controls. The auditor applies the requirements of ASAE 3450 when obtaining assurance over projections.
- ~~74-75.~~ If the Licensee has adopted Option 1 for the cash needs requirement or is subject to a tailored cash needs requirement, the auditor considers compliance throughout the period with the cash holding requirement in Part (e) of the Option 1 definition, or with the cash holding requirement per the applicable ASIC Class Order (CO 12/752, CO 13/760 or CO 13/761).

~~75.~~76. The auditor considers obtaining the cash flow projections throughout the relevant period and determines whether the cash flow projections are either:

- (a) a projection of the Licensee's cash flows over at least the next three months based on the Licensee's reasonable estimate of what is likely to happen over this term (Option 1);
- (b) a projection of the Licensee's cash flows over at least the next three months based on the Licensee's estimate of what would happen if the Licensee's ability to meet its liabilities over the projected term (including any liabilities the Licensee might incur during the term of the projection) is adversely affected by commercial contingencies taking into account all contingencies that are sufficiently likely for a reasonable Licensee to plan how they might manage them (Option 2); or
- (c) a projection of the Licensee's cash flows over at least the next 12 months based on the Licensee's reasonable estimate over what is likely to happen over this term and is approved at least quarterly by those charged with governance (tailored cash needs requirements).

The auditor considers establishing how often and when the cash flow projection is updated to ensure it continuously covers at least the next three months (or 12 months for tailored cash needs requirement).

~~76.~~77. The auditor obtains the Licensee's documented assumptions used to prepare the cash flow projections and checks whether the assumptions have been correctly applied in preparing the projections. This may include ensuring that the documented assumptions on the timing of cash flows have been correctly applied to budgeted revenues, expenses and capital expenditure.

~~77.~~78. Based on the cash flow projections already obtained, the auditor considers whether there is evidence that the cash flow assumptions are not appropriately documented or that the projections do not demonstrate that the Licensee had access as needed to sufficient financial resources at all times in compliance with paragraphs (b) and (d) of either the Option 1 or Option 2 definitions or paragraphs 3(c) or 3(e)(i) of the tailored cash needs requirements of ASIC Class Orders CO 12/752, 13/760 or 13/761 throughout the period. The auditor considers whether the documentation is sufficient to enable the auditor to ascertain whether the assumptions have been correctly applied in preparing the projections. This may involve reviewing the documentation of budget assumptions if the cash flow documentation does not stand alone. The auditor may consider the use of specialists in this area.

~~78.~~79. Based on reviewing the assumptions in line with the auditor's knowledge of the business and on enquiries of management, the auditor considers whether there is evidence that the assumptions used are unreasonable. This may involve obtaining an understanding of the Licensee's budgeting process if budgets are used to prepare the cash flow projections; or considering the historical accuracy of the assumptions in predicting actual cash flows.

~~79.~~80. If the licensee relies on Option 2, the auditor reviews the reasonableness of the assumptions based on the auditor's knowledge of the business and on enquiries of management.

~~80.~~81. Under Option 3, where the Licensee does not prepare a cash flow projection, but instead relies on a financial commitment from an Australian ADI, or comparable foreign institution, (under licence condition 13(c)(iii)) the audit report is required to contain a statement about whether the licensee has obtained an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee, or the amount for which the licensee is liable to its creditors at the time of demand to the licensee's creditors or a trustee for the licensee's creditors.

~~81.~~82. Where the Licensee is a subsidiary of an Australian ADI or ASIC-approved prudentially regulated body that does not prepare cash flow projections, on the basis of its expectation

concerning the adequacy of resources (under licence condition 13(c)(iv)), the audit report is required to contain a statement about whether the auditor has any reason to believe that the basis for selecting the assumptions documented by the Licensee in forming the expectation is unreasonable.

82.83. Where the Licensee uses group cash flow projections to meet the cash needs requirement, on the basis of alternative A (under licence condition 13(c)(v)), the auditor is required to include an audit opinion on whether the parent entity has provided an enforceable and unqualified commitment to pay on demand an unlimited amount to the Licensee, or to meet the Licensee's liabilities (including any additional liabilities that the Licensee might incur while the commitment applies).

83.84. In addition, when relying on the Group cash flow projections under licence condition 13(c)(v), the licensee auditor considers the requirement for the parent entity auditor to provide a separate opinion modelled on the Option 1 or 2 audit requirement and that this auditor's report is required to be submitted at the same time as the FS71 opinion (under licence condition 13(c)(v)(D)).

84.85. Where the Licensee relies on alternative B (under licence condition 13(d)(v)), the auditor's report is required to contain a statement about whether the auditor has any reason to believe that the documented basis for selecting the assumptions, on which the Licensee's expectation concerning the adequacy of the resources required under alternative B, is unreasonable.

Limited Assurance - Risk Management Systems (FS71, sections 4-108)

85.86. FS71 requires limited assurance on risk management systems (RMS) to ensure ongoing compliance with financial requirements. Section 912A(1)(h) of the Act requires the Licensee to have adequate RMS. To satisfy this obligation, ASIC expects that the RMS will specifically deal with the risk that the Licensee's financial resources will not be adequate to ensure that they are able to carry on their business in compliance with their licence obligations. RMS are a form of control and accordingly the requirements of ASAE 3150 are applied in obtaining assurance over these systems.

Assurance Considerations

86.87. ASAE 3150 requires the auditor to perform procedures to determine whether the Licensee has designed controls that are suitable to meet the requirements of section 912A(1)(h) in that they comprise adequate RMS and then designs procedures to test that these controls have operated effectively throughout the period. Having regard to the risk of inadequate financial resources, these procedures may include:

- Obtaining an understanding of the RMS and the process to identify material risks;
- Consideration as to whether a formal documented RMS exists, although the formality and extent of the processes required will depend on the size, nature and complexity of the business; and
- Obtaining periodic calculations of compliance with financial requirements, and consideration of processes that may exist to identify and address matters that may arise between these periodic calculations that have the potential to cause non-compliance with the financial requirements, although the extent of these processes will depend on how much of a buffer the Licensee has above the requirements and the sensitivity of these buffers to fluctuations in the performance and financial position of the Licensee.

As the auditor's conclusion is on the RMS as a whole, there is no expectation that the auditor expresses assurance conclusions on the adequacy of the specific controls of the RMS.

87.88. As part of the limited assurance procedures, the auditor may seek the following types of information and documentation:

- Copies of the RMS documents that set out the Licensee's RMS during the period.
- Documentation that identifies and describes the systems, policies and procedures that are in place to manage identified risks.
- Management representations of compliance with identified systems, policies, procedures and structures.
- Minutes of the meetings of those responsible for monitoring compliance with aspects of the RMS.
- Internal audit reports (if applicable).
- Certifications, if made by the Licensee, and relevant supporting documentation to substantiate compliance with the RMS during the reporting period.
- Other supporting evidence to confirm that the controls identified in the RMS have been in place during the reporting period.

The above is not meant to represent an exhaustive list and there may be other evidence that is relevant to the specific circumstances of each Licensee.

Statement on Section 990K(2) Matters (FS71, section ~~134~~)

88.89. FS71 requires a statement about any matter referred to in section 990K(2) of the Act and covers the financial reporting period and up until the date the FS71 auditor's report is signed. This section 990K(2) statement only deals with those matters that have not already been reported by the auditor as required under section 990K(1). Given the 7 day reporting time frame under section 990K, it is likely that for most matters, the auditor would not wait until they lodge FS71 to report matters to ASIC. The section 990K(2) statement is not part of the opinion section in FS71.

89.90. Reporting of section 990K matters is not required under section ~~134~~ of FS71 if the matter:

- Has already been reported separately by the auditor to ASIC;
- Is included in section 2-~~108~~ of FS71 as a basis for a modified opinion/conclusion;
- Is included in section ~~119~~ of FS71 as a non-material matter.

90.91. Section 990K(2) requires a report to be given in relation to any matter that, in the opinion of the auditor:

- (a) has adversely affected, is adversely affecting or may adversely affect the ability of the Licensee to meet the Licensee's obligations as a Licensee; or
- (b) constitutes or may constitute a contravention of:
 - (i) a provision of Subdivision A or B of Division 2 of the Act (or a provision of regulations made for the purposes of such a provision);
 - (ii) a provision of Division 3 of the Act (or a provision of regulations made for the purposes of such a provision);
 - (iii) a condition of the Licensee's licence; or

- (c) constitutes an attempt to unduly influence, coerce, manipulate or mislead the auditor in the conduct of the audit.

Assurance Considerations

91.92. If the auditor becomes aware of the matters under section 990K(2) during the course of the audit of the financial report, performing work on FS71 or undertaking other audit work (e.g. Managed Investment Scheme compliance plan audits), they have an obligation to report on them. If the auditor becomes aware of a section 990K(2) matter that is outside the Act sections subject to the engagement, the auditor is required to report on these section 990K(2) matters but has no obligation to conduct procedures specifically to identify those matters.

92.93. Apart from the requirement to report section 990K(2) breaches in FS71, section 990K(1) requires auditors to report such breaches to ASIC (and the Licensee and any relevant market or clearing authority e.g. ASX for stockbrokers) within 7 days of becoming aware of the matter. Auditors consider this obligation at all times of the year, but particularly during the planning, interim and final stages of their audits. The Licensee is required to report all 'reportable situations'²¹ including deemed significant matters (breaches or likely breaches that are significant)~~any such breaches~~ as soon as practicable and within ~~340 business~~ days of becoming aware ~~there are reasonable grounds to believe a reportable situation has arisen of the matter~~ as required by section 912D~~AA(4B)~~. The auditor is expected to report breaches even if the Licensee has already reported same.

93.94. There is a potential conflict between the auditor's obligation to report *any* breaches²² and the Licensee's obligation to only report *significant* breaches to ASIC. An opinion or conclusion is not provided on the 990K statement in the FS71. The auditor separately considers whether a matter reported in the statement also impacts the audit opinion within the FS71 report.

94.95. As the section 990K(2) statement specifically covers both the financial year and the period between the end of the financial year and the date of signing the FS71 auditor's report (unlike the other reporting requirements in FS71), the auditor is obliged to formally consider the existence of relevant matters up to the date of signing the report. To determine the existence of such matters, the auditor considers matters including:

- Reading minutes of the meetings of those charged with governance, and compliance, audit and executive committees, held after the reporting date, and enquiring about matters discussed at meetings for which minutes are not yet available.
- Obtaining copies of all correspondence with ASIC and any other relevant regulators up to the date of signing.
- Enquiring of management as to whether any subsequent events have occurred which might represent matters referred to under section 990K(2).

Overall Assurance Reporting Considerations

95.96. Due to the nature of audit testing and other inherent limitations of an audit, together with the inherent limitations of the Licensee and its related licence conditions, there is a possibility that a properly planned and executed audit will not detect all breaches of the Licensee's licence conditions. Accordingly, the audit conclusion under section 989B(3) of the Act is expressed in terms of reasonable or limited assurance (as appropriate) and cannot constitute a guarantee that all compliance breaches have been detected.

96.97. There are also practical limitations in requiring an auditor to perform a continuous examination of the Licensee, and form an opinion or conclusion that the entity has complied at

²¹ S912D of the Corporations Act 2001 defines reportable situations.

²² See ASIC Regulatory Guide RG 34 Auditor's obligations: Reporting to ASIC: Section C: 34.48.

all times with the Act during the period covered by the auditor's report. However, the auditor performs tests periodically throughout the financial year to obtain evidence and obtain reasonable assurance that the compliance measures complied with the written descriptions and were adequate throughout the period under examination.

~~97.~~98. Prior to issuing the FS71 audit report, the auditor considers obtaining a written representation from the directors of the Licensee which includes their assertions that the Licensee has complied with the licence conditions during the financial year and up to the date the FS71 audit report is signed, and that the Licensee continues to meet the requirements of Part 7.8 of the Act. In obtaining and using these written representations, the auditor complies with the requirements of, as appropriate, ASAE 3000, ASAE 3100, ASAE 3150 and ASAE 3450. An example management representation letter is contained in Appendix 2.

~~98.~~99. The FS71 audit report is an ASIC prescribed form and can be found on the ASIC website www.asic.gov.au. ASIC requires form FS71 to be lodged in the prescribed form and that no modifications or deletions are made, unless consented to by ASIC.

~~99.~~100. It is important to check the ASIC website to ensure that the latest version of FS71 is adopted.

Communications with Those Charged with Governance

~~100.~~101. Under ASAE 3000, ASAE 3100, ASAE 3150 and ASAE 3450 the auditor communicates relevant matters of governance interest arising from the engagement to those charged with governance on a timely basis. In addition, Auditing Standards ASA 260²³ and ASA 265²⁴ contains information that the auditor may find useful when communicating with those charged with governance. Examples of such matters may include:

- The general approach and overall scope of the engagement, or any additional requirements.
- Fraud or information that indicates that fraud may exist.
- Significant deficiencies in internal controls identified during the engagement. A significant deficiency in internal controls means a deficiency or combination of deficiencies in internal controls that, in the auditor's professional judgement is of sufficient importance to merit the attention of those charged with governance.
- Disagreements with management about matters that, individually or in aggregate, could be significant to the engagement.
- Compliance breaches.
- Expected modifications to the auditor's report.

~~101.~~102. The auditor informs those charged with governance of the Licensee of any uncorrected misstatements/non-compliance, other than those which are clearly trivial, aggregated by the auditor during and pertaining to the engagement that were considered to be immaterial, both individually and in the aggregate, to the assurance engagement.

Conformity with International Pronouncements

~~102.~~103. There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

²³ ASA 260 Communication with Those Charged With Governance.

²⁴ ASA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.

Appendix 1

(Ref: Para.356)

EXAMPLE ENGAGEMENT LETTER

The following example engagement letter is for use as a guide only, in conjunction with the considerations described in GS 003, and will need to be varied according to individual requirements and circumstances.

To [Title of Those Charged with Governance]

Section 989B(3) of the *Corporations Act 2001* (the Act) requires an Australian Financial Services Licence (AFSL) holder (AFS Licensee) to lodge with ASIC the auditor's report on the AFS licensee (Licensee) together with a profit and loss statement and balance sheet (being the audited financial report).

The Act, *Corporations Regulations 2001*, ASIC regulatory documents, ~~and~~ ASIC Class Orders and ASIC Legislative Instruments determine the scope of the auditor's report. Reference to the auditor's report is also made in the conditions of the AFSL. Currently the required format of the auditor's report is set out in ASIC form FS71.

You have requested that we conduct an assurance engagement to provide an FS71 report. We are pleased to confirm acceptance and this letter sets out in general terms, our understanding of the terms and objectives of our engagement as auditors of the AFSL of [name of entity] (the Licensee) pursuant to section 989B(3) of the Act. This engagement is a separate engagement from our audit of the annual financial report [and half year review] appointment[s] under the Act.

Scope

Our reporting will be in a form consistent with the requirements of ASIC form FS71 which requires:

- Reasonable assurance on compliance with specified provisions of Part 7.8 of the Act (being Divisions 2 to 7, except for section 991A, relating to dealing with client money, property and insurance);
- Reasonable assurance on compliance with sections 981B and 982B of the 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 and legislative instruments; and
- A statement that during the performance of our duties as auditors of the Licensee, we have not become aware of any matters referred to in section 990K(2) of the Act during or since the financial year, that we have not previously reported to ASIC.

The responsibilities of the auditor

ASIC form FS71 includes a combination of reasonable assurance opinions and limited assurance conclusions on the AFS Licensee's compliance with AFSL conditions relating to financial requirements as prescribed by ASIC.

- Where we are required to obtain reasonable assurance in relation to the matters in ASIC form FS71, our reasonable assurance procedures will be conducted in accordance with AUASB

Standards, and accordingly will include such tests and procedures as we consider necessary in the circumstances. This will involve an examination of the internal controls used by the AFS Licensee to comply with the financial requirements of the AFSL, the specified provisions of Part 7.8 and the control and operation of each account maintained for section 981B or section 982B of the Act.

- Where we are required to obtain limited assurance in relation to the matters in ASIC form FS71, our limited assurance procedures are conducted in accordance with Standards on Assurance Engagements. Limited assurance procedures consists primarily of enquiry about, the operation of the procedures and internal control of the financial risk management system and comparison and other such analytical review procedures as we consider necessary.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our limited assurance engagement is not a reasonable assurance engagement and we will not express a reasonable assurance opinion on the projections and will obtain limited assurance.

Inherent Limitations

Internal Controls

Because of the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. We will not audit the overall internal control structure (including procedures that do not relate to the financial requirements) and no opinion will be expressed as to its effectiveness. A reasonable assurance engagement is not designed to detect all weaknesses in control procedures or all instances of non-compliance with part 7.8 of the Act as it is not performed continuously throughout the period and the tests performed are on a sample basis having regard to the nature and size of the AFS Licensee. Also, projections of any evaluation of the control procedures to future periods are subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Projections

The projections prepared by [Management/Those Charged with Governance] in accordance with the cash needs requirements conditions of the AFSL are based upon the achievement of certain economic, operating and developmental assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of projections. Actual results may vary materially from those projections and the variation may be materially positive or negative.

Auditor's obligation to report matters to ASIC

In accordance with section 990K of the Act, if during the course of or in relation to our assurance engagement, we become aware of a matter referred to in section 990K(2) of the Act we are required to lodge a written report to ASIC within 7 days.

Responsibility of the Licensee

The [Title of Those Charged with Governance] of the Licensee are responsible for:

- Establishing and maintaining effective internal control procedures in relation to compliance with the requirements of Part 7.8 of the Act, the conditions of the AFSL and the provisions of the financial services laws. These duties are imposed on the AFS Licensee by the Act and the AFSL.

- Complying with the requirements of the Act and the conditions of the AFSL.

Restriction on Use

The FS71 auditor's report has been prepared for the Licensee and ASIC as required by section 989B of the Corporations Act. We will not accept any responsibility for any reliance on this report to any persons or users other than the Licensee and ASIC, or for any purpose other than that for which it was prepared.

Fees

We look forward to full cooperation from your staff and we trust that they will make available to us whatever records, documentation and other information we request in connection with our audit.

[Insert additional information here regarding fee arrangements and billings, as appropriate]

Other

This letter will be effective for future years unless we advise you of its amendment or replacement, or the engagement is terminated.

As part of our assurance process, we will request from [management, and where appropriate, Those Charged with Governance], written confirmation concerning representations made to us in connection with the assurance process.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of [the Licensee] as required by Section 989(B) of the Act.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [Licensee] by (signed)

.....

Name and Title

Date

Appendix 2

(Ref: Para.9~~89~~)

EXAMPLE MANAGEMENT REPRESENTATION LETTER

[Client Letterhead]

[Addressee – Auditor]

[Date]

This representation letter is provided in connection with your engagement to report in accordance with section 989B(3) of the Corporations Act 2001 (the Act) regarding the Australian Financial Services Licence (“AFSL”) of [Name of the Licensee] (Licence No: [xx]) for the financial year ended [date].

We acknowledge our responsibility for meeting the conditions of [Name of the Licensee]’s AFSL, effective [date of AFSL] and that this responsibility includes designing, implementing and maintaining effective internal control to ensure compliance with the conditions of [Name of the Licensee]’s AFSL and the requirements of Part 7.8 of the Act.

We confirm, to the best of our knowledge and belief, the following representations:

General

1. We have made available to you, and your representatives:
 - (a) access to all information of which we are aware that is relevant to [Name of the Licensee]’s compliance with the Act, controls over compliance with the Act and projections, -such as records, documentation and other matters;
 - (b) additional information that you have requested from us for the purpose of the engagement;
 - (c) unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence; and
 - (d) minutes of all meetings of (*shareholders, directors, and committees of directors*).
2. We have:
 - (a) no knowledge of any fraud, error or non-compliance with laws and regulations involving management or employees who have a significant role in the internal control structure;
 - (b) no knowledge of any fraud, error or non-compliance with laws and regulations that could have a material effect on the either the form FS70 for [Name of the AFS Licensee], or ongoing compliance with the AFSL; and
 - (c) had no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting or compliance practices that could have a material effect on -our ongoing ability to comply with financial services requirements or conditions of the AFSL.
3. We have disclosed to you:
 - (a) all significant facts relating to any frauds or suspected frauds which are known to us that may have affected compliance with the conditions of the [Name of the Licensee]’s AFSL and the requirements of Part 7.8 of the Act;

- (b) the results of our assessment of the risk of non-compliance with the conditions of [Name of the Licensee]'s AFSL and the requirements of Part 7.8 of the Act as a result of fraud;
 - (c) all information in relation to allegations of fraud, or suspected fraud, affecting compliance with the conditions of [Name of the Licensee]'s AFSL and the requirements of Part 7.8 of the Act communicated by employees, former employees or others;
 - (d) all known actual or possible litigation and claims whose effects are considered when considering compliance with the conditions of [Name of the Licensee]'s AFSL and the requirement of Part 7.8 of the Act.
4. We acknowledge our responsibility for the design and implementation of internal controls to detect fraud and error.

ASIC Form FS70

5. We confirm that form FS70, to which form FS71 relates, has been prepared so as to be consistent with [Name of the Licensee]'s audited financial report and it has been properly drawn up so as to provide the information required by directions issued by ASIC under the Act and the Regulations.
6. We confirm that any non-compliance with the conditions of [Name of the Licensee]'s AFSL and the requirements of Part 7.8 of the Act, and the resolution of such issues have been discussed with you.

Part 7.8 of the Act

7. There has been no matter during or since the end of the year/period ended [selected date] which has adversely affected, is adversely affecting or may adversely affect our ability to meet our obligations as a Licensee or constitutes a contravention of :
- (a) a provision of Subdivision A or B of Division 2 of Part 7.8 of the Act (or a provision of regulations made for the purposes of such a provision);
 - (b) a provision of Division 3 of Part 7.8 of the Act (or a provision of regulations made for the purposes of such a provision);
 - (c) a provision of Subdivision B or C of Division 6 of the Part 7.8 of the Act (or a provision of regulations made for the purposes of such a provision); or
 - (d) a condition of the licence.
8. We have designed and operated controls effectively to confirm that we comply with Divisions 2, 3, 4, 4A, 5, 6 and 7 of Part 7.8 of the Act (other than section 991A).
9. We have operated and controlled each account required by sections 981B and 982B of the Act in accordance with those sections.

Financial Requirements

10. We have complied with all the financial requirements under the Licence throughout the year/period.
11. We acknowledge that we were a body regulated by the Australian Prudential Regulation Authority ("APRA") / participant in the market conducted by the ASX Limited ("ASX") or ~~Cbochi-X~~ / participant in the market conducted by the Australian Securities Exchange Limited ("ASX 24") that restricted its financial services business to participating in the market and

incidental business / participant in the licensed clearing and settlement facility operated by ASX Clear Pty Limited / participant in the licensed clearing and settlement facility operated by ASX Clear (Futures) Pty Limited and restricted its financial services business to participating in the licensed clearing and settlement facility and incidental business for the year ended [balance date]. *[delete if Licensee is not APRA regulated or a market or clearing participant]*

12. We have maintained adequate risk management systems throughout the year/period to manage the risk of having insufficient financial resources to comply with the conditions of the Licence. *[delete if APRA-regulated]*
13. We acknowledge our responsibility for the preparation of cash flow projections and the assumptions underpinning those projections, and confirm that the assumptions adopted for the projections were reasonable/the basis for the selection of assumptions to meet the requirements for the projections adopted was reasonable. *[delete as applicable depending on whether the licensee is complying with Option 1 or Option 2]*
14. We confirm that we have had our cash flow approved by [those charged with governance]; and have updated our projection of cash flows in line with the requirements of ASIC regulatory guide RG 166. *[delete if Licensee is not subject to tailored cash requirements]*
15. We confirm that we have access as needed to enough financial resources to meet our liabilities over the next 3/12 months, including any additional liabilities that we project we will incur during that term/we might incur during that term. *[delete as applicable depending on whether the Licensee is complying with tailored cash requirements, Option 1 or Option 2]*
16. In relation to forecast financial information provided to you for the purpose of your report (in particular the cash needs requirements prescribed by Option 1 or Option 2 or the tailored cash need requirements as referred to in our AFSL and ASIC form FS71), it is confirmed, to the best of our knowledge and belief, that:
 - (a) the financial position and operating results for the forecast period reflect the best judgement of our directors and management based on expected future market conditions and the likely course of action to be taken;
 - (b) the accounting principles used in the preparation of the forecast data are consistent with those used in our historical financial report and are the same as those expected to be used in the eventual preparation of the historical financial report come the end of the forecast period;
 - (c) there are no contingent liabilities, unusual contractual obligations or substantial commitments which would materially affect the financial forecast except as otherwise specifically disclosed to you;
 - (d) the key assumptions have been consistently applied during the forecast period; and
 - (e) no factors that may be relevant have been omitted.

Uncorrected Misstatements and Non Compliance Identified

17. We acknowledge that you have advised management of identified uncorrected misstatements, instances of non-compliance with the conditions of [Name of the Licensee]'s AFSL and the requirements of Part 7.8 of the Act; and identified weaknesses in the design of the internal controls that you became aware of as a result of your reasonable or limited assurance procedures.
18. We believe the effects of uncorrected misstatements, instances of non-compliance with the conditions of [Name of the Licensee]'s AFSL and the requirements of Part 7.8 of the Act and weaknesses in the design of internal controls summarised [in Appendix [X]/below] pertaining

to the year ended [balance date] (including the effects of prior year issues impacting the current year) are both individually, and in aggregate, immaterial and are adequately reported to ASIC.

Additional Matters

19. We have reported any ~~reportable situationssignificant breaches~~ to ASIC as required under:

- (a) section 912D~~AA~~ of the Act; and
- (b) section 601FC(1)(l) of the Act [~~delete if licensee is not a responsible entity of a managed investment scheme~~]

and have provided you with details of all breaches, reported and unreported, of the Licence or the Act that occurred during or since the end of the year/period of which we are aware.

20. We understand that your engagement has resulted in a combination of reasonable assurance opinions and limited assurance conclusions. Where you were required to obtain reasonable assurance we understand that your reasonable assurance engagement was conducted in accordance with AUASB Standards and was designed primarily for the purpose of expressing an opinion in relation to ASIC form FS71 and that your reasonable assurance procedures were limited to those you considered necessary in the circumstances. In addition, we understand that the limited assurance conclusions were also conducted in accordance with AUASB Standards and involved limited assurance procedures. These procedures result in you obtaining less assurance than that provided by a reasonable assurance engagement. For these conclusions you have not performed a reasonable assurance engagement and accordingly do not express an opinion on them.

21. [Include any additional matters relevant to the engagement]

Yours faithfully

Name of signing officer and title

Appendix 3

(Ref: Paras.18, 21)

SUMMARY OF FINANCIAL REQUIREMENTS APPLICABLE TO CERTAIN AFS LICENSEES

This table summarises and provides the regulatory references for certain financial and assurance requirements applicable to all non-exempt AFS Licensees, Responsible Entities, Operators of IDPS, ~~and~~ Retail OTC derivative issuers, Crowd-Source Funding Intermediaries and Corporate Directors of retail CCIVs. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place as issued from time to time.

Requirements Relating to:	Base Level requirements applicable to all non-exempt AFS Licensees	Responsible Entities and operators of IDPSs	Retail OTC derivative issuers	Custodial or depository services	<u>Crowd-Source Funding Intermediaries (CSF)</u>	<u>Corporate Directors of retail CCIVs</u>
Key Regulatory References	<ul style="list-style-type: none"> RG 166 Section B ASIC PF 209 paragraph 13 	<ul style="list-style-type: none"> RG 166 Appendix 2 and 3 ASIC Class Order CO 13/760 	<ul style="list-style-type: none"> RG 166 Appendix 8 ASIC Class Order CO 12/752 	<ul style="list-style-type: none"> RG 166 Appendix 4 ASIC Class Order CO 13/761 	<ul style="list-style-type: none"> <u>RG 166 Appendix 9</u> <u>ASIC Instrument 2017/339</u> 	<ul style="list-style-type: none"> <u>RG 166 Appendix 10</u> <u>ASIC Instrument 2022/449</u>
Solvency and positive net assets	<ul style="list-style-type: none"> Ability to pay debts when due and payable Total assets exceeding total liabilities (unless using adjusted assets and liabilities defined in RG 166 Section E) Regulatory References: <ul style="list-style-type: none"> RG 166.312 RG 166.34 	<ul style="list-style-type: none"> Base level solvency and positive net assets 	<ul style="list-style-type: none"> Base level solvency and positive net assets 	<ul style="list-style-type: none"> Base level solvency and positive net assets 	<ul style="list-style-type: none"> <u>Base level solvency and positive net assets</u> 	<ul style="list-style-type: none"> <u>Base level solvency and positive net assets</u>

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	<ul style="list-style-type: none"> ASIC PF 209 para 13 					
Cash needs	<ul style="list-style-type: none"> Not applicable where a tailored cash needs requirement applies Option 1 RG 166.40-RG 166.44 Option 2 RG 166.45-RG 166.47 Option 3 RG 166.50 Option 4 RG 166.51 Option 5 RG 166.52 Regulatory References: <ul style="list-style-type: none"> ASIC PF 209 	<ul style="list-style-type: none"> Tailored cash need requirement [RG 166.204 – RG 166.205 and RG 166.2397 – RG 166.24138] At least 12 month cash flow projection Documentation of calculations and assumptions Board approval of the cash flow projections at least quarterly 	<ul style="list-style-type: none"> Tailored cash need requirement [RG 166.3164 – RG 166.32148] At least 12 month rolling cash flow projection Documentation of calculations and assumptions Board approval of the cash flow projections 	<ul style="list-style-type: none"> Tailored cash need requirement [RG 166.2653 – RG 166.2674] At least 12 month cash flow projection Documentation of calculations and assumptions Cash flow projections approved by Board at least quarterly 	<ul style="list-style-type: none"> <u>Tailored cash need requirement [RG 166.365 – RG 166.366]</u> <u>At least 12 month cash flow projection</u> <u>Documentation of calculations and assumptions</u> <u>Cash flow projections approved by Board at least quarterly</u> 	<ul style="list-style-type: none"> <u>Tailored cash need requirement [RG 166.373 – RG 166.374]</u> <u>At least 12 month cash flow projection</u> <u>Documentation of calculations and assumptions</u> <u>Cash flow projections approved by Board at least quarterly</u>
Requirements Relating to:	Base Level requirements applicable to all non-exempt AFS Licensees	Responsible Entities and operators of IDPSs	Retail-OTC derivative issuers	Custodial or depository services		
Net Tangible Assets	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> If requirements related to custody 	<ul style="list-style-type: none"> Greater of: <ul style="list-style-type: none"> \$1,000,000 or 	<ul style="list-style-type: none"> Other than incidental 	<ul style="list-style-type: none"> <u>N/A</u> 	<ul style="list-style-type: none"> <u>If requirements related to custody</u>

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		<p>are satisfied or licensee is an IDPS operator, the greater of:</p> <ul style="list-style-type: none"> ○ \$150,000; or ○ 0.5% of average value of scheme and IDPS property up to \$5 million; or ○ 10% of average RE and IDPS revenue <ul style="list-style-type: none"> • If requirements related to custody are not satisfied or licensee performs custodial functions as an IDPS operator, the greater of: <ul style="list-style-type: none"> ○ \$10 million or ○ 10% of average RE and IDPS revenue • Regulatory References: <ul style="list-style-type: none"> ○ RG 166.209 – RG 166.238⁵ and RG 166.24⁵² – RG 166.26⁴¹ 	<ul style="list-style-type: none"> ○ 10% of average • Regulatory References: <ul style="list-style-type: none"> ○ RG 166.32⁵² – 	<p>providers (satisfy requirements for custodian) the greater of:</p> <ul style="list-style-type: none"> ○ \$10million or ○ 10% of average revenue <ul style="list-style-type: none"> • For incidental providers if all assets are held by another complying custodian or eligible custodian – no NTA requirement; otherwise the greater of: <ul style="list-style-type: none"> ○ \$150,000 or ○ 10% of average revenue • Regulatory References: <ul style="list-style-type: none"> ○ RG 166.26⁸⁹ – RG 166.29²⁸⁹ 		<p><u>are satisfied or licensee is an IDPS operator, the greater of:</u></p> <ul style="list-style-type: none"> ○ <u>\$150,000; or</u> ○ <u>0.5% of average value of CCIV assets up to \$5 million NTA; or</u> ○ <u>10% of average Corporate Director revenue</u> <ul style="list-style-type: none"> • <u>If requirements related to custody are not satisfied or licensee performs custodial functions as a RE or IDPS operator, the minimum of NTA the greater of:</u> <ul style="list-style-type: none"> ○ <u>\$10 million; or</u> • <u>10% of your average corporate director, responsible entity and IDPS revenue</u> • <u>Regulatory References:</u> • <u>RG 166.383(a) – RG 166.383(c)</u>
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Liquidity	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Greater of \$150,000 or 50% of NTA in cash and cash equivalent; and At least 100% of NTA in liquid assets Regulatory References: <ul style="list-style-type: none"> RG 166.2142 and RG 166.2464 	<ul style="list-style-type: none"> 50% of NTA in cash or cash equivalents; and 50% of NTA in liquid assets. Regulatory References: <ul style="list-style-type: none"> RG 166.3263 	<ul style="list-style-type: none"> At least 50% of NTA in cash and cash equivalent; and At least 100% of NTA in liquid assets Regulatory References: <ul style="list-style-type: none"> RG 166.2720 	<u>N/A</u>	<u>N/A</u>
Requirements Relating to:	Base Level requirements applicable to all non-exempt AFS Licensees	Responsible Entities and operators of IDPSs	Retail OTC derivative issuers	Custodial or depository services		
Audit	<ul style="list-style-type: none"> RA: Financial requirement; RA/LA: Cash needs requirement LA: s912A(1)(h) Regulatory References: <ul style="list-style-type: none"> RG 166.62 – RG 166.68 PF 209 para 28(d) 	<ul style="list-style-type: none"> Combination RA and LA Tailored audit requirements Regulatory References: <ul style="list-style-type: none"> RG 166.2096 – RG 166.21108; RG 166.24239 – RG 166.2444 	<ul style="list-style-type: none"> Combination RA and LA Tailored audit requirements Regulatory References: <ul style="list-style-type: none"> RG 166.32249 – RG 166.3244 	<ul style="list-style-type: none"> Combination RA and LA Tailored audit requirements Regulatory References: <ul style="list-style-type: none"> RG 166.2685 – RG 166.27167 	<ul style="list-style-type: none"> <u>Combination RA and LA</u> <u>Tailored audit requirements</u> <u>Regulatory References:</u> <ul style="list-style-type: none"> <u>RG 166.368 – RG 166.370</u> 	<ul style="list-style-type: none"> <u>Combination RA and LA</u> <u>Tailored audit requirements</u> <u>Regulatory References:</u> <ul style="list-style-type: none"> <u>RG 166.375 – RG 166.377</u>

RA: Reasonable assurance
LA: Limited assurance

Draft

Appendix 4

(Ref: Para.21(a))

TAILORED CASH REQUIREMENTS

This appendix *summarises* the tailored cash requirements needs for Responsible Entities, Operators of Investor Directed Portfolio Services (IDPS), Custodial or Depository Service Providers and retail Over the Counter (OTC) Derivative Issuers. A responsible entity authorised to operate a managed investment scheme and IDPS operators are required to comply with the financial requirements as set out in RG 166 Appendix 2 and 3, and ASIC Class Order CO 13/760. The financial requirements for custodial or depository service providers are set out in RG 166 Appendix 4 and ASIC Class Order CO 13/761. The financial requirements for retail OTC derivative issuers are set out in RG 166 Appendix 8 and ASIC Class Order CO 12/752. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place as issued from time to time.

To meet the cash needs requirement, the licensee is required to:

- (i) prepare a projection of the licensee's cash flows over at least the next 12 months (for retail OTC derivative issuers this is required to be done quarterly in March, June, September and December) based on the licensee's reasonable estimate of what is likely to happen over this period (retail OTC derivative issuers – revenue and expenses);
- (ii) have the projection approved in writing at least quarterly by the licensee's directors (unless the licensee is a retail OTC derivative issuer or custodial or depository service provider who may then have the projection approved by partners or trustees of the licensee if the licensee is a partnership or a trust, or a person if the licensee is a natural person) as satisfying the requirements of paragraph (i);
- (iii) document the calculations and assumptions used in preparing the projection, and describe in writing why the assumptions are appropriate;
- (iv) update the projection of the licensee's cash flows if:
 - the projection ceases to cover at least the next 12 months (not a requirement for retail OTC derivative issuers); or
 - there is reason to suspect that an updated projection would differ materially from the current projection (not a requirement for retail OTC derivative issuers) or show that the licensee was not meeting the requirements in subparagraphs (v) below;
- (v) document whether (retail OTC derivative issuers require a certification in writing by the persons referred to in (ii) above), based on the projection of the licensee's cash flows, the licensee:
 - will have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; and
 - will hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents under the licensee's liquidity requirement;
- (vi) make the projections available to ASIC on request (requirement for retail OTC derivative issuers only).

Appendix 5

(Ref: Para.21(d))

TAILORED ASSURANCE REQUIREMENTS

This appendix summarises the tailored audit requirements applicable for Responsible Entities, Operators of Investor Directed Portfolio Services (IDPS), Custodial or Depository Service Providers and retail OTC Derivative Issuers. A responsible entity authorised to operate a managed investment scheme and IDPS operators are required to comply with the audit requirements as set out in RG 166 Appendix 2 and 3, and ASIC Class Order CO 13/760. The audit requirements for custodial or depository service providers are set out in RG 166 Appendix 4 and ASIC Class Order CO 13/761. The audit requirements for retail OTC derivative issuers are set out in RG 166 Appendix 8 and ASIC Class Order CO 12/752. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place as issued from time to time.

1. If the licensee is a responsible entity, operator of an IDPS, a custodial or depository service provider then ASIC requires the following:

Reasonable assurance that the licensee:

- (a) complied with the requirement to have the projection approved in writing at least quarterly by the directors/partners/person and that the licensee has met the net tangible assets requirements (NTA) and liquidity requirements of the licence, and any other financial requirements in conditions on its licence;
- (b) had, at all times, a projection over at least the next 12 months that purports to, and appears on its face to be based on the licensee's reasonable estimate of what is likely to happen over this period;
- (c) correctly calculated the projection on the basis of the assumptions the licensee used for the projection;

2. If the licensee is a responsible entity or operator of an IDPS, a custodial or depository service provider then ASIC requires the following:

Limited assurance that the licensee:

- (a) had adequate systems for managing the risk of having insufficient financial resources to meet the NTA requirement, cash/cash equivalent, and liquid asset holding requirement, and any other financial requirements in conditions of its licence;
- (b) did not fail to document the calculations and assumptions used in preparing the projection and describe in writing why the assumptions are appropriate;
- (c) will have access when needed to enough financial resources to meet their liabilities over the projected term of at least the next 12 months;
- (d) will hold at all times during the period to which the projection relates, in cash/cash equivalents and liquid assets, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents;
- (e) adopted assumptions for its projection that were not unreasonable; or (if the licensee complies with the NTA requirement for incidental providers) satisfied the definition of incidental provider.

3. If the licensee is a retail OTC derivative issuer then ASIC requires the following:
- (a) Reasonable assurance that the licensee:
 - (i) complied with the NTA and liquidity requirements of the licence and other financial requirements in conditions on its licence;
 - (ii) had at all times a projection that purports to, and appears on its face to, comply with the requirement to prepare in each March, June, September and December, a projection of the licensee's cash flows over at least the next 12 months based on the licensee's reasonable estimate of revenues and expenses over this period;
 - (iii) correctly calculated the projection on the basis of the assumptions the licensee adopted for the projection.
 - (b) Limited assurance that the licensee:
 - (i) satisfied section 912A(1)(h) of the Act for managing the risk of having insufficient financial resources to meet the NTA and liquidity requirements of the licensee and any other financial requirements in conditions on its licence; and
 - (ii) adopted assumptions for its projection that were not inappropriate;
 - (iii) had their projections approved in writing by their directors/partners/person as being based on the licensee's reasonable estimate of revenues and expenses over the period;
 - (iv) documented the calculations and assumptions used in preparing the projection, and described in writing why the assumptions are appropriate;
 - (v) updates the cash flow projections if there is reason to suspect that an updated projection would show that the licensee :
 - will not have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; and
 - will hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents.

Appendix 6

(Ref: Para.19(b))

CASH AND ASSURANCE REQUIREMENTS UNDER PF 209

This appendix summarises the cash and assurance requirements, that are detailed in ASIC PF 209, for Licensees that are not regulated by APRA or are not market or clearing participants and are not subject to tailored cash and assurance requirements as outlined in Appendix 4 and 5. Licensees that are not APRA regulated or market participants are also subject to the requirements for reasonable assurance in respect of other relevant financial conditions on their licence which may be applicable based on the nature of their business. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place.

1. If the licensee is relying on satisfying the cash needs requirement by Option 1 or Option 2, then ASIC requires the following:
 - (a) Reasonable assurance that the licensee had at all times a projection (covering at least the following three months) that purports to, and appears on its face to comply with, paragraph (a) of the definition of Option 1 or paragraph (a) of the definition of Option 2 (depending on which option the licensee purports to be complying with);
 - (b) Reasonable assurance that the licensee has correctly calculated the projections on the basis of the assumptions the licensee adopted for the projections described above;
 - (c) Limited assurance that the licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence;
 - (d) Limited assurance over the cash needs requirement using either Option 1 or Option 2 except for paragraphs (a), (c) and (e) of the definition of Option 1 or paragraphs (a) and (c) of the definition of Option 2;
 - (e) If the licensee relied on Option 1, limited assurance that the assumptions the licensee adopted for its projection were not unreasonable; and
 - (f) If the licensee relied on Option 2, limited assurance that the basis for the selection of assumptions to meet the requirements for the projection adopted was not unreasonable.
2. If the Licensee is relying on satisfying the cash needs requirement with a financial commitment by an Australian ADI or comparable foreign institution under Option 3 of PF 209, then ASIC requires:
 - (a) Reasonable assurance that the Licensee has obtained from an Australian ADI or a foreign deposit-taking institution approved in writing by ASIC as an eligible provider an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the Licensee, or the amount for which the Licensee is liable to its creditors at the time of demand to the Licensee's creditors or a trustee for the Licensee's creditors;
 - (b) Limited assurance that the Licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence;
 - (c) Limited assurance that the basis for the selection of the assumptions adopted was not unreasonable.

3. If the Licensee is relying on satisfying the cash needs requirement by relying on licence condition 13(c)(iv) under Option 4 of PF 209, then ASIC requires:
- (a) Reasonable assurance that the Licensee is a subsidiary of an Australian ADI or a corporation approved by ASIC in writing;
 - (b) Reasonable assurance that a responsible officer of the Licensee has documented that the officer has the reasonable expectation for at least the following three month period together with the reasons for forming the expectation, the contingencies for which the Licensee considers it is reasonable to plan, the assumptions made concerning the contingencies and the basis for selecting those assumptions;
 - (c) Limited assurance that the Licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence;
 - (d) Limited assurance that the basis for the selection of the assumptions adopted was not unreasonable.
- (i) If the Licensee is relying on satisfying the cash needs requirement by relying on licence condition 13(c)(v) (Option 5), then ASIC requires:
- (e) Reasonable assurance that the cash flows of the Licensee and each of its related bodies corporate, other than a body regulated by APRA ("Licensee group"), are managed on a consolidated basis and there is a body corporate within the Licensee group of which all members of the Licensee group are subsidiaries that is not a body regulated by APRA ("parent entity");
 - (f) If the Licensee is relying on Alternative A, reasonable assurance that the parent entity has provided an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the Licensee or to meet the Licensee's liabilities;
 - (g) If the Licensee is relying on Alternative B:
 - (i) Limited assurance that the Licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence; and
 - (ii) Limited assurance that the basis for the selection of the assumptions adopted was not unreasonable; and
 - (h) Under subparagraph 13(c)(v)(D), a report by the parent entity's auditor to be given to ASIC with the Licensee's annual audit report under condition 28 of its licence, with respect to compliance by the parent entity with Option 1 or Option 2 as they would apply in accordance with subparagraph (c) reflecting the report that would be required from the auditor of a Licensee, for that period purporting to comply with Option 1 or 2.



AUASB Comments Received and Proposed Disposition Paper

AGENDA ITEM NO.	8.1
Meeting Date:	6 September 2022
Subject:	Comments and Disposition on ED 01/22 and ED 02/22
Date Prepared:	11 August 2022
Document Type:	Exposure Draft
Proposed Title:	Comments and Disposition on ED 01/22 and ED 02/22

	Page Number
EXHIBIT 1:	
Comments and Disposition on Exposure of ED 01/22 <i>Proposed Conforming and Consequential Amendments to the Australian-Specific AUASB Standards as a result of the New and Revised Quality Management Standards</i>	3
EXHIBIT 2:	
Comments and Disposition on Exposure of ED 02/22 <i>Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards</i>	5

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.

LISTING OF RESPONDENTS

Short Form Name	Name	Date Received
ED 01/22		
IPA	Institute of Public Accountants	10 June 2022
ED 02/22		
IPA	Institute of Public Accountants	18 August 2022

EXHIBIT 1: Comments and Disposition on Exposure of ED 01/22 *Proposed Conforming and Consequential Amendments to the Australian-Specific AUASB Standards as a result of the New and Revised Quality Management Standards*

No.	Respondent Comment	ATG Comments	Change to be made to Doc? Y/N
1	IPA is of the view that the proposed changes are sufficient.	N/A	N/A
2	IPA generally supports the proposed operative date of 15 December 2022, however, notes this potentially creates an early adoption anomaly. We note ASQM 1 requires a system of quality management to be designed and implemented by 15 December 2022. Where an auditor has 'early adopted' ASQM 1, the effect of the proposed conforming and consequential amendments is technically out of alignment with ASQM 1. The AUASB should consider if this can be overcome by enabling early adoption of the conforming and consequential amendments.	It is understood that where an AUASB Standard is early adopted, all relevant conforming and consequential amendments must also be early adopted, see para 233 of the <i>Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications</i> .	No change
3	IPA is of the view that applicable laws and regulations have been appropriately addressed and we are not aware of any laws or regulations that have been omitted.	N/A	N/A
4	IPA are not aware of any impediments or any legislative conflicts which may conflict with the proposed conforming and consequential amendments.	N/A	N/A
5	IPA are not aware of any principles and practices that prevent or act as an impediment to applying the proposed conforming and consequential amendments.	N/A	N/A
6	IPA's view is that the benefit of adopting the proposed conforming and consequential amendments would outweigh the costs of firms needing to update their policies and procedures to bring them into alignment with the changes. Changes made to AUASB pronouncements and the legislative framework regulating audit and assurance engagements has a cost which is ultimately born by the practitioner and their clients. Any additional costs from adopting the proposed conforming and consequential amendments are not considered to be significant.	N/A	N/A

No.	Respondent Comment	ATG Comments	Change to be made to Doc? Y/N
7	<p>IPA does not have any other significant public interest matters to raise. Editorial comments are provided in Attachment 2.</p> <p><i>Attachment 2</i></p> <p>Suggestion 1 <u>ASAE 3100 Appendix 6 Example 1, Example 2, Example 2 (p13)</u></p> <p>AUASB may consider adding the word “the” before “fundamental principles” to read:</p> <p>We have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements in undertaking this assurance engagement, * which are <u>founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</u></p> <p>Suggestion 2 <u>ASRE 2405 paragraph 11 (pp17-18)</u></p> <p>We would prefer to see a closer alignment with the words used in paragraph 6 of ASQM 1.</p> <p>AUASB may consider changing the following:</p> <p>(a) <u>The firm’s risk assessment process</u> leadership responsibilities for quality on the assurance engagement;</p> <p>(e) assignment of engagement teams <u>Resources</u> Engagement performance;</p> <p>(f) Eengagement performance <u>Resources;</u></p>	<p>Change in ASAE 3100 Appendix 6 is consistent with ASAE 3420 [Aus] Appendix 2 wording. No change to Suggestion 1.</p> <p>Updated ASRE 2405 based on the changes in Suggestion 2.</p>	<p>See comments in the column on the left.</p> <p>Yes</p>

EXHIBIT 2: Comments and Disposition on Exposure of ED 02/22 *Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards*

No.	Respondent Comment	ATG Comments	Change to be made to Doc? Y/N
1	Notwithstanding our comments to Question 2, IPA generally supports the proposed amendments given the change in scope of APES 320 <i>Quality Management for Firms that provide Non-Assurance Services</i> to no longer include audit and assurance services and the proposed amendments effective from 1 January 2023.	N/A	N/A
2	IPA considers that Assurance Practitioners undertaking Assurance Engagements under ASREs and ASAEs should simply be required to comply with ASQM 1 and ASA 102. Although the proposed amendments result in a pure convergence of Australian standards with IAASB equivalents, “other standards that are at least demanding” would not be commonplace and may add an unintended level of application complexity. Except to achieve pure compliance with equivalent IAASB equivalent standards, it is unclear what additional benefits would be achieved by allowing alternative standards to be adopted. There is opportunity for the AUASB to provide examples and guidance on what these other standards are. Outside quality management, do other AUASB standards allow alternative standards to be applied by audit/assurance practitioners where those requirements are at least demanding to the default standards?	The additional benefits would be to ensure the AUASB’s Assurance Standards can be applied by assurance practitioners who are not members of the Australian professional accounting bodies. The ATG is not aware of any frameworks in law or regulation that are at least as demanding as ASQM 1 and ASA 102 in the current environment, but this change will allow assurance practitioners to consider other quality management frameworks and other ethical codes that are at least as demanding as the AUASB’s frameworks and ASA 102 in the future.	No change.
3	IPA generally supports the proposed operative date of 15 December 2022 but notes this potentially creates an early adoption anomaly. We note ASQM 1 requires a system of quality management to be designed and implemented by 15 December 2022. Where an auditor has ‘early adopted’ ASQM 1, the effect of the proposed conforming and consequential amendments is technically out of alignment with ASQM 1. The AUASB should consider if this can be overcome by enabling early adoption of the conforming and consequential amendments.	It is understood that where an AUASB Standard is early adopted, all relevant conforming and consequential amendments must also be early adopted, see para 233 of the <i>Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications</i> .	No change

No.	Respondent Comment	ATG Comments	Change to be made to Doc? Y/N
4	IPA believes applicable laws and regulations have been appropriately addressed and we are not aware of any laws or regulations that have been omitted.	N/A	N/A
5	IPA are not aware of any impediments or any legislative conflicts which may conflict with the proposed conforming and consequential amendments.	N/A	N/A
6	IPA are not aware of any principles and practices that prevent or act as an impediment to applying the proposed conforming and consequential amendments.	N/A	N/A
7	IPA's view is that there are unlikely to be any additional significant costs or benefits for auditors and the business community arising from compliance with the requirements of the proposed conforming and consequential amendments.	N/A	N/A
8	IPA does not have any other significant public interest matters to raise.	N/A	N/A

* * *

July 2022

Consultation Paper

Exposure of the IAASB's *Proposed Narrow Scope Amendments to:*

- ***ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements; and***
- ***ISA 260 (Revised), Communication with Those Charged with Governance,***

as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Consultation Paper

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

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Consultation Paper - Exposure of the IAASB's Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

Important Note and Disclaimer

This Consultation Paper is issued by the AUASB to provide information to auditors and assurance practitioners about IAASB Exposure Draft *Proposed Narrow Scope Amendments to: ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements; and ISA 260 (Revised), Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)*.

This Consultation Paper does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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CONSULTATION PAPER

Exposure of the IAASB's Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised), as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

Introduction

1. The International Auditing and Assurance Standards Board (IAASB) has issued *Exposure Draft, Proposed Narrow Scope Amendments to ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements; and ISA 260 (Revised), Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs) (IAASB ED)*.
2. The Australian Auditing and Assurance Standards Board (AUASB) is seeking feedback from stakeholders to inform us when responding to the IAASB on the released IAASB ED, and to identify potential compelling reasons¹ to modify ISA 700 (Revised) and ISA 260 (Revised) for application in Australia.
3. This Consultation Paper provides an overview of how the AUASB is requesting feedback from Australian stakeholders on the proposed changes detailed in IAASB ED, and their impact on the Australian assurance environment.

Overview

Purpose

4. The aim of this Consultation Paper is to:
 - (a) provide stakeholders with information about the IAASB ED;
 - (b) provide stakeholders with information as to how the IAASB ED is being exposed by the AUASB; and
 - (c) seek stakeholder feedback.

Materials issued as part of this Consultation

5. The following materials have been issued to seek Australian stakeholder feedback:
 - (a) AUASB Consultation Paper to the IAASB ED (this document); and
 - (b) IAASB ED.
6. The IAASB ED includes the IAASB's Explanatory Memorandum which provides the full background to, and an explanation of, the IAASB's proposed narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised).
7. The IAASB ED and the related IAASB Explanatory Memorandum are included within this Australian Consultation Paper as an attachment – refer to Appendix 1.

¹ Refer to paragraphs 39-40 for an explanation of compelling reasons.

Request for Comments

8. The AUASB requests comments on all matters relating to the IAASB ED, but specifically in relation to the IAASB Exposure Draft² questions below. Stakeholders' responses to these questions will be used to inform the AUASB in their formal response to the IAASB. Additionally, responses will be used in AUASB deliberations regarding the issuance of the final Australian standard, including assessing compelling reasons³ for any Australian-specific enhancements. Stakeholders may address only specific questions relevant to them or raise matters not specifically addressed by the questions.
9. Stakeholders are requested to clearly indicate whether they agree or do not agree with the proposed amendments. Comments will be most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording.

Consultation Paper Questions

10. Stakeholders are asked to respond to the AUASB on the following questions:

Request for Specific Comments

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements

1. Do you agree that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code?
2. If the auditor's report is to be used as a mechanism for publicly disclosing the independence requirements complied with, do you support:
 - a) the IAASB's proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirement as explained in paragraphs 18-24 of the IAASB's Explanatory Memorandum?
 - b) the IAASB's proposed revisions in the ED to ISA 260 (Revised)?
3. What other mechanism(s) could be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph R400.20 of the IESBA Code?

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Reviews of Financial Statements

4. Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?
5. If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in **Section 2-C** of the IAASB's Explanatory Memorandum?

² IAASB Explanatory Memorandum, *Section 3 Request for Comments*.

³ Refer to paragraphs 39-40 of this Consultation Paper for an explanation of compelling reasons.

Consultation Paper - Exposure of the IAASB's Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

Matter for IESBA Consideration

6. To assist the IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioner's report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

Request for General Comments

The AUASB is also seeking comments on the following matter:

7. Effective Date - Given the need to align the effective date with IESBA, do you support the IAASB proposal that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after 15 December 2024 as explained in paragraph 26 of the IAASB's Explanatory Memorandum?

Comment Closing Date

11. Comments to the AUASB will close **15 September 2022**. This is to allow stakeholders time to respond to the AUASB on the IAASB ED, for AUASB technical staff to collate all feedback, and for the AUASB to consider and approve our submission to the IAASB due on 4 October 2022.
12. At the completion of the exposure period, the AUASB will consider stakeholders' submissions:
- (a) to inform us when developing our response to the IAASB on their Exposure Draft; and
 - (b) where the AUASB determines that a compelling reason exist, to inform us as to whether modifications may be required when we are adopting the final standards.

Background (Refer to IAASB Explanatory Memorandum, paragraphs 2-13, for detail)

IAASB's Project on Listed Entity and PIE

13. The IAASB ED is part of a broader IAASB project in response to the recently approved revisions to [Part 4A of the IESBA Code and its glossary](#) related to the definitions of listed entity and public interest entity in the Code.
14. The changes to the IESBA Code include a new transparency requirement for firms to publicly disclose when the independence requirements for PIEs have been applied in an audit of financial statements. The Code does not specify the mechanism of public disclosure but has adopted a more principles-based approach with its reference to "... in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders".⁴
15. In finalising the revisions to the IESBA Code, the IESBA noted that:
- (a) further IESBA guidance about acceptable forms of public disclosure could be helpful;
 - (b) it was not appropriate to include examples of other disclosure mechanisms in the Code at the time, given that the IAASB had yet to consider the issue; and

⁴ Refer to paragraph R400.20 of the [Revised IESBA Code](#).

Consultation Paper - Exposure of the IAASB's Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

- (c) it will consider the need for any further action on the matter, including whether further guidance or conforming amendments to the IESBA Code would be warranted, once the IAASB has concluded its deliberations on the matter.⁵
16. The Accounting Professional & Ethical Standards Board Limited (APESB) at its June 2022 meeting approved the issuance of an Exposure Draft of amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* to incorporate the IESBA Code revisions, with adaptations and additional requirements to suit the Australian environment.⁶
17. As the Revised IESBA Code becomes effective for audits and reviews of financial statements for periods beginning on or after 15 December 2024, the IAASB recognised the need to expedite its process to support the operationalisation of the IESBA's new transparency requirement. This is in line with the IAASB-IESBA strategic commitment of enhanced coordination between the two Boards to achieve convergence between IAASB and IESBA Standards to the greatest extent possible, which will improve the interoperability of such standards in the public interest.
18. Accordingly, the IAASB determined that it will undertake its project on Listed Entity and PIE as two tracks:
- (a) Track 1: A faster-moving track to determine whether the auditor's report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities (for example PIEs) when performing an audit of financial statements⁷, with an effective date that aligns with the revisions to the IESBA Code.
- (b) Track 2: A separate track that will consider other narrow scope amendments⁸, with a later effective date, including:
- Aligning to the greatest extent possible the definitions and key concepts underlying the definitions in the International Standards on Quality Management (ISQMs) and ISAs related to listed entities and PIEs to the IESBA's definitions and key concepts in the revisions to the IESBA Code.
 - Considering the applicability of existing differential requirements for listed entities in the ISQMs and ISAs, and whether these need to be amended in light of the IESBA's revisions that address the definitions of 'publicly traded entity' and PIEs.
19. This Consultation Paper, in line with the IAASB ED, deals solely with the proposed amendments to ISA 700 (Revised) and ISA 260 (Revised) in undertaking Track 1 of the IAASB's narrow scope maintenance of standards project on Listed Entity and PIE.

Key IAASB Proposals (Refer to IAASB Explanatory Memorandum, paragraphs 14-36, for detail)

The IAASB's Proposed Narrow Scope Amendments to ISA 700 (Revised)

20. The two key questions considered by the IAASB as part of its consultation on the proposed narrow scope amendments to ISA 700 (Revised) are:

⁵ See IAASB Explanatory Memorandum, paragraphs 9-13, for further background.

⁶ The APESB's provisions in determining PIEs are higher than that of the revised IESBA Code. For further information, refer to the APESB's June 2022 meeting papers, [Agenda Item 3](#).

⁷ See IAASB Explanatory Memorandum, paragraphs 3(c) and 5(d).

⁸ See IAASB Explanatory Memorandum, paragraphs 5(a)-(c)

Consultation Paper - Exposure of the IAASB's Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

- (a) Is the auditor's report an appropriate mechanism through which to make the public disclosures required by the changes in the IESBA Code?
 - (b) If the disclosures are made in the auditor's report, what is the best approach for dealing with this?
21. As noted in paragraphs 13-15 of this Paper, the revised IESBA Code does not specify the mechanism for public disclosure, on the basis that the IAASB is yet to consider whether the auditor's report is an appropriate mechanism for publicly disclosing this information. The IESBA, as part of its consultation on the revised IESBA Code, sought views from respondents regarding possible mechanisms, including the auditor's report, to achieve such public disclosure. This is discussed further in paragraphs 130-149 of the IESBA's [Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).
22. While the IAASB is supportive of the IESBA's efforts to enhance transparency about the independence requirements applied in performing the audit of PIEs, the IAASB is seeking stakeholder feedback before making a decision on whether the auditor's report is the appropriate mechanism for such public disclosure.
23. Although the IAASB identifies two possible approaches to amending the requirement in paragraph 28(c) of ISA 700 (Revised) for this purpose, the IAASB is supporting the conditional requirement that will apply only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of certain entities were applied. This is explained in paragraphs 18-24 of the IAASB's Explanatory Memorandum.
24. To support application of the suggested conditional requirement, the IAASB is proposing:
- (a) additional application material to:
 - explain that relevant ethical requirements may also require or encourage the auditor to determine whether it is appropriate to apply the differential independence requirements to audits of certain entities not specified in the relevant ethical requirements.
 - explain what is meant by 'certain entities'.
 - emphasise the confidentiality provisions in the relevant ethical requirements that may prohibit the auditor from providing such disclosure.
 - (b) updating the illustrative auditor's reports in the Appendix of ISA 700 (Revised) that apply to listed entities to demonstrate how the disclosures can be made.

The IAASB's Proposed Narrow Scope Amendments to ISA 260 (Revised)

25. Given that communications with those charged with governance address matters related to independence and the form and content of the auditor's report, the IAASB is also proposing narrow scope amendments to ISA 260 (Revised).
26. Communication of matters related to independence is already captured by paragraph 17 of ISA 260 (Revised). New application material has been proposed to paragraph A29 of the Standard, to correspond with the revisions to ISA 700 (Revised).

International Standards on Review Engagements (ISREs)

27. As Part 4A of the IESBA Code applies to both audit and review engagements, the revisions to the IESBA Code regarding listed entity and PIE, including the transparency requirement, also apply to review engagements conducted in accordance with the ISREs.

Consultation Paper - Exposure of the IAASB's Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

28. As the IESBA's focus in its deliberations and coordination with the IAASB was on enhancing transparency in the auditor's report, the IAASB determined:
- (a) Not to propose amendments to ISRE 2410⁹ at this point in time, for reasons explained in paragraph 29(a) of the IAASB's Explanatory Memorandum.
 - (b) To seek stakeholder feedback, as part of this consultation, whether a revision to ISRE 2400 (Revised)¹⁰ would be desirable to address the IESBA's requirement for enhanced transparency when a firm has applied the independence requirements for PIEs in a review engagement. For matters considered by the IAASB in making this determination, refer to paragraphs 29(b) and 30-33 of the IAASB's Explanatory Memorandum.

Specific AUASB Considerations

29. The requirement in extant ISA 700 paragraph Aus 28.1(c) differs from its international equivalent in that it requires the auditor to identify the relevant ethical requirements applicable within Australia when providing the basis for opinion.

Paragraph 28(c) of extant ISA 700 has been deleted by the AUASB and replaced by the following wording in ASA 700:

Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the relevant ethical requirements applicable within Australia (Ref: Para. Aus A34.1–A39)

Paragraph 28(c) of extant ISA 700 requires the statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code, and read as follows:

Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) (Ref: Para. A34–A39)

30. In Australia, the equivalent requirements and related application and other explanatory material included in ISA 200 and ISA 700 in respect of 'relevant ethical requirements', have been included in Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Paragraph A34 of extant ISA 700 has been deleted by the AUASB and replaced by the following wording in ASA 700:

The identification of the relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA 200 explains that the auditor is subject to the relevant ethical requirements as described in ASA 102.

Paragraph A34 of extant ISA 700 read as follows:

The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA 200 explains that relevant ethical requirements ordinarily comprise the provisions of the IESBA

⁹ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

¹⁰ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*.

Consultation Paper - Exposure of the IAASB's Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

Code related to an audit of financial statements, together with national requirements that are more restrictive. When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.

31. In ASA 700, the Illustration 1 and Illustration 2 example auditor's reports included in the Appendix to extant ISA 700 have been replaced by [Aus] Illustration 1A and [Aus] Illustration 2A respectively (in respect of a single company and a group), to conform with the requirements of the *Corporations Act 2001*.
32. As the proposed IAASB revisions to ISA 700 (Revised) and ISA 260 (Revised) are narrow in scope and focussed on operationalising recently approved changes to the IESBA Code that enhance transparency about application of independence requirements for audits of PIEs, the above differences between the international ISA and Australian Auditing Standards will not be impacted.

Proposed Application Date

33. It is proposed that the revised standards will be applicable for **financial reporting periods beginning on or after 15 December 2024**. This application date corresponds with that of the equivalent ISAs and is based on the premise that the IAASB approve the revised international standards in June 2023. The AUASB considers this effective date to be sufficient due to the limited scope of the amendments proposed, and because it would not be in the public interest to have a prolonged misalignment with the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* in this regard.

The AUASB's Approach in Seeking Stakeholder Feedback

34. The IAASB ED is issued for comment in Australia by the AUASB without modification.
35. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's auditing standards (ISAs), unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so.¹¹
36. The AUASB's approach, in accordance with the [AUASB International Strategy](#), is to actively influence the international standard setting process to produce international standards that serves as the most effective base possible from which to develop equivalent Australian Auditing Standards. As part of this strategy, the AUASB actively monitors the development of new IAASB Standards and revisions to IAASB Standards and provides continual feedback to raise issues with the IAASB throughout the international standard's development process.
37. The AUASB makes formal submissions on Exposure Drafts issued by the IAASB to contribute to the setting of international standards. Stakeholders' feedback in response to this Consultation Paper will be used to inform the AUASB in its formal response to the IAASB. Additionally, responses will be used in AUASB deliberations regarding the issuance of the final revised Australian Standards, including assessing compelling reasons for any Australian-specific enhancements.
38. Following the consultation process, influencing the development of ED IAASB and assessing implications for the Australian market (focusing on the need for any compelling reasons), the

¹¹ The AUASB's principles of convergence with the ISAs can be found in [AUASB Policy and Process for International Conformance and Harmonisation of Standards](#). For further background on the AUASB's mandate and strategic directive, and the principles and process adopted by the AUASB to develop Australian Standards based on equivalent ISAs, refer to the AUASB's [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#).

Consultation Paper - Exposure of the IAASB's Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

AUASB will consider for approval a revised ASA 700 and ASA 260, which will be based on the final approved revised ISAs.

39. In accordance with the [*AUASB Policy and Process for International Conformance and Harmonisation of Standards*](#), international standards should only be modified if there are compelling reasons to do so. The Compelling Reason Test¹² for modification of an international standard is triggered when the international standard does not reflect, or is not consistent with, Australian legal and regulatory arrangements, or principles and practices that are considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB). Any such changes must not result in a requirement that is lesser than or in conflict with the requirements of the equivalent international standard.
40. Any deletion from the international standards will be clearly noted, and any addition or other modification will be clearly marked as an Australian paragraph ("Aus" prefix). However, minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology) need not be reflected in the Australian standard as a modification to the international standard where the intent remains unchanged.

Additional Website Resources

41. The AUASB welcomes stakeholders' input to the development of Australian Auditing Standards and regards both supportive and critical comments as essential to a balanced review of the proposed standards. Stakeholders are encouraged to access the websites of the [AUASB](#) and the [IAASB](#) to obtain further information.

* *

¹² Refer to [*AUASB Policy and Process for International Conformance and Harmonisation of Standards*](#), for an explanation of the compelling reasons for modification of international standards and application of the Compelling Reasons Test.

IAASB Exposure Draft, Proposed Narrow Scope Amendments to ISA 700 and ISA 260, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)

Exposure Draft
July 2022

Comments due: October 4, 2022

International Standards on Auditing

Proposed Narrow Scope Amendments to:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; and
- ISA 260 (Revised), *Communication with Those Charged with Governance*,

as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)



International Auditing
and Assurance
Standards Board

About the IAASB

This Exposure Draft (ED) was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

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

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

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REQUEST FOR COMMENTS

This ED, proposed *Narrow Scope Amendments to ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, and ISA 260 (Revised), Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)*, was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this ED may be modified in light of comments received before being issued in final form. **Comments are requested by October 4, 2022.**

Respondents are asked to submit their comments electronically through the IAASB website, using the “Submit a Comment” link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

EXPLANATORY MEMORANDUM

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Introduction

1. This memorandum provides background to, and an explanation of, the IAASB's proposed narrow scope amendments to certain International Standards on Auditing (ISAs) as a result of the revisions to the IESBA Code¹ that require a firm to publicly disclose when a firm has applied the independence requirements for public interest entities (PIEs) (IESBA's transparency requirement). The IAASB approved the proposed amendments to ISA 700 (Revised) and ISA 260 (Revised) on June 17, 2022 for exposure.

Background

History of the IESBA Project on Listed Entity and PIE

2. In December 2019, the International Ethics Standards Board for Accountants (IESBA) approved its project, [Definitions of Listed Entity and Public Interest Entity](#) and published an Exposure Draft in January 2021 [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (2021 IESBA PIE ED).
3. The 2021 IESBA PIE ED discussed various matters that were also relevant to the IAASB standards, particularly the ISQMs² and ISAs, and the IESBA incorporated specific questions to seek preliminary views from the IAASB's stakeholders on those matters. This included specific questions about:³
 - (a) The overarching objective established by IESBA. This included a question about whether the overarching objective could be used by both the IESBA and the IAASB in establishing differential requirements for certain entities, including how this might be approached for the ISQMs and ISAs.
 - (b) A case-by-case approach for establishing differential requirements for certain entities in the IAASB's Standards. This included a question seeking feedback about the proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to all categories of PIEs.
 - (c) The appropriate mechanism that may be used to publicly disclose when a firm has applied the independence requirements for PIEs. This included a question about whether it would be appropriate to make such disclosure within the auditor's report and if so, how might this be approached in the auditor's report.

The feedback from stakeholders has been used by the IAASB as part of information gathering and research activities in exploring a project on listed entity and PIE.

4. In December 2021, the IESBA approved the revisions to [Part 4A of the IESBA Code and its glossary](#) relating to listed entity and PIE (the revised IESBA Code).⁴ The revisions to the IESBA Code become

¹ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

² International Standards on Quality Management

³ The matters for IESBA consideration included questions 1-14 of the 2021 IESBA PIE ED, however feedback on these questions also had relevance to the IAASB. Question 15 (a)-(c) of the 2021 IESBA PIE ED were specific to the IAASB.

⁴ See paragraphs R400.20 – R400.21 of the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024.

IAASB's Project on Listed Entity and PIE

5. In March 2022, the IAASB approved a [project proposal](#) to undertake a narrow scope maintenance of standards project on listed entity and PIE, which includes the following project objectives that support the public interest:
 - (a) Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the ISQMs and ISAs to maintain their interoperability.
 - (b) Establish an objective and guidelines to support the IAASB's judgments regarding specific matters for which differential requirements for certain entities are appropriate.
 - (c) Determine whether, and the extent to which, to amend the applicability of the existing differential requirements for listed entities in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities.
 - (d) Determine whether the auditor's report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities when performing an audit of financial statements (also see paragraph 3(c)).
6. As the revisions to the IESBA Code become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, the IAASB recognized the need to take more nimble action in respect of the project objective in paragraph 5(d) to support the operationalization of IESBA's transparency requirement. Accordingly, the IAASB determined that it will undertake the project on listed entity and PIE as two tracks:
 - (a) Track 1: A faster-moving track that deals with the project objective in paragraph 5(d), with an effective date that aligns with the revisions to the IESBA Code.
 - (b) Track 2: A separate track that deals with all other project objectives in paragraphs 5(a)–(c), with a later effective date.

This ED deals with the proposed amendments to ISA 700 (Revised) and ISA 260 (Revised) in undertaking Track 1 of the IAASB's narrow scope maintenance of standards project on listed entity and PIE.

Coordination Between the IESBA and IAASB

7. The IESBA and IAASB recognize the importance of coordination between the two Boards to achieve convergence between the concepts of PIE and "publicly traded entity" in the IESBA's and IAASB's standards, to the greatest extent possible. Such convergence enables the interoperability of the proposals made by each Board.
8. Accordingly, throughout the IAASB's and IESBA's projects, there has been extensive coordination between the two Boards through Staff coordination, the participation of IAASB and IESBA correspondent members in the respective Boards' Task Forces, discussions involving representatives of IESBA at the IAASB's Board meetings, joint IESBA-IAASB CAG discussions and joint IESBA-

IAASB Jurisdictional / National Standard Setter (NSS) sessions.

Background to IESBA's Transparency Requirement

9. In the 2021 IESBA PIE ED, the IESBA proposed a new transparency requirement for a firm to publicly disclose whether an entity has been treated as a PIE. This proposal was introduced because IESBA recognized that there may be increased uncertainty among the public as to whether an entity has been treated as a PIE by a firm given local variations in the classification of entities that are PIEs and the new proposed requirement on firms to determine if additional entities should be treated as PIEs.
10. In support of the proposed transparency requirement, a few respondents expressed the view that given the objective of the proposals to enhance stakeholder confidence in an entity's financial statements through enhancing confidence in the audit of those financial statements, it is important that stakeholders are aware of whether an entity has been treated as a PIE. However, respondents who did not support the proposed transparency requirement for a firm to disclose if an audit client was treated as a PIE, indicated that it could create confusion, it may not be relevant and more information would need to be provided in order for the disclosure to be useful (please see paragraph 133 of the IESBA's [Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) for a further explanation of these views).
11. The IESBA did not specify in the 2021 IESBA PIE ED the mechanism of disclosure and instead sought views from respondents regarding the possible mechanisms to achieve IESBA's transparency requirement. In addition, to assist the IAASB with its initial information gathering, the 2021 IESBA PIE ED asked respondents to comment on whether they believe the auditor's report is a suitable location for such disclosure and, if so, how this might be approached in the auditor's report. Respondents expressed mixed views on the appropriate mechanism to disclose whether a firm has treated an entity as a PIE. While the majority supported the use of the auditor's report as an appropriate mechanism for public disclosure, a number of respondents emphasized their lack of support for requiring firms to determine whether to "treat" additional entities as PIEs and publicly disclose whether they "treated" such entities as PIEs. Other respondents either did not support disclosure in the auditor's report, recommended that more research is needed, or suggested other mechanisms of disclosure.
12. In finalizing the revisions to Part 4A of the IESBA Code and its glossary relating to listed entity and PIE, the IESBA considered the various views. Key decisions taken by the IESBA regarding the proposed new transparency requirement included:
 - (a) Revising the requirement from whether an entity has been "treated" as a PIE to whether the PIE independence requirements have been applied in performing the audit. This was to alleviate the concerns about inadvertently creating a public perception that auditors of PIEs have a higher level of independence than auditors of non-PIEs or that PIE audits are of a higher quality than non-PIE audits.
 - (b) Allowing for an exemption to complying with the requirement if doing so would mean that the firm discloses confidential future plans of the audit client (see paragraph R400.21 of the revised IESBA Code).
 - (c) Clarifying that the disclosure should be made "in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders." This was added by IESBA to alleviate concerns about the auditor's report not always being made available to the public, or when it may have limited distribution.

13. In paragraphs 141–143 of the IESBA's [Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#), the IESBA noted the following:
- (a) Further IESBA guidance about acceptable forms of public disclosure could be helpful, particularly as the IAASB is yet to explore if the auditor's report is a suitable location for such disclosure. In this regard, the IESBA noted that, in addition to the auditor's report as a possible disclosure avenue, other suggestions from respondents to the IESBA PIE ED included a firm's transparency report and websites of the firm, the entity or local bodies.
 - (b) The IESBA's view that it was not appropriate to include examples of other disclosure mechanisms in the Code at the time of finalizing IESBA's revisions to the Code, given that the IAASB had yet to consider the issue. The IESBA's reference to "in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders" was intended to provide a more principles-based approach and assist firms when considering the appropriate disclosure mechanism to comply with the transparency requirement.
 - (c) Following the conclusion of the IAASB's deliberations on the matter, the IESBA will consider the need for any further action on the matter, including whether further guidance or conforming amendments to the IESBA Code would be warranted.

Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in this ED, but especially those identified in the *Request for Comments* section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. When a respondent agrees with the proposals in the ED, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not stated.

Section 2 Significant Matters

Section 2-A – Public Interest Issues Addressed

14. It is in the public interest for the IAASB's Standards to:
- (a) Operate in harmony with the IESBA Code, and without confusion, given that many jurisdictions utilize both.
 - (b) Acknowledge and not potentially undermine the revisions to the IESBA Code – either through being inconsistent or through failing to draw appropriate attention to the revised requirements in the IESBA Code when it is appropriate to do so.
 - (c) Support or recognize a situation when the IESBA Code requires an action that has relevance to the IAASB's Standards.
15. Communication between the auditor and stakeholders in a transparent manner enables stakeholders to understand the audit and enhances stakeholders' confidence that the audit was performed appropriately, thereby building confidence in the financial statements. The IAASB supports the IESBA's efforts to enhance transparency about the independence requirements applied in performing the audit, given the heightened expectations of stakeholders regarding the independence of the auditor in performing audits of PIEs.

16. The auditor's report is a key mechanism for communication to users about the audit that was performed. Accordingly, the IAASB is proposing narrow-scope amendments to ISA 700 (Revised) to support operationalizing the IESBA transparency requirement. The IAASB is of the view that revising ISA 700 (Revised) to use the auditor's report as the mechanism to achieve IESBA's transparency requirement is appropriate because:

- (a) It enables consistency and comparability in auditor reporting globally when the relevant ethical requirements include transparency requirements about the independence requirements applied for certain entities specified in the relevant ethical requirements;
- (b) It provides a clear mechanism to operationalize the IESBA transparency requirement; and
- (c) The auditor's report is accessible to users of the audited financial statements.⁵

The IAASB notes that there are no other mechanisms in the IAASB Standards that deal with communication to all users of the audited financial statements.

17. Given that communications with those charged with governance address matters related to independence and the form and content of the auditor's report, narrow scope amendments to ISA 260 (Revised) have also been proposed.

Section 2-B – The IAASB's Proposed Revisions to ISA 700 (Revised) and ISA 260 (Revised)

Proposed Revisions to ISA 700 (Revised)

18. Paragraph 28(c) of ISA 700 (Revised) requires the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code. However, it does not require the auditor to further specify whether differential independence requirements in the relevant ethical requirements that are applicable only to audits of financial statements of certain entities were applied, such as the independence requirements for PIEs in the IESBA Code.
19. The IAASB identified two possible approaches to amending the requirement in paragraph 28(c) of ISA 700 (Revised) that would require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied:
- (a) A conditional requirement that applies only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied. If the condition is met, the auditor is required to indicate in the auditor's report that the relevant ethical requirements for independence for those entities were applied.
- OR
- (b) A non-conditional requirement that would apply in all circumstances when differential independence requirements for audits of financial statements of certain entities were applied, even if the relevant ethical requirements do not require the auditor to publicly disclose that such differential independence requirements were applied.
20. The IAASB supports a conditional requirement because:

⁵ Paragraphs 144-146 of the IESBA [Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#), explain the IESBA's considerations regarding what might be an appropriate form of public disclosure, and how IESBA's transparency requirement can be complied with by a firm if the auditor's report is not made available to the public.

- (a) It does not impose an obligation on the auditor to disclose in the auditor's report that the relevant ethical requirements for independence for those entities were applied if the underlying relevant ethical requirements do not require the auditor to do so. This enables jurisdictions that do not adopt the IESBA Code to determine, in establishing their ethical requirements, whether it is appropriate to have a transparency requirement in their ethical requirements, and whether the transparency requirement should specify circumstances when it is not appropriate to provide such disclosure (e.g., when the disclosure would result in revealing confidential future plans of the entity).
 - (b) Mandating disclosure in all circumstances could expand the disclosure to circumstances when relevant ethical requirements, including jurisdictional law or regulation, impose independence requirements on certain entities that are not PIEs, or are only one category of PIEs. For example, jurisdictional law or regulation may contain specific independence requirements for financial institutions.
 - (c) Describing the independence requirements applied when there are multiple ethical codes, law or regulation applicable in the circumstances, could become complex if the auditor is also required to explain whether specific independence requirements for certain entities contained in the ethical codes, law or regulation were applied.
21. The proposed amendments to paragraph 28(c) of ISA 700 (Revised) reflect the conditional approach and are neutral regarding:
- (a) The relevant ethical requirements applicable in the circumstances, given that jurisdictional ethical requirements may be applicable in the circumstances. However, explicit references to the IESBA Code are included in the application material as examples.
 - (b) The entities to which the differential independence requirements apply (the requirement refers to "certain entities"). Jurisdictional ethical requirements may contain differential independence requirements that apply to categories of entities other than PIEs, and such requirements may require the auditor to publicly disclose when such differential independence requirements have been applied. The IAASB notes that the term "PIE" is not currently used in the requirements of the ISAs and that further consideration of whether the IESBA definition of PIE should be adopted in the ISQMs and ISAs or in the IAASB's Glossary of Terms will be

The IAASB is aware that certain jurisdictions have modified paragraph 28(c) of ISA 700 (Revised) in their national equivalent standards to specify that the statement in the auditor's report should provide transparency about the differential independence requirements that are applicable to audits of financial statements of certain entities.

Example:

In the United Kingdom (UK), the Financial Reporting Council (FRC) modified paragraph 28(c) of ISA 700 (Revised) in their national equivalent standard to specify that the statement in the auditor's report should indicate that the relevant ethical requirements include the FRC's Ethical Standard, applied as required for the types of entity determined to be appropriate in the circumstances. Accordingly, where appropriate, the statement in the auditor's report refers to the ethical requirements that are relevant to the audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities.

addressed as part of Track 2 of its narrow scope maintenance of standards project on listed entity and PIE.

22. To support the application of the conditional element of the requirement in paragraph 28(c) of ISA 700 (Revised), the following application material is proposed:
- (a) An explanation that relevant ethical requirements may also require or encourage the auditor to determine whether it is appropriate to apply the differential independence requirements for audits of financial statements of certain entities not specified in the relevant ethical requirements. For example, paragraph 400.19 A1 of the revised IESBA Code encourages firms to determine whether to treat other entities as PIEs for purposes of Part 4A of the IESBA Code, and provides a list of factors for firms to consider in making this determination.
 - (b) A reference to the IESBA Code to provide an example of relevant ethical requirements that have a transparency requirement.
 - (c) An explanation of what is meant by “certain entities” (i.e., those as specified by the relevant ethical requirements, such as PIEs in the IESBA Code).
 - (d) An emphasis on the confidentiality provisions in the relevant ethical requirements that may prohibit the auditor from providing such disclosure, and a reference to paragraph R400.21 of the revised IESBA Code, which contains an exemption on disclosure in circumstances when doing so will result in disclosing confidential future plans of the entity (e.g., in case of a planned initial public offering, merger or acquisition).
23. In addition, the illustrative auditor’s reports in the Appendix of ISA 700 (Revised) that apply to listed entities have been updated to demonstrate how the disclosures can be made. The IAASB has not identified any other illustrative auditor’s reports in the remaining ISAs that require a similar update.
24. The Appendix to this Explanatory Memorandum further illustrates the impact to the auditor’s report as a result of the proposed amendments to ISA 700 (Revised).

Proposed Revisions to ISA 260 (Revised)

25. The IAASB agreed that revisions to ISA 260 (Revised) may be necessary to increase transparency with those charged with governance that differential independence requirements for certain entities have been applied. Communication of matters related to independence is already captured by paragraph 17 of ISA 260 (Revised).⁶ Accordingly, new application material has been proposed to paragraph A29 of ISA 260 (Revised) to correspond with the revisions to ISA 700 (Revised).

Effective Date

26. The IAASB anticipates that the final pronouncement will be approved in June 2023. Given the need to align the effective date with IESBA, the IAASB is proposing that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after December 15, 2024. The IAASB is of the view that this timeframe is adequate to allow jurisdictions sufficient time for translation of the final text of the amendments to the respective

⁶ In the case of listed entities, paragraph 17(a) of ISA 260 (Revised) requires that the auditor communicate with those charged with governance a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

ISAs, for national adoption processes to occur, and for practitioners to update templates and associated internal materials. The IAASB considers that a longer effective date is unnecessary due to the limited nature of the amendments proposed and because it would not be in the public interest to have a prolonged misalignment with the IESBA Code in this regard.

Section 2-C – International Standards on Review Engagements (ISREs)

27. Part 4A of the IESBA Code⁷ applies to both audit and review engagements and therefore the revisions to the IESBA Code regarding listed entity and PIE, including the transparency requirement, also apply to review engagements conducted in accordance with the ISREs.
28. The 2021 IESBA PIE ED addressed specific questions for respondents on whether it would be appropriate to disclose when a firm has applied the independence requirements for PIEs within the auditor's report and if so, how this might be approached. When proposing the revisions to the IESBA Code, the focus of the IESBA's discussion was on enhancing transparency about the auditor's assertion of the relevant independence requirements applied in performing an audit of financial statements.
29. In finalizing the IAASB project proposal and determining the scope of the IAASB's work, it was acknowledged that the IESBA's requirement would also apply to review engagements undertaken in accordance with the ISREs. However, recognizing that the IESBA's focus was on enhancing transparency in the auditor's report, the IAASB determined:
 - (a) Not to propose amendments to ISRE 2410⁸ as part of this project. This is consistent with previous decisions of the IAASB that the standard is in a pre-clarity format and has not been subject to conforming amendments arising from other IAASB projects in recent years (e.g., quality management projects)⁹ to avoid giving the impression that this standard is up to date. In addition, the IAASB notes that:
 - (i) The scope of ISRE 2410 is limited to a review of interim financial information *performed by* the independent auditor of the financial statements of the entity. Accordingly, if the relevant ethical requirements require public disclosure that differential independence requirements that are applicable to audits of financial statements of certain entities were applied, that auditor would be required to provide the disclosure in the auditor's report on the full-period financial statements in accordance with paragraph 28(c) of ISA 700 (Revised).
 - (ii) ISRE 2410 does not preclude the auditor from providing a disclosure that differential independence requirements that are applicable to audits of financial statements of certain entities were applied in the review report, or using paragraph 28(c) of ISA 700 (Revised) and the illustrations in ISA 700 (Revised) as a basis for that disclosure.

⁷ Paragraph 400.2 explains that Part 4A applies to both audit and review engagements and that the terms "audit," "audit team," "audit engagement," "audit client," and "audit report" apply equally to "review," "review team," "review engagement," "review client," and "review engagement report."

⁸ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

⁹ The quality management projects include the following suite of standards: ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2, *Engagement Quality Reviews* and ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*.

- (b) To seek stakeholder feedback, as part of this consultation, whether a revision to ISRE 2400 (Revised)¹⁰ would be desirable to address IESBA's requirement for a firm to publicly disclose when it has applied the independence requirements for PIEs in the circumstances of a review engagement, and if so, how this might be approached (see paragraphs 30-33 below). If based on this information gathering the IAASB identifies further action to be taken to revise ISRE 2400 (Revised), then the IAASB could take such action, which is described further in paragraph 33, as part of Track 2 of its narrow scope maintenance of standards project on listed entity and PIE.

Considering whether to Revise ISRE 2400 (Revised) to Address Circumstances when Relevant Ethical Requirements include a Transparency Requirement

30. As part of the auditor reporting project,¹¹ completed by the IAASB in September 2014, the IAASB determined not to amend the practitioner's report under ISRE 2400 (Revised) to align it with the changes introduced to the auditor's report (e.g., the structure of the report and including new elements introduced to the auditor's report).
31. Paragraph 86(j) of ISRE 2400 (Revised) requires the practitioner's report to include a reference to the practitioner's obligation under ISRE 2400 (Revised) to comply with relevant ethical requirements. The practitioner is not required to provide a statement similar to the requirement in paragraph 28(c) of ISA 700 (Revised), which requires the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.
32. The IAASB notes that there may be very limited circumstances when the practitioner is performing a review of financial statements of a PIE, i.e., given the entity is a PIE, it is more likely that the financial statements will be subject to an audit. Furthermore, amending ISRE 2400 (Revised) could raise questions about whether the standard should also be revised to deal with amendments to the auditor's report that were made as part of the auditor reporting project, which goes beyond the scope of this project. Accordingly, the IAASB is cautious about amending ISRE 2400 (Revised) at this time. Nevertheless, the IAASB is interested in stakeholders' views about whether ISRE 2400 (Revised) should be amended.
33. If it is determined that changes should be made to ISRE 2400 (Revised), the IAASB is of the view that the approach should be consistent with ISA 700 (Revised). Accordingly, a conditional requirement could be introduced in ISRE 2400 (Revised), together with application material and illustrations as necessary. The conditional requirement is illustrated below:

¹⁰ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

¹¹ See <https://www.iaasb.org/projects/auditor-reporting>.

The Practitioner's Report

86A. In circumstances when the relevant ethical requirements require the practitioner to publicly disclose that differential independence requirements that are applicable to reviews of financial statements of certain entities were applied, the practitioner's report shall include a statement that:

- (a) Identifies the jurisdiction of origin of the relevant ethical requirements or refers to the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code); and
- (b) Indicates that the practitioner is independent of the entity in accordance with the independence requirements applicable to reviews of financial statements of those entities.

Matter for IESBA Consideration

- 34. During the IESBA's deliberations and its coordination with the IAASB on the transparency requirement, the IESBA's focus was on audit engagements.
- 35. As highlighted in paragraph 13 above, the IESBA planned to consider the need for any further action following the conclusion of the IAASB's deliberations on the matters raised in this ED.
- 36. To inform the IESBA's considerations specifically with respect to review engagements, the IESBA and IAASB have agreed to seek feedback from IESBA's stakeholders as to whether there are any jurisdictions that require the review report to include a statement that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

Section 3 Request for Comments

The IAASB welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. In this regard, comments will be most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IAASB to be made aware of this view.

Request for Specific Comments

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements

- 1. Do you agree that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code?

Please answer question 2A or 2B based on your answer to question 1:

2A. *If you agree:*

- (a) Do you support the IAASB's proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirement as explained in paragraphs 18-24 of the Explanatory

Memorandum?

(b) Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?

- 2B. *If you do not agree*, what other mechanism(s) should be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph R400.20 of the IESBA Code?

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Reviews of Financial Statements

3. Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?
4. If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in **Section 2-C**?

Matter for IESBA Consideration

5. To assist the IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioner's report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

Request for General Comments

The IAASB is also seeking comments on the following matters:

6. **Translations**—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing this ED.
7. **Effective Date**—Given the need to align the effective date with IESBA, do you support the proposal that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after December 15, 2024 as explained in paragraph 26?

Appendix – Illustrative Impact on the Auditor’s Report as a Result of the Proposed Revisions to ISA 700 (Revised)

E.g.	Illustrative Circumstances				Will disclosure that differential independence requirements were applied be required in the auditor’s report as a result of amending paragraph 28(c) of ISA 700 (Revised)?
	Relevant ethical requirements that apply	Differential independence requirements for certain entities	Relevant ethical requirements require public disclosure	Type of entity	
1	The IESBA Code.	Yes, there are differential independence requirements for PIEs.	Yes	PIE	<p>Yes</p> <p>We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code), <u>as applicable to public interest entities</u>.</p>
2	The relevant ethical requirements are those of the jurisdiction.	Yes, the jurisdictional ethical code has differential independence requirements for PIEs.	Yes	PIE	<p>Yes</p> <p>We are independent of the company in accordance with the ethical requirements <u>for public interest entities</u> that are relevant to our audit of the financial statements in <i>[jurisdiction]</i>.</p>

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISA 700 (REVISED) AND ISA 260 (REVISED) AS A RESULT OF THE REVISIONS TO THE IESBA CODE THAT REQUIRE A FIRM TO PUBLICLY DISCLOSE WHEN A FIRM HAS APPLIED THE INDEPENDENCE REQUIREMENTS FOR PIEs

E.g.	Illustrative Circumstances				Will disclosure that differential independence requirements were applied be required in the auditor's report as a result of amending paragraph 28(c) of ISA 700 (Revised)?
	Relevant ethical requirements that apply	Differential independence requirements for certain entities	Relevant ethical requirements require public disclosure	Type of entity	
3	The relevant ethical requirements are those of the jurisdiction.	Yes, the jurisdictional ethical code has differential independence requirements for PIEs.	No	PIE	<p>No – use extant wording</p> <p>We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in <i>[jurisdiction]</i>, and we have fulfilled our other ethical responsibilities in accordance with these requirements.</p>
4	The IESBA Code and there is jurisdictional law applicable to financial institutions that includes independence requirements for the auditor.	<p>Yes</p> <p>The IESBA Code includes differential independence requirements for PIEs.</p> <p>The jurisdictional law only applies to audits of financial institutions.</p>	<p>Only the IESBA Code requires public disclosure.</p> <p>The jurisdictional law does not require the auditor to publicly disclose that they have applied the law.</p>	The entity is a financial institution and qualifies as a PIE.	<p>Yes, but only regarding the IESBA Code</p> <p>We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' <i>International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)</i>, <u>as applicable to public interest entities</u>, together with the ethical requirements that are relevant to our audit of the financial statements in <i>[jurisdiction]</i>.</p>

PROPOSED NARROW SCOPE AMENDMENTS TO ISA 700 (REVISED) AND ISA 260 (REVISED) AS A RESULT OF THE REVISIONS TO THE IESBA CODE THAT REQUIRE A FIRM TO PUBLICLY DISCLOSE WHEN A FIRM HAS APPLIED THE INDEPENDENCE REQUIREMENTS FOR PIEs

[MARKED-UP FROM EXTANT ISAs]

(Effective for audits of financial statements for periods beginning on or after [DATE])

ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

...

Requirements

...

Auditor's Report

...

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)

...

- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code). In circumstances when the relevant ethical requirements require the auditor to publicly disclose that differential independence requirements that are applicable to audits of financial statements of certain entities were applied, the statement shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to the audits of those entities; and (Ref: Para. A34–A39)

...

Application and Other Explanatory Material

...

Auditor's Report (Ref: Para.20)

...

Basis for Opinion (Ref: Para. 28)

...

Relevant ethical requirements (Ref: Para. 28(c))

- A34. The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA 200 explains that relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to an audit of financial statements, together with national requirements that are more restrictive.¹ When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.
- A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).

A35A. Relevant ethical requirements may require the auditor to:

- Apply differential independence requirements to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. Relevant ethical requirements may also require or encourage the auditor to determine whether it is appropriate to apply those differential independence requirements to audits of financial statements of other entities not specified in the relevant ethical requirements.
 - Publicly disclose that the differential independence requirements that are applicable to audits of financial statements of certain entities were applied. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.²
- A36. Law or regulation, national auditing standards or the terms of an audit engagement may also require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those related to independence, that applied to the audit of the financial statements.
- A37. In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor's report.

...

¹ ISA 200, paragraph A16

² IESBA Code, paragraphs R400.20-R400.21

Appendix

(Ref. Para A19)

Illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).
- The relevant ethical requirements that apply to the audit comprise the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, together with the ethical requirements relating to the audit in the jurisdiction, and the auditor refers to both. The IESBA Code and the ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the differential independence requirements applicable to audits of financial statements of public interest entities were applied.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements³

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, as applicable to public interest entities, together with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in [jurisdiction], ~~and~~ we have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

³ The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

...

Illustration 2 – Auditor’s Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).

...

- ~~The International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), comprises all of the relevant ethical requirements that apply to the audit.~~ relevant ethical requirements that apply to the audit are those of the jurisdiction. The ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the differential independence requirements applicable to audits of financial statements of public interest entities were applied.

...

...

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements⁴

...

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with ~~the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code~~ the ethical requirements for public interest entities that are relevant to our audit of the consolidated financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

...

⁴ The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

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

...

Requirements

...

Matters to Be Communicated

...

Auditor Independence

17. In the case of listed entities, the auditor shall communicate with those charged with governance:

- (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
 - (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
 - (ii) In respect of threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats, or applying safeguards to reduce the threats to an acceptable level. (Ref: Para. A29–A32)

...

Application and Other Explanatory Material

...

Matters to Be Communicated

...

Auditor Independence (Ref: Para. 17)

A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements.⁵ Relevant ethical requirements may include differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. The auditor's statement to those charged with governance in accordance with paragraph 17 may include which

⁵ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14

independence requirements were applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied. The auditor may also be required to provide information about such differential independence requirements that were applied in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised).

- A30. The communication about relationships and other matters, and how threats to independence that are not at an acceptable level have been addressed varies with the circumstances of the engagement and generally addresses the threats to independence, safeguards to reduce the threats, and measures to eliminate the circumstances that created the threats.
- A31. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.⁶
- A32. The communication requirements relating to auditor independence that apply in the case of listed entities may also be appropriate in the case of some other entities, including those that may be of significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

⁶ See, for example, paragraphs R400.80–R400.82 and R400.84 of the IESBA Code.

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