



AUASB Agenda Paper

Project:	Fraud and Going Concern	Meeting:	1 December 2020
Topic:	IAASB Fraud and Going Concern Discussion Paper	Agenda Item:	7.0
Strategic Objective:	International Influencing/Audit Quality	Decision-Making:	For Discussion
ATG Staff:	Anne Waters/ Marina Michaelides / See Wen Ewe	Project Status:	In Progress
AUASB Sponsor:	Going Concern – Carolyn Ralph Fraud – Justin Reid		

Action Required and Decisions to be Made

- 1 Consider and provide input into the AUASB response to the IAASB Discussion Paper on *Fraud and Going Concern in an Audit of Financial Statements*.

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Do you agree with the main points included in the draft outline of the AUASB's response to the IAASB?	Agenda Item 7.1 and 7.2 is a high level draft outline of the main points the ATG recommend for inclusion in the AUASB's response to the IAASB.
Question 2	Do you have any additional matters for inclusion or believe any other key themes from the roundtables should be considered?	For transparency we have included in an Appendix to 7.1 and 7.2 detailed comments from the roundtables.

Background

- 2 The IAASB released a Discussion Paper on *Fraud and Going Concern in an Audit of Financial Statements* in September seeking perspectives from all stakeholders to identify the challenges, issues and appropriate responses related to fraud and going concern.
- 3 The AUASB Audit Technical Group (ATG) held two virtual roundtables in November to discuss the issues laid out in the Discussion Paper. The roundtables were very well attended with over 50 stakeholders at both, representing a broad range of backgrounds, including assurance providers from a range of audit firms, directors, professional accounting bodies, regulators and academics.
- 4 Additionally, the ATG presented and received feedback on the Going Concern Discussion Paper and questions at the virtual meeting with the Large National Network Firms which was attended by practitioners from mid-tier and smaller audit firms and discussed a number of issues associated with the Fraud questions in the Discussion Paper as part of the IAASB National Standards Setters meeting on 3 & 4 November 2020.

Previous Discussions on Topic

- 5 October 2020 AUASB Meeting – The ATG presented an overview of the planned activities to gather stakeholder feedback to inform its response to the IAASB Discussion Paper on [*Fraud and Going Concern in an Audit of Financial Statements*](#). This will also inform the AUASB in its early planning for our response to the [PJC's Regulation of Auditing in Australia: Interim Report](#) recommendation on fraud and going concern (if in final report).

Matters for Discussion and ATG Recommendations

- 6 Stakeholder feedback from the roundtables has been collated, summarised and considered by the ATG (see Appendices to **Agenda Item 7.1** and **Agenda Item 7.2**) for inclusion in the draft submission to the IAASB. Based on this the ATG have prepared a high level draft outline of the AUASB's response to the IAASB's discussion paper which is included in **Agenda Item 7.1** and **Agenda Item 7.2**.

Collaboration with NZAuASB and other standard setters

- 7 The Australian Accounting Standards Board (AASB) are continuing to consider going concern and discussed this at their meeting on 12 November 2020. The AASB agreed to develop a thought-leadership paper addressing:
 - the issues and available evidence regarding the adequacy of going concern disclosures currently required by Accounting Standards, and the basis of preparation where the going concern assumption is no longer appropriate; and
 - recommendations on how the IASB could address the issues identified.

AUASB Agenda Paper

The AASB have engaged with academics who are conducting research on financial reporting disclosures when there is a Material Uncertainty Related to Going Concern (MURGC) to inform them in the development of this paper. The AASB will address its findings in its submission to the IASB's upcoming agenda consultation, which is expected to be issued by the IASB in March 2021 for comment.

- 8 NZAuASB staff attended both the Fraud and Going Concern roundtables run by the AUASB. The ATG will attend the equivalent NZAuASB roundtable being run in New Zealand on 24 November and staff will share information relating to our respective draft submissions.

Next steps/Way Forward

- 9 The ATG will draft the submissions to the IAASB over the coming weeks with the objective of finalising this before office shutdown in late December 2020 (the deadline for submission is 1 February 2021). The ATG will send a final draft to the AUASB members for fatal flaw comments early in the week 14 December 2020.

Materials Presented

Agenda Item 7.0	AUASB Agenda Paper on Fraud and Going Concern Project
Agenda Item 7.1	Summary of stakeholder feedback on Fraud
Agenda Item 7.2	Summary of stakeholder feedback on Going Concern

Main points for proposed response for IAASB

Overall acknowledgement that the expectation gap across the three limbs: knowledge, performance and evolution exists in Australia with regard to fraud.

Contention persists around the expectation gap between what users of financial reports expect an auditor to provide and what auditors are required to provide under statutory obligations with respect to the auditor's role in preventing and detecting fraud.

It was universally noted however that for auditors, standard setters, regulators to resolve these issues that further root-cause analysis needs to be done on the international corporate collapses to provide evidence to inform what the key issues across the expectation gap need to be addressed. The driver of the debate appears to be high profile international corporate failures where material fraud was detected after the fact. The AUASB is supportive of the IAASB conducting extensive research into what the key drivers of the issues related to fraud and the expectation gap to ensure that any proposed amendments to standards address these issues. Some areas for possible consideration include: closer links to ISA 540 and management bias, improvements on the requirements around gaining an understanding on where fraud could occur not just in the area of revenue recognition, guidance on “surprise audit procedures” and what is required of the auditor when fraud is detected and the impact on the planned audit approach.

It was also strongly acknowledged by stakeholders that educators e.g. Universities and Accounting Bodies play a significant role in ensuring that our next generation of auditors are trained and skilled up in the application of fraud risk assessment, forensic skills and applying a sceptical mindset coupled with the training and development they receive in these areas once they join the profession.

Overall the consistent view from stakeholders was that ISA 240 is fit for purpose and enhancing requirements is not necessarily going to solve the problem as we currently understand it as the auditor's responsibilities with regard to fraud are not in and of themselves going to address all the key concerns by users of the financial report. The responsibility lies across multiple parties in the financial reporting eco-system primarily starting with management and those charged with governance (TCWG) and their role and attestation around processes in governance, culture, risk management frameworks and controls to fulfil their obligations to prevent and detect fraud. The auditor's role may be addressed through further transparency in reporting by the auditors to TCWG on the work currently undertaken on fraud in a financial statement audit engagement and or explicitly stating in the audit report the work performed on attestations by TCWG stating that the actions they have taken to prevent and detect fraud are appropriate. Both of these areas have been recommended in the Brydon Report in the UK.

The other area in relation to transparency which was discussed by stakeholders would be if Australia moved more toward adoption of a SOX or SOX light approach to the internal control environment with a management and TCWG sign off process coupled with auditor evaluation of the process as has been recommended in the PJC Inquiry final recommendations. This recommendation now includes caveats on cost, thresholds and timelines acknowledging in the current economic environment (for both entities and auditors) this may be onerous in the short term. However, notwithstanding this it may assist with clarifying and communicating the roles of both management, TCWG and the auditor in these areas which require greater focus with

regard to fraud prevention and detection and address some of the public interest areas around the knowledge and performance gap.

Consistent views were also expressed by stakeholders in the area of whether the financial statement audit has evolved enough alongside the expectations of the general public and entities on the use of technological advances e.g. data analytics and other data mining tools to enhance the audit and add more value. If the use of technology is now more deeply embedded in audit methodology and the way firms conduct an audit has evolved, then this may be an area which could be better reflected through a modernisation of ISA 240. It would appear the expectation of users and entities that these changes are being adopted is certainly more prevalent than may be occurring in practice especially in the area of fraud prevention and detection.

Detailed feedback from the AUASB Fraud Roundtable

1. *In regard to the expectation gap:*

(a) What do you think is the main cause of the expectation gap relating to fraud in an audit of financial statements?

Knowledge GAP

- The audit report does a poor job of communicating specifically on fraud.
- Users have unrealistic expectations and understanding of what sampling and auditing can or does achieve.
- Concept of materiality – concept of materiality is poorly understood even amongst those charged with governance driving the expectation gap. The concept of "materiality" for the auditor is very different to that of a member of the general public.
- Expectation gap from the perspective of the company's responsibilities and reporting. There needs to be responsibility taken by the CFO and directors.
- Auditors are part of the risk management framework, not the only risk management tool in financial reporting – issue lies across the whole financial reporting ecosystem.
- The issue seems to be that the judgement of this is retrospective in a court of law but we are asked to take a principles approach. There is always scope for disappointment if judgement is the basis for the procedures and the outcome is the basis for the judgement.
- What the public expect isn't possible. i.e. expecting all fraud will be detected. There have been recent changes like expanding the content of the audit report, however many people don't appear to actually read what is in the audit report so unsure how much benefit this additional information is providing.
- Possible Solution: What can be done? Shift the primary onus onto management and make that transparent – i.e. an overt sign-off in relation to the fraud control framework by management. There needs to be more focus on having management accountable and responsible for disclosure.

Performance GAP

- Auditors are not clear about what and where they need to focus with regard to fraud risk factors and procedures and how to determine the extent of what is required in some cases to explore and investigate fraud.
- Fraud is often part of collusion which can be very challenging to find.
- Availability bias – a single high-profile corporate failure with fraud leads to an over-estimation of its prevalence and over-estimation of auditor's responsibility.
- On performance, auditors need to be sceptical, alert to red flags and properly execute basic audit procedures that can uncover fraud.

Evolution GAP

- Expectation gap links to the evolution gap – criticisms do not stem from the fact that people don't understand what an audit does but from the fact that stakeholders don't think that is enough, which is why we've never managed to reduce the expectation gap through education and communication.

(b) In your view, what could be done, by the IAASB and / or others (please specify), to narrow the expectation gap related to fraud in an audit of financial statements?

- A number of important changes made concurrently, with each member of the ecosystem playing its part, could result in enhanced trust in corporate reporting and audit, and a significant reduction in the expectation gap.
- Establishing a robust risk assessment framework and controls – SOX or SOX light model and transparency around this area when reporting to those TCWG and respective responsibilities of TCWG and auditors in the audit report.
- Audit partners to engage in forensic accounting for audit engagement on listed companies or on companies that have revenue above certain threshold.
- There could be an opportunity to simplify language in the standards, as well as use more concrete examples. Some of the language / sentences are complicated and long, which allows auditors to hide behind complexity at times.
- Audit reports could still be made clearer, whether in the core report or in a separate document, when explaining the auditor's responsibilities and the responsibilities of TCWG.
- Role of educators, how to ensure audit graduates have sufficient skills in forensics and application of a sceptical mindset needs to be enhanced.

2. In your view:

(a) Should the auditor have enhanced or more requirements with regard to fraud in an audit of financial statements? If yes, in what areas?

Summary

- The current standard ISA 240 is adequate and fit for purpose. The issues are more about the performance and evolution gap and whether auditors are adequately trained in identifying material fraud.

Suggested areas for enhancements

- Specific changes to responsibilities paragraphs could look like: 1) A table of "What we do" vs "What we don't do" 2) Defining who the "users" are 3) Provide more definition of a misstatement and the distinction between fraud and error.
- Potentially greater responsibilities around understanding and consideration of fraud risk factors.
- Separate materiality to address fraud risk than misstatement through error may assist.
- More references to appropriate use of technology and specialists e.g. forensics would be helpful, specifically for larger entities. However, I think this can't go beyond simply worded principles as that is exactly where the auditors' professional judgement and scepticism should be applied.
- Improvements on the requirements around gaining an understanding on how fraud could occur. We have very specific guidance to gain that understanding with respect to revenue, however that tends to lead to the focus being on revenue and other areas having less focus.
- The principles in the standard are still applicable, however the standard was drafted in a different era to the current environment. The current environment in which entities are operating is more complex due to technological advancement amongst other things which then enables sophisticated fraud schemes. Enhancements to modernise the standard would be seen as useful.

- Closer link with ISA 540 and particularly management bias in complex accounting estimates.
- The "surprise procedures" could be put in the limelight a bit more perhaps. In my experience this is an extremely important part of the standard. We all know audits can be quite a repetitive process for clients.
- Enhancements to requirements and/or application when fraud is actually discovered clarifying our obligations to ensure the financial report is not materially misstated i.e. perform procedures to ensure there is no further material fraud, amending planned audit approach, considerations to performance materiality etc.

(b) Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes, in what areas?

No comments.

(i) For what types of entities or in what circumstances?

No comments.

(ii) What enhancements are needed?

See 2(a) above.

(iii) Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

No comments. Refer 2(a) for suggested changes within ISA 240.

(c) Would requiring a "suspicious mindset" contribute to enhanced fraud identification when planning and performing the audit? Why or why not?

- "Suspicious mindset" would seem to start with an assumption that there is fraud unless proven otherwise - which may help ensure professional scepticism (aim for more than scepticism and if you fail to meet that, you would get to scepticism). I think often scepticism ends up on landing where "everything is fine unless proven otherwise" rather than "assume nothing".
- It is important to get professional scepticism embedded and not introduce a new concept which does not seem to match the requirements of the standards.
- It is an area that benefits from regular reinforcement. Potentially a new name/concept could have short term benefit.
- There appears to be a cultural aspect to staff being able to understand and implement the difference between suspicious and professional scepticism. Challenging not just corroborating. There may be a need for involvement from the more senior audit staff in performing work coupled with effective supervision and review.
- Suspicious mind concept works for forensics because they are engaged to identify fraud but does lend itself to an audit.
- Psychology research shows it is difficult to have a sceptical mindset (natural to seek confirming rather than disconfirming evidence; anchoring on client numbers). Hindsight bias always present in evaluating auditor performance after the fact. How can one move

between different mindsets? A suspicious mindset could lead to bad client relationships, which could be negative for audit efficiency and effectiveness.

- I feel that if the outcome of the risk assessment indicates a heightened risk of fraud then our response is to apply a greater level of professional scepticism, but I don't think we need to formalise it with a different mindset.
- There should be a separation between the "investigative" mindset of fraud identification and the role of the traditional auditor. What about two separate engagements from two separate firms?
- It is important that we have a mindset that demonstrates a willingness to explore new concepts/approaches and not be too easily dismissive of points that at first sight can seem "too risky or costly".

(i) Should the IAASB enhance the auditor's considerations around fraud to include a "suspicious mindset"? If yes, for all audits or only in some circumstances?

The concept of "suspicious mindset" being introduced to contribute to enhanced fraud identification was not strongly supported by Australian stakeholders as they felt that professional scepticism was sufficient in the audit of the financial statements and more widely understood and defined concept in the auditing standards. Noting however that professional scepticism is still in the process of being properly embedded throughout all areas of the financial statement audit with recent changes to ISAs and relevant application material.

(d) Do you believe more transparency is needed about the auditor's work in relation to fraud in an audit of financial statements? If yes, what additional information is needed and how should this information be communicated (e.g. in communications with those charged with governance, in the auditor's report, etc.)?

- The auditor doesn't have much scope to communicate other than in the audit report, however, many users appear to not read the content that is there, so adding more content might not achieve the desired outcome.
- Support more transparency around fraud risks and our audit response in communications with those charged with governance. In practice our response to fraud risks are not well planned and are more a tick the box exercise. If this was formally communicated to TCWG audit responses to fraud risks would be more robust.
- Transparency by: the company, including an improved disclosure setting out the risks of fraud and how they are mitigated; the audit committee, describing what assurance they have chosen to commission over those fraud risks and controls; and the auditor, describing the work performed and findings.
- This is where if those responsible for the financial report are required to explicitly attest to fraud prevention and detection for the organisation as a whole then the transparency challenge becomes less complex as the auditor in turn is then providing commentary specific to that. This is similar to some of the APRA related attestations engagements for example around the Risk Management Strategy (albeit they are not public documents).
- Transparency as a form of probity is already present in the public sector.
- Some auditors communicate materiality in their audit. Could consider better communication of the confidence intervals used. i.e. statistical sampling is based on an allowable % of error. This assumes that there is an allowable % of the time that the 'auditor gets it wrong', however, community expectation appears to be that the auditor should never get things wrong.
- Increased reporting and transparency could potentially increase auditors' legal liability.

Overall stakeholders had mixed views about increasing transparency in relation to fraud with TCWG and/or in the audit report. It was strongly agreed by stakeholders 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 in relation to the prevention and detection of fraud.

3. *Are there any other matters the IAASB should consider as it progresses its work on fraud in an audit of financial statements?*

- Auditors, standard setters and regulators need to be clear what the users of financial statements are expecting of the auditor and is the issue we are trying to solve i.e what is the true gap. Recommendations or changes will then need to be considered in that light, otherwise we run a risk that the solution may not be fit for purpose.
- To enable these matters to be addressed, we need to be having conversations about audit fees and funding an acceptable level of work or additional work where required.
- Enhancements could considerably increase the auditor's scope of work. Training and enhanced skills on examination are required. Also increase in data analytic tools across the whole population. Given the fee issue within the Australian market an education process on appropriate fees for service would also need to be considered.
- Will entities be prepared to pay someone (the auditor or forensic auditor) for the increased assurance over fraud?
- Cost-benefit analysis for shareholders of additional requirements of both management, TCWG and the auditors needs to be undertaken before any changes are made by standard setters and regulators.

Other perspectives raised in the Fraud section of the Discussion Paper

The IAASB is interested in perspectives about the impact of corporate culture on fraudulent financial reporting and what, if any, additional audit procedures for the auditor should be considered by the IAASB in this regard.

- Cost-benefit analysis is the key to reducing fraud and improving audit quality. Cost cutting and cutting corners by both the management and the auditors is not going to prevent fraud. The US SOX 404 comes at a huge cost. If in Australia we want to improve audit quality then we have to adopt the US approach. However, even that will not completely eliminate instances of fraud. It has to be a combination of changes and efforts across the financial reporting eco-system which will all come at a cost to the shareholders.
- Culture is a huge factor in relation to the prevention and detection of fraud. There is often friction between internal audit functions and higher level management because it can be embarrassing and reputationally damaging because it occurred on their watch.

Overall stakeholders agreed that corporate culture has a significant impact on fraudulent reporting and some consideration of a SOX or SOX light model in relation to internal controls and the appropriate transparency and internal sign offs by management coupled with the auditor evaluating the appropriateness of the process may assist in this area.

The IAASB is interested in perspectives about requiring the use of forensic specialists or other relevant specialists in a financial statement audit, and, if considered appropriate, in what circumstances the use of specialists should be required.

- Bringing the fraud specialists in as part of the engagement team fraud discussion to help with identifying risk assessment and understanding the entity and the possible fraud schemes that could be perpetrated may be useful.
- Upskilling auditors in forensic techniques is a better option and engagement of forensic experts when issues of fraud are identified.
- Good auditors already know when to use specialists.
- Identification of fraud risks is the key area. Also, where there is any possible or suspected fraud identified, involving a forensic specialist can be valuable.
- Involving forensic specialists can be helpful to reduce the performance gap. Not currently required but should not be too easily overlooked as a helpful specialist to contribute to fraud risk assessment and response in the audit.
- Forensic specialists have their place, but a lot of the work they undertake is because the auditor was aware of potential fraud but didn't communicate this appropriately to management and TCWG. Forensic specialists may be able to assist with educating the profession and the public on the area of fraud detection and prevention.
- It is always obvious for certain topics- estimates etc, I think there is need to clarify that this is an area where the auditor can consider using specialist.
- If the auditors suspect fraud, then there should be engagement of forensic accountants and fraud investigators.
- Increased training and use of forensic specialists will increase the cost of audit, will entities accept the increased costs?

Overall there was not strong support by stakeholders for forensic specialists to be required to be used under ISA 240. The main reason being the cost vs benefit to the entity. It was generally agreed that the decision to use specialists, forensic or otherwise should still be a decision for the engagement partner based on the circumstances of the engagement.

As the world is changing and non-material frauds are becoming more prevalent, the IAASB would like to explore whether more needs to be done in relation to non-material frauds identified. As such, the IAASB is interested in perspectives about the perceived responsibilities of the auditor regarding non-material fraud in a financial statement audit (i.e., a broader focus on fraud) and what additional procedures, if any, may be appropriate. The IAASB is also interested in perspectives about whether additional audit procedures should be required when a non-material fraud is identified, and if so, what types of procedures.

- Like SOX regime, received very good feedback, but if we talk about immaterial fraud, who is going to pay for that and when materiality is no longer the criteria, how to define immaterial fraud.
- There could be better guidance to auditors on how to deal with the cumulative impact across multiple years. i.e. the impact in each year might not be material, while the cumulative total (if it becomes a liability) could be material.
- It depends on what the end result is you want to achieve. Court Prosecution means the standard of proof is beyond all reasonable doubt which is a high bar. Civil recovery of funds is balance of probabilities. Different approaches for each.

- Need to have some specific parameters around what the objective of this work would be - otherwise you would still not avoid expectation gaps (perhaps even increase the likelihood).
- Non-material is a quantitative measure - we also need to consider qualitative aspects.
- Non-material fraud can be non-material only because the full extent of it has not been uncovered. It could highlight there are systemic issues for examples with controls in areas of high fraud risk and if not addressed could lead to material fraud.
- How to differentiate between misstatements due to error and fraud? Specially if small misstatement indicators may require completely different responses if they are tagged as intentional (fraudulent) (full investigation before one can conclude that all potential impact of the indicator is accounted for) vs unintentional?

The IAASB is interested in perspectives on whether enough emphasis is placed on the auditor's responsibilities around fraud related to third parties. We are also interested in feedback about the auditor's role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks).

- Third-party fraud (cybercrime) should be a separate engagement from the financial statement audit.
- It is the organisation under audit decision to address the fraud. I don't think the auditors need to take responsibility but if it comes to the auditor's attention raise it and the organisation makes the decision what path they take to address it, if any.
- The financial statement audit doesn't provide assurance on cyber-risk. So any cyber assurance should be a separate engagement and needs specialist skills.

The IAASB is interested in perspectives on whether additional engagement quality control review procedures specifically focused on the engagement team's responsibilities relating to fraud should be considered for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

- Stakeholders felt that this was not an effective option with respect to fraud.
- It would not fundamentally close the expectation gap.
- The application guidance in ISQM 2 already has general requirements around the EQCR role relating to fraud.

Overall there was not support for additional engagement quality control review procedures for EQR's in relation to fraud as it was felt that the new ISQM 2 standard has adequate procedures and guidance in this area.

Other matters relevant to Fraud

The IAASB is interested in perspectives about whether more is needed related to professional scepticism when undertaking procedures with regard to fraud and what additional procedures, if any, may be appropriate.

- The point of professional scepticism and how much is enough continues to increase. This is an area that will require a change of mindset, additional training and potentially a different skillset.

Overall stakeholders didn't seem to support the view that there needed to be additional procedures around professional scepticism and fraud in ISA 240.

The IAASB is interested in perspectives about whether more information is needed in the auditor's report regarding fraud, and if so, further details about the transparency needed.

- See comments at Question 2(d).

In addition, the IAASB is interested in perspectives about whether more transparency is needed with regard to communications with those charged with governance.

- Ultimately the responsibility for responding to fraud risks rests with the entity. The audit profession needs to address the audit expectation gap. Potentially extending auditor's responsibilities is going to widen the gap. The entity being transparent about their governance processes related to fraud prevention and detection and potentially a separate assurance engagement on this could be a path forward.

Main points for proposed response for IAASB

Overall acknowledgement that the expectation gap in relation to going concern exists, but the IAASB need to carefully identify the root cause of the going concern issues to ensure that any proposed amendments to auditing standards or other legislation address these. Any legislative change needs to be proportionate to the depth of the issues, and address the root cause holistically across the financial reporting ecosystem. The AUASB is supportive of all parties working together to ensure that there is confidence in financial reporting by the capital markets, and timely communication about an entity's risks which may impact their longer-term viability.

Whilst going concern is a recommendation in the current Australian government's inquiry into Regulation of Auditing, there have been no recent major corporate collapses in Australia or considerable concern from Australian stakeholders that there is a major problem with auditor's consideration of going concern that needs to be fixed. The driver of the debate appears to be media reporting of high profile international corporate failures where the market was not fully informed. But was going concern the issue, or irregularities in accounting / fraud resulted in unreported losses? Was the auditor at fault? Are there consistent, thematic issues, or isolated issues?

COVID-19 has put a "spotlight" on going concern and the difficulties in making forward looking assessments and gathering audit evidence in an environment of such high uncertainty as to the future. This has also highlighted the importance of robust disclosures about uncertainties and key assumptions that management and directors have made in forming their conclusions to allow users to understand the uncertainty which exists.

Entity's will fail however this should not be a surprise to the market. Disclosure in the financial statements and other corporate reporting (such as Continuous Disclosure requirements in Australia) by the entity should be the primary source of alerting and informing users to the entity's risks and going concern matters on a timely basis.

All those involved in the financial reporting ecosystem have a responsibility and role to play in high quality financial reporting of which going concern assessments and disclosures are critically important. Management and directors are responsible for going concern assessments and disclosures. Issues with the quality of financial reporting in relation to disclosure of risks and going concern cannot be "fixed" by auditors or audit standard setters alone. The IAASB must engage with the IASB, the director community, the professional accounting bodies and educators to identify the root cause of and address concerns holistically.

We have received feedback that the responsibilities for going concern assessments and reporting are not consistently understood and / or applied by management and directors. There is currently variability and inconsistency in how robust these assessments are made and the quality of relevant disclosures. This needs to be addressed through more clarity for reporting requirements and / or educative initiatives.

It is important that the disclosure requirements in the accounting standards are sufficiently detailed to result in consistent disclosures when there are issues that threaten the ongoing viability of an entity. Often entities are reluctant to disclose "bad news" as they are inherently optimistic about their business model and strategy. The IAASB must engage with the IASB for alignment in the standards to provide clarity on:

- Responsibilities for going concern assessments and how they are performed;
- Disclosures requirements when there is an identified significant uncertainty or a material uncertainty. At a minimum the accounting standards disclosure requirements must be aligned with the requirements in ISA 570.
- Definitions of key terms such as:
 - significant uncertainty
 - material uncertainty related to going concern
 - inability to continue as a going concern
 And triggers or differences as to when a significant uncertainty is a material uncertainty.

Overall on balance the view from stakeholders is that ISA 570 may need some “tweaking”, however enhancing the requirements for the auditor will not “fix” the problem. Going concern requires significant professional judgement and guidance for auditors on how to apply ISA 570 would be beneficial. For example:

- about flags to be on the lookout for which may indicate a significant uncertainty exists
- how to gather sufficient appropriate audit evidence
- what type of modification is appropriate in which circumstances? The auditor reporting requirements are complex and there is considerable professional judgement when determining which type of modification is appropriate. For example, practical concerns as to when the auditor concludes insufficient audit evidence or whether the use of the going concern basis of accounting is inappropriate.
- Consideration of how data analytic and other tools may assist with predicting financial stress/bankruptcy may be used.

The AUASB caution against extending the time period for going concern assessments beyond 12 months due to the inherent difficulty in obtaining sufficient appropriate audit evidence on management’s assessment and plans over the longer time period. If there is a need to provide more information to users on longer term risks to the viability of an entity this may be better achieved through careful consideration as to longer term reporting such as Resilience or Viability Statement as done in the UK. Many stakeholders expressed views that expectation of users has evolved and the evolution gap exists. It is now time to consider if reporting by entities on longer term viability would be of more value than the current going concern assessments alone. Then careful consideration as to the auditor’s responsibility to provide a level of assurance or read and consider (other information) on this type of reporting.

It is acknowledged that the knowledge gap does exist and could be addressed by enhanced reporting by management and the auditor however caution that this reporting does not increase the expectation gap. There should be consideration as to whether the current reporting requirements for a Material Uncertainty Related to Going Concern (MURGC) is adequate and proportionate i.e. the auditor reports less when they conclude a MURGC exists than if a KAM. Also, it is important to gather evidence as to whether users understand what a MURGC is, and the difference between a MURGC and a KAM, as this may be contributing the knowledge gap.

Detailed feedback from the AUASB Going Concern Roundtable

1. In regard to the expectation gap:

(a) What do you think is the main cause of the expectation gap relating to going concern in an audit of financial statements?

- No consensus that the audit expectation gap is the cause of the going concern “issue”.
- Public expectation that they are informed about risks which threaten the future of an entity is the issue. Investing in share market is not without risk, but an entity’s risks must be disclosed to the market.
- Knowledge gap does exist but not sure this is the main cause of the problem:
 - This could be addressed by enhanced reporting by the auditor however caution that this reporting does not increase the expectation gap.
 - The auditor reports more information on going concern if it is a Key Audit Matter (KAM) than if the auditor concludes a material uncertainty related to going concern (MURGC) exists. This is not proportionate to the severity of the going concern issue, which may create an expectation gap. There should be consideration as to whether the auditor reports more when they conclude a MURGC exists, for example procedures performed and how they’ve made their conclusion.
 - Evidence is needed as to whether:
 - users understand the difference between a MURGC and a KAM, as this may be contributing the knowledge gap; and
 - users understand what a MURGC is.
 - Educating users is required however caution about using the audit report to do this.
- Performance gap does exist for preparers and auditors which needs to be addressed through greater education and considering if the accounting and auditing standards need to be enhanced, for example:
 - Lack of knowledge of CFOs and directors on what their responsibilities are and how to apply the accounting standards. For example, how to identify whether there is a material uncertainty or whether there were significant judgements made in concluding there are no material uncertainties (which drives disclosure requirements in AASB 101), and how to determine if an entity is not a going concern. Education is required.
 - The auditing reporting requirements are overly complex and there are inconsistencies in how going concern matters are reported. Determining which type of modification to provide is complex and requires significant judgement. For example, practical concerns as to when the auditor concludes insufficient audit evidence versus the use of the going concern basis of accounting is inappropriate. Guidance required on what type of modification is appropriate in which circumstances (disclaimer vs adverse).
- There is some support for that there is an evolution gap as public / user expectation has evolved. To address consider if more should be reported about longer-term viability and the auditor should assess this consistent with the UK model.

(b) In your view, what could be done, by the IAASB and / or others (please specify), to narrow the expectation gap related going concern in an audit of financial statements?

- The IAASB must engage with the IASB, the director community, the professional accounting bodies and educators to address concerns that the responsibilities are not consistently understood and applied.
- An entity's disclosures are the most important factor to keeping the market informed. The IAASB must work with the IASB ensure there are:
 - clear disclosures requirements when there is an identified significant uncertainty or a material uncertainty. At a minimum the accounting standards disclosure requirements must be aligned with the requirements in ISA 570.
 - Clear definitions of key terms such as:
 - significant uncertainty
 - material uncertainty related to going concern
 - inability to continue as a going concern.

2. In your view:

(a) Should the auditor have enhanced or more requirements with regard to going concern in an audit of financial statements? If yes, in what areas?

- Overall view that whilst ISA 570 was not perfect, it was not broken either, and “tinkering” with requirements for auditors will not address the fundamental issue that the market is not being informed on a timely basis of risks which may impact an entity's long term viability.
- Consider if more guidance is required for auditors on how to apply ISA 570. For example:
 - about flags to be on the lookout for
 - how to assess solvency vs going concern
 - how to gather audit evidence
 - what type of modification is appropriate in which circumstances? For example, practical concerns as to when the auditor concludes insufficient audit evidence or whether the use of the going concern basis of accounting is inappropriate.
- More guidance on key concepts and definitions for example, significant uncertainty, material uncertainty, inability to continue as a going concern. These must be aligned to the terminology and guidance in the accounting standards.

(b) Is there a need for enhanced procedures only for certain entities or in specific circumstances? If yes:

(i) For what types of entities or in what circumstances?

No comments.

(ii) What enhancements are needed?

(iii) Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

No comments.

(c) Do you believe more transparency is needed:

(i) *About the auditor's work in relation to going concern in an audit of financial statements? If yes, what additional information is needed and how should this information be communicated (e.g., in communications with those charged with governance, in the auditor's report, etc.)?*

- Some support for more transparency in the auditor's report, however overall caution about the auditor communicating more in the auditor's report without requiring more disclosure of management's and the director's responsibility so as to not make them look disproportionate which may further create an expectation gap.
- There is some support for more reporting on going concern responsibilities, however caution due to academic evidence that reporting on going concern in all auditor's reports may dilute the importance of the message when there is a MURGC or modification due to going concern.
- Supportive of reporting auditor's procedures and basis for their conclusion when a MURGC to make this more proportionate with a KAM.
- ASA 570 requires a communication to TCWG if there is significant doubt in relation to going concern. Consider the current communication requirements in ASA 570 to TCWG as sufficient.

(ii) *About going concern, outside of the auditor's work relating to going concern? If yes, what further information should be provided, where should this information be provided, and what action is required to put this into effect?*

- More specific requirements for disclosures in the financial report for:
 - Key assumptions and judgments made by management when concluding if there is or isn't a MURGC;
 - Alignment of the accounting standards with ASA 570.

3. *Are there any other matters the IAASB should consider as it progresses its work on going concern in an audit of financial statements?*

- As part of the Auditor Reporting Post Implementation Review project the IAASB should consider if going concern KAMs should be required to be reported first.
- Consider what data analytic and tools exist which may predict financial stress/bankruptcy and how auditors may use these.

Other perspectives raised in the Going Concern section of the Discussion Paper

The IAASB is interested in perspectives on whether entities should be required to assess their ability to continue as a going concern for longer than twelve months, and therefore whether auditors should be required to consider this longer time period in their assessment, beyond the current required period. If stakeholders believe a longer timeframe should be required, alignment will need to be retained between the requirements under the applicable financial reporting framework and the auditing standards in order for auditors to be able to adequately perform their procedures.

- 12 months is a lifetime for many companies, anything beyond 12 months will be of limited value if there is high degree of uncertainty.

- Huge challenge on accuracy of information that goes beyond 12 months after date of audit report.
- Difficult to comment on a longer time period even more so in current environment
- Struggle to broadly making expectation that go further than 12 months, particularly around funding, not enough sufficiently appropriate audit evidence
- The IAASB should consider if the responsibility for going concern in ISRE 2410 should be enhanced to require an explicit consideration of going concern. However this needs to be carefully considered whether this is consistent with a limited review engagement and responsibility.

The IAASB is interested in perspectives about whether changes are needed with regard to going concern and other concepts of resilience (within the purview of the IAASB's remit).

- There is acknowledgement that the public expectation in relation to going concern has evolved and the AUASB is supportive of consideration as to whether more reporting by entities on longer term viability. This could either be in the financial statements which would require the IASB to include in their standards, or outside the financial statements and legislated through another mechanism. Then consideration as to the auditor's responsibility and to the level of assurance provided or read and consider for inconsistencies (ie. Other information).

The IAASB is interested in perspectives on what more is needed to narrow the knowledge gap with regard to the meaning of material uncertainty related to going concern, to enable more consistent interpretation of the concept.

- The IAASB should consider if there is evidence as to whether:
 - users understand the difference between a MURGC and a KAM, as this may be contributing the knowledge gap; and
 - users understand what a MURGC is.
- Also there is no definition of material uncertainty in the accounting or auditing standards. This needs to be addressed to assist with more consistent interpretation and identification by preparers and auditors.

In addition, the IAASB is interested in perspectives about whether the concept of, and requirements related to, a material uncertainty in the auditing standards is sufficiently aligned with the requirements in the international accounting standards.

- The accounting standards and auditing standards are not currently aligned and this needs to be addressed. Disclosure requirements must be mandated by accounting standards and not auditing standards.

Other matters relevant to Going Concern

The IAASB is interested in perspectives about whether more is needed related to professional skepticism when undertaking procedures with regard to going concern and what additional procedures, if any, may be appropriate.

- No specific comments but supportive of enhancing language.



AUASB Agenda Paper

Project:	Quality Management Standards Development in Australia	Meeting:	December 2020
Topic:	ISQM 1, ISQM 2, ISA 220	Agenda Item:	8.0 QM Standards
Strategic Objective:	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)		
ATG Staff:	Rene Herman, Marina Michaelides, Tim Austin	Decision-Making:	For Discussion and AUASB input
AUASB Sponsor:	Gareth Bird, Julie Crisp	Project Status:	In Progress

Action Required and Decisions to be Made

- The purpose of this Agenda Paper is to update the AUASB and receive input from the AUASB on the matters to be considered and the forward plan of the AUASB Technical Group (ATG) in the development of the Australian equivalents to the recently approved Quality Management suite of standards.

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	The AUASB is requested to input into the matters to be considered section of this Agenda Paper.	N/A
Question 2	The AUASB is requested to provide any input into the next steps/way forward section of this Agenda Paper, specifically whether a February teleconference works for members.	N/A

Background

- The IAASB approved the Quality Management suite of standards at the September 2020 IAASB meeting. These standards include a revised ISQM 1 *Quality Management for Firms that Perform*

Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, a new ISQM 2 Engagement Quality Reviews and a revised ISA 220 Quality Management for an Audit of Financial Statements.

- 3 These standards while approved by the IAASB are yet to be approved by the PIOB and accordingly we do not have final PIOB approved standards to develop and issue Australian standards.
- 4 The ATG considers that the IAASB has addressed the substantive matters raised by the AUASB through the development of these proposed standards. At the September 2020 AUASB meeting, the AUASB was provided with a full analysis of the way in which the approved quality management standards have addressed the key concerns the AUASB raised in its submissions in response to the IAASB's exposure drafts as well as issues raised throughout the process of the finalisation of the standards through the AUASB's international influencing strategy. A summary of all AUASB matters raised and where the final standard landed, is summarised in Appendix 1 to this Agenda Paper.

Previous Discussions on Topic

- 5 Over the past year, the AUASB has been tracking the progress of the updates to the QM standards against the key matters raised in the AUASB's submission to the IAASB and throughout the updated progress of the standard. This tracking is reflected in the following AUASB meeting papers:
 - (a) 11 September 2019 (ISQM 1 Agenda Item 4.4, ISQM 2 Agenda item 4.5, ISA 220 Agenda Item 4.6)
 - (b) 3 December 2019 (ISQM 1 Agenda Item 16.3, Agenda Item 16.4 ISQM 2, ISA 220 Agenda Item 16.5)
 - (c) 10 March 2020 (ISQM 1 Agenda Item 3, ISQM 2 Agenda Item 4, ISA 220 Agenda Item 3)
 - (d) 9 June 2020 (ISQM 1 Agenda Item 8.1, ISA 220 Agenda Item 8.1)
 - (e) 9 September 2020 (ISQM 1 Agenda Items 9.1.0, ISQM 2 Agenda item 9.1.1, ISA 220 Agenda Item 9.3)

Matters for Discussion

A. Prior substantive AUASB comments

- 1 The ATG considers that the IAASB has addressed the substantive matters raised by the AUASB through the development of these proposed standards. The ATG does not consider there to be any residual matters outstanding causing domestic concern to adopt the standards locally. A summary of all AUASB matters raised and where the final standards landed, is summarised in Appendix 1 to this Agenda Paper.

B. Modifications currently in Extant QM Standards:

- 2 There are many modifications (Aus paragraphs) contained within extant ASQC 1 and ASA 220. Each of these Aus paragraphs will need to be addressed by the ATG so that the ATG is able to propose a way forward to the AUASB which could be to:
 - (a) Retain the modification; or to
 - (b) Delete the modification.
- 3 The extant modifications are largely around:

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- (a) Modification to **definitions** for multiple reasons including:
 - (i) The definitions may not appear in any other legislative instruments and therefore, to give the definitions force of law, was included in ASQC 1. Examples of this include definitions of assurance practitioner and assurance engagement not included in extant ISQC 1 but included in ASQC 1.
 - (ii) The definitions are not in the IAASB standards for example the definition of 'Date of Report' but are considered essential in Australia.
 - (iii) The definitions as included in extant ISQC 1 do not work in the Australian jurisdiction for example reference to internal audit direct assistance which is prohibited in Australia.
- (b) Deletion of specific international **ethical references** in ISQC 1 with Australia referencing ethical requirements and application material to *ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.
- (c) Specific references to the **Corporations Act 2001** for example around documentation retention or around independence references in the Act.

C. Modifications that may be required resulting from the revised/new standards:

- 4 The ATG will need to go through the revised international standards to determine whether there is any content that will require modification from an Australian perspective, for example references to internal audit direct assistance, references to compilation engagements (ISQM 1 applies to related services engagement and the IAASB issues a compilation engagement standard).

D. Ethical requirements and application material:

- 5 The ATG will work on proposing a way forward on ethical references within the AUASB standards, but for the new ASQM 1 superficially.
- 6 In extant ASQC 1, there are minimal references to the word 'ethics', while in revised ISQM 1 there are over 70. Historically, the AUASB has made amendments to the international standards to remove content/references to ethical requirements and instead replace with a reference to ASA 102 (where ethical requirements are defined). The reason for the historical amendments is that:
 - (a) ASA 102 gives the Code force of law;
 - (b) updates to the Ethics Code do not require subsequent changes to the AUASB suite of standards.
- 7 Over time, references, content and examples from the Code are being far more integrated into the standards than historically and this is particularly the case for ISQM 1. Particularly there is extensive application material on ethical matters that provide the users of ISQM 1 with the why/how/examples. There needs to be a consideration of the public interest if all this content was to be removed from the standard with a blanket reference into ASA 102. It is the initial views of the ATG that upfront in ASQM 1 reference is made that relevant ethical requirements are defined in ASA 102 but then in the remainder of the standard, ethical requirements and application material are retained.

Question 1 for the AUASB: The AUASB is requested to input into the matters to be considered section of this Agenda Paper.

Collaboration with NZAuASB and other standard setters

- 8 The NZAuASB has had a first consideration of potential modifications to the international suite of QM standards. At the 21 October 2020 NZAUASB meeting, the Board provided the following indicative thoughts on compelling reason changes for the development of a New Zealand exposure draft:
- (a) While scalability concerns remain, the NZAuASB agreed to adopt the standards. The Board will monitor implementation guidance the IAASB issues and the need to supplement those for smaller and medium sized firms in New Zealand.
 - (b) The Board agreed to continue to change references from listed entities to FMC reporting entities considered to have a higher level of public accountability (for both the scope of the engagement quality review requirement and to require communication with those charged with governance regarding the firms system of quality management).
- 9 The APESB issues APES 320 *Quality Control for Firms* and APES 325 *Risk Management for Firms*. The ATG has met with the Chief Executive of the APESB and has begun discussions regarding the revised QM series, particularly ISQM 1. The ATG will work with the technical team of the APESB in Q4 2020/Q1 2021 regarding the placement and alignment of these standards with a revised ASQM 1.

Next steps/Way Forward

- 10 The IAASB recognises the need for implementation support and has recently published its implementation plans for each of the three standards ahead of the anticipated release. The plans explain what implementation materials stakeholders can anticipate, topics covered, and expected timing. The implementation plan has been attached at Appendix 2 to this Agenda Paper.
- 11 ISQM 1, ISQM 2 and ISA 220 are still subject to PIOB approval, with the PIOB expected to meet in December 2020. The ATG expect that the IAASB will issue the final QM standards in late December 2020.
- 12 The ATG recommend an AUASB teleconference in late February to discuss and agree outcomes in relation to matters A, B and C under the matters for discussion section.
- 13 Subject to the resolution of the various matters for discussion at the proposed February 2021 meeting, the ATG plan to bring proposed final standards to the March 2021 AUASB meeting for AUASB discussion and input with a view to issue the final Australian standard soon thereafter.

Question 2 for the AUASB: The AUASB is requested to provide any input into the next steps/way forward section of this Agenda Paper, specifically the AUASB is asked about support of a February teleconference.



Appendix 1

Tracking of AUASB matters raised and how the IAASB has dealt with these matters in the final QM standards – ISQM 1

The ATG has previously presented to the AUASB an analysis of the way in which the approved quality management standards have addressed the key concerns the AUASB raised in its submissions in response to the IAASB’s exposure drafts and throughout the finalisation of the process.

	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
1	Concerns with complexity, prescriptiveness, repetitiveness of information and general length of the standard.	<p>(a) To aid with the complexity, structure and length of the standard, ISQM - 1 has been restructured so that:</p> <ul style="list-style-type: none">(i) The Risk Assessment Process is now near the front of the requirements, before the governance and leadership component. This has also facilitated a reduction in the introduction section.(ii) The system of quality management at the beginning of the requirements section, has a link into governance and leadership to emphasise the importance of this component and that governance and leadership is a pre-requisite to setting up a SOQM. <p>(b) Refocused components on the quality objectives by removing duplication between objectives and responses and repurposing responses as objectives where possible and relocating responses to a discrete section ‘specified responses’ where possible – refer 2a below.</p> <p>(c) Drafting and presentation</p> <ul style="list-style-type: none">(i) Example boxes have been used, with specific signposting to scalable examples. The boxed examples continue to be used by the IAASB and are currently supported by most members on the IAASB. The boxed examples do not create new requirements, they are illustrative only. The examples address less and more complex examples demonstrating the scaling-up and scaling-down of the standard.(ii) The ATG notes that as part of the LCE project, there is an ISA focused workstream, the objective of which is to enable more consistent and effective use of the ISAs through a focus on how the ISAs are written and presented. As part of this workstream the LCE working group would develop and consult on drafting principles and guidelines. It would then be determined how to take these principles forward (i.e. on which standards).

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	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>(iii) Duplicate information removed e.g.: explanations in the introduction, appendix, repetitive AM.</p> <p>(iv) Removal of AM that may only be relevant for a first time through – separate guidance/guide to be introduced.</p> <p>(d) Simplified RAP – refer point 2 below.</p> <p>(e) Clarifying the framework for evaluating findings and identifying deficiencies including a new definition of findings and reducing the complexity of the definition of deficiency – refer point 3 below.</p>
2	<p>Concerns with the level of granularity around the Risk Assessment Process (RAP), particularly the granular and prescriptive approach to quality objectives and responses in the components. Additionally, the AUASB raised concerns regarding the requirement to always establish additional quality objectives over and above the objectives in the standard. Furthermore, the AUASB raised concerns that the pre-determined required responses may not be applicable where a firm has no associated risk.</p>	<p>(a) Refined quality objectives and responses by component to be outcome based incorporating some previous responses to quality objectives. This results in a reduction in prescribed responses to quality risks – essentially up to the firm to determine their responses to achieve their quality objectives. Responses that have not been combined with an objective have been moved to separate section ‘specified responses’ (paragraph 34). The specified responses include responses to address: independence, investigating and resolving complaints, acceptance and continuance, communication with TCWG of listed entities and EQR in accordance with ISQM 2, all other required responses have been included within the quality objective.</p> <p>(b) Included the conditions, events, circumstances, actions or inactions that the firm needs to understand in identifying and assessing quality risks, which are focused on the nature and circumstances of the firm and the engagements performed by the firm (see paragraph 25). In doing so, included examples in the application material to demonstrate how conditions, events, circumstances, actions or inactions may give rise to quality risks (see paragraph A46). The intent of these revisions is to promote proactivity, scalability (upwards and downwards) and tailoring the SOQM to the firm’s circumstances. The intent is also to assist firms in “thinking through” what quality risks may arise, and support a more robust risk identification and assessment process. The standard recognises that not all conditions, events, circumstances will give rise to quality risks. Paragraphs A46 and A48 describes that the firm exercises professional judgment in determining whether a risk is a quality risk.</p> <p>(c) Amended the definition of quality risk to include the threshold for identifying quality risks: Quality risks – A risk that has a reasonable possibility of: (i) Occurring; and</p>

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	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>(ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.</p> <p>(d) Clarified that quality objectives beyond those set out in the standard may not always be required, however the objectives set out in the standard are all required (refer paragraph 24, A43). Additionally, paragraph 27 clarifies that the firm sets policies or procedures designed to identify information about changes in the nature and circumstances of the firm or its engagements that may indicate that quality risks and responses set out in the standard may be modified.</p>
3	<p>Concerns in relation to monitoring and remediation included:</p> <ul style="list-style-type: none"> ○ The differences between findings and deficiencies was unclear with findings not being defined. ○ The requirement to inspect completed files was supported, but the AUASB considered that the requirement and application material could be more principles focused. ○ Lack of clarity around when root-cause analysis is required and the lack of ‘flexing’ of such analysis. ○ The seemingly disproportional requirements in relation to monitoring and remediation and the associated disproportional documentation requirements. The AUASB considered that that the granularity of the requirements may be onerous on SMPs, especially sole practitioners. 	<p>(a) The definition of Deficiency (paragraph 16(a)) has been clarified by explaining the threshold for a deficiency for each aspect of the SOQM with examples of deficiencies provided in the application material.</p> <p>(b) Amended the definition of findings to more clearly distinguish between a finding and a deficiency. The intent of introducing the term ‘findings’ is to explain the filtering process the firm would follow to identify deficiencies, so that they can be remediated. The definition ‘findings’ needs to scope the information to facilitate that filtering process. At the time of the ED – findings were broad enough to focus on both positive and negative, but respondents to the ED raised concerns as to how findings then were evaluated to determine whether a deficiency exists. Furthermore, other information that is accumulated from the performance of monitoring activities, external inspections and other relevant sources that does not indicate that a deficiency exists (such as positive outcomes) form part of the firm’s information and communication component and may be used by the firm in multiple ways in the context of the SOQM. The ISQM 1 Taskforce is of the view that this other information is important, however it does not need to be comingled with the concept of findings. Application material, paragraph A157 has been added to emphasise the point that information accumulated from the performance of monitoring activities, external inspections and other relevant sources may be broader than just findings, i.e., it may include positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management.</p> <p>(c) The requirement in relation to selection of completed engagements for inspections has been revised and supplemented with application material to focus on a risk based selection and taking into account that the selection</p>

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	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>is affected by the nature, timing and extent of other monitoring activities undertaken by the firm – thereby providing improved flexibility for firms in determining the appropriate cycle for the inspection of completed engagements. Additionally, in order to improve the focus on the selection of engagements based on risks, there is additional application material paragraph A153 giving examples of how the firm may apply a cyclical basis for inspections – including flexing the period between selections up or down.</p> <p>(d) The IAASB is of the view that monitoring and remediation is fundamental to Quality Management of a Firm. While there are many requirements, there are no requirements that would not apply to all firms regardless of size – however these requirements could be scaled/flexed. There are a few areas where scalability and flexibility are demonstrated in the monitoring and remediation section and this relates to:</p> <ul style="list-style-type: none"> • Flexibility demonstrated by way of examples of how the firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner (A153) • Inclusion of new application material paragraph A156 which explains that firms may use service providers to perform monitoring activities – this was added to respond to application of this section of the standard for smaller firms. • An example demonstrating how monitoring the design of the M&R process may be done in a less complex firm (A144).
4	<p>Overall comments from the AUASB in the submission on ED-ISQM 1 supported the proposals addressing service providers in ISQM 1, but recommended that the term ‘service provider’ is more clearly defined within ISQM 1, with examples provided to assist practitioners identify not only who is a service provider captured under ISQM 1, but also to provide clarity as to who is outside the definition.</p>	<p>(a) Service Provider is now defined in paragraph 16(v)</p> <p>(b) Paragraph A105 provides examples of resources from a service provider.</p> <p>(c) One of the factors the firm considers when identifying an assessing quality risks is the resources of a firm including service providers (paragraph 25(a)(i)(d). Service providers have been included under the resources component and is no longer a stand-alone section of the standard. The standard (A105-A108) recognises that the nature, timing and extent of the firm’s responses to address service providers depends on the assessed quality risks identified by the firm i.e. not all resources from service providers will necessitate a response.</p>
5	<p>The AUASB was supportive of guidance around the quality objective of appropriate</p>	<p>Adjusted the requirement addressing communication externally by:</p>

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	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
	<p>communications with external parties, however the AUASB was concerned that transparency reports would be a requirement of the standard.</p>	<ul style="list-style-type: none"> • Explicitly requiring firms to communicate with those charged with governance when performing an audit of financial statements of listed entities about how the SOQM supports the consistent performance of quality engagements (see paragraph 34(e)). • Removing the reference in the requirement to transparency reports, in order to promote innovation and the most effective means of communication (the reference to transparency reports has been retained in application material to highlight that it may be a form of communication). • Enhanced the application material setting out the factors the firm considers in determining when it is appropriate to communicate with external parties, and if so, the nature, timing and extent and appropriate form of such communication (see paragraphs A125, A126, A129 and A131).
6	<p>In the submission on ED-ISQM 1, the AUASB raised a concern in relation to an annual evaluation of the SOQM, noting that an annual evaluation could be onerous particularly for SMPs or sole practitioners. SOQM is likely to be less</p>	<p>The ISQM 1 taskforce is of the view that a cyclical evaluation would not achieve the intended purpose of the requirement, i.e., that leadership is aware and conscious of the effectiveness of their SOQM. An annual evaluation had strong support from IAASB members. The taskforce notes that the way leadership of an SMP may evaluate the SOQM is likely to be less complex, and this has been emphasized in the example given in the application material paragraph A188.</p> <p>(a) Including that the evaluation is taken at a point in time – application material A187 has been included to provide examples of the point in time when the evaluation may be undertaken.</p> <p>(b) Application material A189 has been added to explain the matters that may be considered by leadership in concluding on the SOQM including: severity and pervasiveness of identified deficiencies, whether the deficiencies have been remediated (or how being addressed), whether the effect of the deficiencies have been corrected. It is intended that leadership considers the combination of these matters.</p> <p>Additionally, in relation to the SOQM, the standard now clarifies/emphasises:</p> <ul style="list-style-type: none"> • that the firm remains ultimately responsible for the system of quality management and holding individuals responsible and accountable for their assigned roles (see paragraph A33) • that roles related to the SOQM should be assigned to individuals who have the appropriate influence and authority within the firm (see paragraphs 21 and A34),

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	<i>AUASB Issue</i>	<i>Changes made to ISQM 1</i>
		<p>and added application material to explain that the individuals assigned responsibilities may further assign roles, procedures, tasks or actions to other individuals to assist them in fulfilling their responsibilities (see paragraph A35).</p> <ul style="list-style-type: none"> • that the individuals assigned operational responsibility for the SOQM need to have an appropriate understanding of the firm’s strategic decisions and actions and have experience with the firm’s business operations, so that the role is not perceived as a compliance function (see paragraph A38)
7	Overall comments from the AUASB in the submission on ED-ISQM 1 demonstrated concern for the scalability of the standard.	<p>(a) In applying a risk-based approach, firm takes into account nature and circumstances of the firm and engagements performed (i.e. complexity and formality of system will vary);</p> <p>(b) Signposting scalability examples in application material;</p> <p>(c) With the examples in the application material, including examples that address less complex and more complex firms to demonstrate the ‘scaling up’ and ‘scaling down’.</p>
8	Overall comments from the AUASB in the submission on ED-ISQM 1 demonstrated concern for the extent of documentation that may be required by the standard.	<p>(a) Application material paragraph A202 enhances the emphasis in the standard on the need for professional judgement in determining documentation. A202 describes factors that may affect the firm’s judgements about the form, content and extent of documentation including how often documentation is updated.</p> <p>(b) A204 clarifies that the firm is not required to document every factor that was considered in identifying and assessing quality risks.</p>

Tracking of AUASB matters raised and how the IAASB has dealt with these matters in the final QM standards – ISQM 2

	<i>AUASB Issue</i>	<i>Changes made to ISQM 2</i>
1	<p>Scope of Engagements subject to an EQR:</p> <p>Requirement in ISQM 1</p> <p>Para 34. In designing and implementing responses in accordance with paragraph 26 and in order to achieve the quality objectives, the firm shall include the following responses: (Ref: Para. A116)</p> <p>...</p> <p>(f) The firm establishes policies or procedures that address engagement quality reviews in accordance with [proposed] ISQM 2, and require an engagement quality review for:</p> <p>(i) Audits of financial statements of listed entities;</p> <p>(ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A133)</p> <p>(iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s). (Ref: Para. A134-A137)</p>	<p>There have only been minor wording changes to ISQM 1 – para 34 since March 2020 arising from the cross-review of drafts of the three quality management standards.</p>
2	<p>Objectivity and Cooling-Off Period</p> <p>At the March 2020 AUASB meeting, the only matter that the AUASB still had ‘open’ was the inclusion of a mandatory cooling off period of two years being required under ISQM 2. The AUASB considered that the requirements regarding the EQR cooling off period should be dealt with by IESBA under the Code, noting this had been raised previously by the AUASB in their submission to the IAASB and reiterated by the AUASB Chair at subsequent meetings of the IAASB. While the ATG have not seen a turn around ISQM 2, we understand that the IESBA Code will not be incorporating</p>	<p>No changes to this position since June 2020. A mandatory 2 year cooling off period or a longer period if required by relevant ethical requirements, before an engagement partner can assume the role of engagement quality reviewer is required under paragraph 19 of ISQM 2.</p>

AUASB Agenda Paper

	<i>AUASB Issue</i>	<i>Changes made to ISQM 2</i>
	<p>the cooling off period of 2 years within the Code but will add an appropriate cross-reference to proposed ISQM 2 at the end of the new Section 325 in the IESBA Code to highlight the specification of a cooling-off period with respect to the matter of an individual being considered for appointment to the EQR role after having served as the engagement partner. While this may not be the preferred AUASB approach, this is where ISQM 2 is expected to land. The IAASB in their deliberations also had a preference that the period should be included within the IESBA Code, however failing this, the IAASB agreed that it is in the public interest to have a period specified within ISQM 2 and not leave this open.</p>	
3	Group Audit Considerations	These have been considered in paragraphs A32 and A33 of ISQM 2 and have remained consistent with those presented at March 2020.

AUASB Agenda Paper

Tracking of AUASB matters raised and how the IAASB has dealt with these matters in the final QM standards – ISA 220

Matter #	Point raised by AUASB	Has this been and addressed considered by the IAASB?
<p>1</p>	<p>Monitoring and reviewing work of assignees</p> <p>The AUASB considers that it may be difficult to practically meet the requirements in paragraphs 11-13 on a larger audit engagement (such as a multinational or group audit), particularly allowing for the broader Engagement Team definition now contained in the proposed standard. The AUASB specifically draws attention to the requirement in paragraph 13(b) outlining the engagement partner’s responsibility to monitor and review the work of assignees, which we consider may be difficult to achieve with this expanded engagement team definition in place.</p>	<p>Yes – Points raised have been considered by the IAASB and addressed by the Task Force has through changes such as:</p> <ul style="list-style-type: none"> - clarify who is in and out of the engagement team; - changes to paragraph 15 to outline that the engagement partner takes overall responsibility for direction, supervision and review but directs, supervises and reviews the work of team members who they assigned work to; - clarifying the nature, timing and extent of direction, supervision and review in more complex engagements, including differences between what is required for individuals outside of the firm’s network; - planned implementation guidance to address “upwards” scalability.
<p>2</p>	<p>Guidance Direction and Supervision</p> <p>The AUASB considers that whilst the direction, supervision and review requirements on their own do not appear overly onerous, they may not be practically achievable as a result of the broader engagement team definition. The AUASB is concerned that the broad definition of engagement team may draw in unintended personnel into the engagement team.</p>	<p>Yes – Points raised have been considered by the IAASB and addressed by the Task Force has through changes such as:</p> <ul style="list-style-type: none"> - clarify who is in and out of the engagement team; - changes to paragraph 15 to outline that the engagement partner takes overall responsibility for direction, supervision and review but directs, supervises and reviews the work of team members who they assigned work to; and - more clearly identify requirements which must be performed by the engagement partner and those that can be assigned.
<p>3</p>	<p>Ambiguity of definitions across the QM suite in relation to Engagement Team</p> <p>... the AUASB raises a significant concern that the definition of engagement team may be interpreted differently under ISA 220 and ISQM 1 due to the different application and explanatory material that applies to this definition in ISA 220</p>	<p>Yes –Points raised have been considered by the IAASB and addressed by the Task Force has through Members of the Taskforces since the June 2020 IAASB Meeting working to ensure alignment between the QM standards. Engagement Team definitions are consistent with the exception of application material which in the case of ISQM 1 links to ISA 220 for additional guidance in applying the definition in the context of an audit.</p>

AUASB Agenda Paper

Matter #	Point raised by AUASB	Has this been and addressed considered by the IAASB?
	(paragraphs A16-A19) not being replicated in ISQM 1.	
4	<p>Engagement Partner’s role</p> <p>With regard to the roles of other senior members, including other partners, the AUASB would like the IAASB to provide further guidance dealing with situation where there are multiple partners on an engagement. Whilst Australian stakeholders did not view this as a significant issue with the proposed standard, the AUASB considers that with global actions in response to audit quality, such as proposals for more than one audit firm to perform an engagement, the need for clarification will arise in the future and should be addressed now to avoid reopening the standard.</p> <p>The AUASB recommends that the IAASB considers the impact of new and emerging technology on all aspects of the engagement partner’s responsibilities and is not limited to engagement resources. In the absence of appropriate technology considerations within the standard, additional implementation and guidance materials may be required to support practitioners to understand how an engagement partner can meet the requirements of the standards in a modern environment.</p>	<p>No – The Task Force has not included the signing partner project as part of proposed ISA 220.</p> <p>Yes – The Task Force considers that the standard appropriately deals with technology and that the Task Force will work with the AEWG and TWG to develop implementation guidance.</p>
5	<p>Definitions</p> <p>The AUASB considers that whilst the direction, supervision and review requirements on their own do not appear overly onerous, they may not be practically achievable as a result of the broader engagement team definition. The AUASB is concerned that the broad definition of engagement team may draw in unintended personnel into the engagement team.</p>	<p>Yes – Points raised have been considered by the IAASB and addressed by the Task Force has through changes such as:</p> <ul style="list-style-type: none"> - clarify who is in and out of the engagement team; - changes to paragraph 15 to outline that the engagement partner takes overall responsibility for direction, supervision and review but directs, supervises and reviews the work of team members who they assigned work to; - clarifying the nature, timing and extent of direction, supervision and review in more

AUASB Agenda Paper

Matter #	Point raised by AUASB	Has this been and addressed considered by the IAASB?
		<p>complex engagements, including differences between what is required for individuals outside of the firm’s network;</p> <ul style="list-style-type: none"> - planned implementation guidance to address “upwards” scalability.
6	<p>How do the changes improve audit quality?</p> <p>The AUASB recommends that the IAASB considers the impact of new and emerging technology on all aspects of the engagement partner’s responsibilities and is not limited to engagement resources. In the absence of appropriate technology considerations within the standard, additional implementation and guidance materials may be required to support practitioners to understand how an engagement partner can meet the requirements of the standards in a modern environment.</p>	<p>Yes – The Task Force considers that the standard appropriately deals with technology and that the Task Force will work with the AEWG and TWG to develop implementation guidance.</p>
7 & 8	<p>Requirements and Reliance on Firm’s System</p> <p>Overall, the ability to practically meet the direction, supervision and review requirements of the proposed standard is further impacted by removal of paragraph 4 from the extant ISA 220 which stated “Engagement teams are entitled to rely on the firm’s system of quality control process, unless information provided by the firm or other parties suggests otherwise”. The IAASB’s proposed approach of using the terms “shall be satisfied” and “shall determine” to differentiate between actions that can occur at a firm level and actions that must occur at an engagement level is not clearly articulated in the body of ISA 220 and is not commonly used throughout the suite of auditing standards which may result in diverse interpretation.</p>	<p>Yes – The Task force has considered feedback regarding providing more context regarding how they determined what requirements can and cannot be assigned. The task force has proposed outlining as part of the first-time adoption documentation alongside the standard.</p> <p>Yes – IAASB considers that they have addressed the feedback regarding the ability to rely on the firm’s systems. For a more detailed discussion on this see paragraphs Error! Reference source not found.-Error! Reference source not found. above.</p>
9	<p>Roles of EP and EQR</p> <p>The AUASB also raises for consideration whether an appropriate balance has been achieved between the role of the</p>	<p>Yes – The Task Force has considered this and does not agree with the AUASB concern raised. For a more detailed discussion on this see paragraph Error! Reference source not found..</p>

AUASB Agenda Paper

Matter #	Point raised by AUASB	Has this been and addressed considered by the IAASB?
	<p>engagement partner under ISA 220 and the role of the EQR under ISQM 2. In particular, the AUASB draws attention to paragraph 22(c) of ISQM 2 where the EQR is required to “identify” areas involving significant judgments rather than “evaluate” the areas identified by the engagement team; and paragraph 22(f) where the EQR is required to evaluate the Engagement Partner’s (EP) stand-back requirement. The level of work expected of the EQR in some areas appears to be at the same level as an EP and, in the view of the AUASB, is not in line with the objectives and proportionate responsibilities of an EQR.</p>	
<p>10</p>	<p>Documentation</p> <p>The AUASB generally views that the documentation requirements in conjunction with the requirements of ISA 230 provide sufficient guidance on documentation although this can be enhanced by a link between the review requirements of the engagement partner and the documentation requirements to evidence this review.</p>	<p>Yes – The Task Force has made amendments to clarify documentation requirements including the addition of a conforming amendment to ISA 300 to outline that documentation of the audit plan can include description of the nature, timing and extent of the direction and supervision of the engagement team members and the review of their work.</p>
<p>11</p>	<p>Review of Technology</p> <p>The AUASB considers that the standard does not adequately deal with advances in technology and potential changes in the auditing environment. For example, as the use of Artificial Intelligence/machine learning becomes more common, it is unclear how the review requirements of the standard will be met, particularly where specialist knowledge is required to review such tools.</p>	<p>Yes – The Task Force considers that the standard appropriately deals with technology and that the Task Force will work with the AEWG and TWG to develop implementation guidance.</p>
<p>12</p>	<p>Scalability – Network Reliance</p> <p>Australian stakeholders raised that the removal of paragraph 4 from the extant ISA 220 which stated “Engagement teams are entitled to rely on the firm’s system of quality control process, unless information provided by the firm or other parties suggests otherwise” and changes to the</p>	<p>Yes – IAASB agreed with the respondents who asked for clarity regarding what the engagement partner needs to do to depend on the firm’s system of quality management. Task Force has amended relevant application material to consider this.</p>

AUASB Agenda Paper

Matter #	Point raised by AUASB	Has this been and addressed considered by the IAASB?
	<p>standard to explicitly state that the firm’s system of quality control cannot be relied upon in certain situations may impact on scalability. Stakeholders viewed that the benefits of being part of a network may be lost, therefore placing more onus on individual firms and partners impacting scalability.</p>	
<p>13</p>	<p>Professional Skepticism</p> <p>The AUASB views that the objective of paragraph 7 is unclear. Presently, the requirement may appear to lead engagement team members to question or ‘second guess’ their colleagues and/or the firm in meeting the requirements of this standard. The AUASB questions whether this was the intention of this revision to the proposed standard and considers that paragraph 7, and other appropriate areas of ISA 220, should more clearly emphasise how the engagement partner is responsible for establishing an environment that supports the exercise of professional scepticism and setting an appropriate ‘tone from the top’ across the engagement team.</p>	<p>Yes – The Task Force has reconsidered the application material to paragraph 7. This has resulted in:</p> <ul style="list-style-type: none"> - no substantial changes to paragraph 7; - significant redrafting of paragraph A27, although no new impediments to skepticism included; and - future consideration by the Task Force of examples to be included as part of implementation material for the standard.

IAASB QUALITY MANAGEMENT IMPLEMENTATION SUPPORT PLAN OCTOBER 2020

Note:

- The Quality Management (QM) implementation support plan is subject to change. Implementation activities will be complete by June 2021.
- Specific topics may be moved to a different document or format.

ISQM 1		ISQM 2		ISA 220 (Revised)	
Implementation Support	Proposed Timing	Implementation Support	Proposed Timing	Implementation Support	Proposed Timing
<p>Basis For Conclusions</p> <p>Explaining the IAASB basis for conclusions with respect to comments received on the exposure draft</p>	December 2020	<p>Basis For Conclusions</p> <p>Explaining the IAASB basis for conclusions with respect to comments received on the exposure draft</p>	December 2020	<p>Basis For Conclusions</p> <p>Explaining the IAASB basis for conclusions with respect to comments received on the exposure draft</p>	December 2020
<p>First Time Implementation Guide</p> <p>Highlighting:</p> <ul style="list-style-type: none"> • How ISQM 1 fits into the Quality Management (QM) suite of standards, including: <ul style="list-style-type: none"> ○ Linkages with ISQM 2 and ISA 220 (Revised) and how the standards work together ○ The scope of ISQM 1 (extent to which other service lines are included) 	January 2021	<p>First Time Implementation Guide</p> <p>Highlighting:</p> <ul style="list-style-type: none"> • How ISQM 2 fits into the QM suite of standards, including: <ul style="list-style-type: none"> ○ The effective date ○ Linkages with ISQM 1 and ISA 220 (Revised) and how the 	January 2021	<p>First Time Implementation Guide</p> <p>Highlighting:</p> <ul style="list-style-type: none"> • How ISA 220 (Revised) fits into the QM suite of standards, including: <ul style="list-style-type: none"> ○ The effective date ○ Overarching concepts that run through the QM standards that show up in ISA 220 (Revised) 	January 2021

ISQM 1		ISQM 2		ISA 220 (Revised)	
Implementation Support	Proposed Timing	Implementation Support	Proposed Timing	Implementation Support	Proposed Timing
<ul style="list-style-type: none"> • Diagrams to help with an understanding of: <ul style="list-style-type: none"> ○ The structure of the standard ○ The firm's risk assessment process ○ The framework for identifying findings and evaluating deficiencies ○ The various human resources involved in the system of quality management and performance of engagements • Significant changes from extant ISQC 1 to ISQM 1, including: <ul style="list-style-type: none"> ○ Interconnectedness of the components and other aspects of the system of quality management ○ How a system of quality management is 		<p style="text-align: center;">standards work together</p> <ul style="list-style-type: none"> • Diagrams to help with an understanding of, for example: <ul style="list-style-type: none"> ○ The relationship between ISQM 2 and ISQM 1 ○ The responsibilities of the engagement quality (EQ) reviewer and the engagement partner with respect to EQ reviews • Significant changes from the extant provisions relating to EQ control reviews in ISQC 1 and ISA 220 to EQ reviews in ISQM 2, including: <ul style="list-style-type: none"> ○ Eligibility of EQ reviewers 		<p style="text-align: center;">(proactive quality management, engagement partner's responsibilities clarified)</p> <ul style="list-style-type: none"> ○ Linkages with ISQM 1 and ISQM 2 and how the standards work together • Diagrams to help with understanding the definition of the engagement team • Significant changes from extant ISA 220, including: <ul style="list-style-type: none"> ○ Drawing together material on when the engagement partner obtains information / assigns responsibilities ○ Relying on the firm's policies and procedures 	

QUALITY MANAGEMENT IMPLEMENTATION SUPPORT PLAN
OCTOBER 2020

ISQM 1		ISQM 2		ISA 220 (Revised)	
Implementation Support	Proposed Timing	Implementation Support	Proposed Timing	Implementation Support	Proposed Timing
<ul style="list-style-type: none"> scalable to the nature and circumstances of the firm and engagements it performs ○ Use of professional judgment and professional skepticism in the standard ○ Overall responsibilities of leadership and the firm with respect to the system of quality management • The effective date 		<ul style="list-style-type: none"> ○ Performance of the EQ review ○ Documentation of the EQ review 		<ul style="list-style-type: none"> • Relationship between the various resource requirements 	
<p>Fact Sheets</p> <ul style="list-style-type: none"> • A short document (3-5 pages) providing an overall summary of the standard • An overview of the firm’s risk assessment process • The monitoring and remediation process, including the framework for 	<p>First fact sheet – December 2020</p> <p>Others – First Quarter 2021</p>	<p>Fact Sheets</p> <ul style="list-style-type: none"> • A short document (2-3 pages) providing an overall summary of ISQM 2 	<p>December 2020</p>	<p>Fact Sheets</p> <ul style="list-style-type: none"> • A short document (2-3 pages) providing an overall summary of ISA 220 (Revised) • Engagement team definition 	<p>First fact sheet – December 2020</p> <p>Others – First Quarter 2021</p>

ISQM 1		ISQM 2		ISA 220 (Revised)	
Implementation Support	Proposed Timing	Implementation Support	Proposed Timing	Implementation Support	Proposed Timing
identifying findings and evaluating deficiencies					
<p>Frequently Asked Questions</p> <p>Specific matters may include:</p> <ul style="list-style-type: none"> • Implementation support on the responsibilities of leadership • Explanation of the various human resources used throughout the firm, the firm's responsibility for various individuals, and how they may be affected by the system of quality management • Scope of technology in context of the system of quality management, and examples of how technology may give rise to quality risks • Scope of service providers addressed by ISQM 1 and the role of the firm and engagement team when using service providers 	First Quarter 2021	<p>Frequently Asked Questions</p> <p>Specific matters may include:</p> <ul style="list-style-type: none"> • Impairment of the EQ reviewer's eligibility to perform the EQ review • Implications of an inappropriately performed EQ review 	First Quarter 2021	<p>Frequently Asked Questions</p> <p>Specific matters may include:</p> <ul style="list-style-type: none"> • Scalability for audit teams of different sizes and complexity • How the firm's policies or procedures operate when the engagement team includes non-network component auditors • How documentation can be evidenced in the file • Review of formal written communications 	First Quarter 2021

ISQM 1		ISQM 2		ISA 220 (Revised)	
Implementation Support	Proposed Timing	Implementation Support	Proposed Timing	Implementation Support	Proposed Timing
<ul style="list-style-type: none"> Proportionality in undertaking procedures to investigate the root cause of deficiencies Examples of how network requirements or network services may affect the system of quality management, and be considered by the firm Circumstances when the evaluation of the system of quality management may be performed more frequently Documentation 					
<p>Videos, which may include:</p> <ul style="list-style-type: none"> An introduction to the standard, including the relationship with ISQM 2 and ISA 220 (Revised) Explanation of the various human resources used throughout the firm, including <ul style="list-style-type: none"> The firm's responsibility for various individuals 	First Quarter 2021	<p>Videos, which may include:</p> <ul style="list-style-type: none"> An introduction to the standard, including the relationship with ISQM 1 and ISA 220 (Revised) <i>(Shared with ISQM 1 and ISA 220 (Revised))</i> Effective date and the interrelationship of the effective dates of the 	First Quarter 2021	<p>Videos, which may include:</p> <ul style="list-style-type: none"> An introduction to the standard, including the relationship with ISQM 1, ISQM 2 and ISA 600 <i>(Shared with ISQM 1, ISQM 2)</i> Effective date and the interrelationship of the effective dates of the three QM standards, and considerations for 	First Quarter 2021

QUALITY MANAGEMENT IMPLEMENTATION SUPPORT PLAN
OCTOBER 2020

ISQM 1		ISQM 2		ISA 220 (Revised)	
Implementation Support	Proposed Timing	Implementation Support	Proposed Timing	Implementation Support	Proposed Timing
<ul style="list-style-type: none"> ○ How various individuals may be affected by the system of quality management ○ The relationship with ISA 220 (Revised) and ISA 600 • <i>(Shared with ISQM 2 and ISA 220)</i> Effective date and the interrelationship of the effective dates of the three QM standards, and considerations for firms with respect to the first evaluation of the system of quality management 		<p>three QM standards, and considerations for firms with respect to the first evaluation of the system of quality management</p>		<p>firms with respect to the first evaluation of the system of quality management</p>	
<p><i>(Shared with ISQM 2 and ISA 220 (Revised))</i> Multimedia Asset (animated video) to introduce the QM standards (30-45 seconds)</p> <ul style="list-style-type: none"> • Noting that the new standards have been issued • Relevant dates • Where to go for more information 	December 2020	<p><i>(Shared with ISQM 1 and ISA 220 (Revised))</i> Multimedia Asset (animated video) to introduce the QM standards (30-45 seconds)</p> <ul style="list-style-type: none"> • Noting that the new standards have been issued • Relevant dates 	December 2020	<p><i>(Shared with ISQM 1, ISQM 2)</i> Multimedia Asset (animated video) to introduce the QM standards (30-45 seconds)</p> <ul style="list-style-type: none"> • Noting that the new standards have been issued • Relevant dates 	December 2020

QUALITY MANAGEMENT IMPLEMENTATION SUPPORT PLAN
OCTOBER 2020

ISQM 1		ISQM 2		ISA 220 (Revised)	
Implementation Support	Proposed Timing	Implementation Support	Proposed Timing	Implementation Support	Proposed Timing
		<ul style="list-style-type: none"> Where to go for more information 		<ul style="list-style-type: none"> Where to go for more information 	



AUASB Agenda Paper

Project:	ASA 540 Auditing Accounting Estimates and Related Disclosures	Meeting:	1 December 2020
Topic:	ASA 540 Implementation Support	Agenda Item:	9
Strategic Objective:	Develop and maintain Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required.	Decision-Making:	For Noting
ATG Staff:	Rene Herman / See Wen Ewe	Project Status:	In Progress
AUASB Sponsor:	Klynton Hankin		

Action Required and Decisions to be Made

- 1 To provide the AUASB with a plan for ASA 540 implementation support materials.

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Does the AUASB have any additional feedback into the support plan?	Refer to matters for discussion below.

Background

- 2 In December 2018 the AUASB issued the revised ASA 540 *Auditing Accounting Estimates and Related Disclosures* (ASA 540), dealing with the auditor's responsibilities relating to accounting estimates, including fair value estimates and related disclosures in an audit of a financial report. ASA 540 is operative for financial reporting periods commencing on or after 15 December 2019.
- 3 The IAASB set up an ISA 540 (Revised) Implementation Working Group with the aim of promoting awareness of the revised standard, informing and educating users, opening a dialogue to learn about the experiences for those responsible for adopting and implementing the standard and preparing for post-implementation review efforts. This working group has issued various support materials including [audit client briefings](#) as well as illustrative examples for:
 - (a) [Auditing expected credit loss accounting estimates](#)
 - (b) [Auditing simple accounting estimates](#)
 - (c) [Auditing complex accounting estimates](#)
- 4 The ATG has received feedback from practitioner groups that many practitioners have not yet focussed on the revised ASA 540 as the operative period is only impacting Australian practitioners now. Practitioners are seeking the following implementation support:
 - (a) to understand what implementation support is currently available.
 - (b) educative material.
- 5 The ATG has issued/performed the following implementation support materials in relation to ASA 540:
 - (a) Presented an [educative webinar in 2019](#) for CPA helping members understand the changes to ASA 540 as well as taking members through some common examples.
 - (b) Presented at the 2019 and 2020 CAANZ conference to members on the changes to ASA 540 and working through some common examples.
 - (c) Issued an AUASB Bulletin on ASA 540 in late 2019 on with the aim of highlighting to all parties involved in the financial reporting supply chain (i.e. preparers, those charged with governance, auditors, etc.), the key changes and implications arising from the revised ASA 540.
 - (d) Issued of a series of frequently asked questions on ASA 540 as part of the AUASB COVID-19 support materials.

Previous Discussions on Topic

- 6 This topic was discussed at the [4 December 2018 AUASB meeting at Agenda Item 6.1.3](#) when ASA 540 was approved by the AUASB.

Matters for Discussion and ATG Recommendations

- 7 Both the AUASB support materials as addressed in paragraph 5 above as well as IAASB implementation support addressed in paragraph 3 above has addressed some of the implementation requests from practitioners. However, following on from recent practitioner requests, the ATG will focus on supporting practitioners through their ASA 540 implementation.
- 8 The ATG has laid out the following plan for additional ASA 540 implementation support:
 - (a) Setup a dedicated webpage solely for ASA 540 (complete).
 - (b) Collate all AUASB support materials, IAASB support materials and any other international publications and publicise them on the webpage – thus facilitating ease of use by practitioners (complete).
 - (c) Draft frequently asked questions that may be helpful to assurance practitioners and post them on the webpage. Through the Large National Network Firms, the ATG have actively encouraged stakeholders to provide the ATG with specific questions relating to the implementation of ASA 540 (work underway).

Next steps/Way Forward

- 9 The ATG is in the process of drafting a series of frequently asked questions relating to ASA 540 and will post these on the AUASB website once complete.



AUASB Agenda Paper

Projects:	AUASB Technical Work Program	Meeting:	1 & 4 December 2020
Topic:	AUASB Technical Work Program 2020-21 Update	Agenda Item:	10
Strategic Objective:	All	Decision-Making:	For Discussion
ATG Staff:	Matthew Zappulla	Project Status:	Ongoing
AUASB Sponsor:	Roger Simnett		

Action Required and Decisions to be Made

- 1 To provide the AUASB with an update of the AUASB's Technical Work Program for 2020-21, including projects completed to date in 2020 and a summary of technical staff projects currently in progress.
- 2 For the AUASB to provide feedback to the AUASB's Technical Group (ATG) on the current AUASB work program.

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendations
Question 1	Does the AUASB have any feedback on the current status and planned projects/tasks for 2020-21 outlined in the AUASB Work Program Update presented at Agenda Item 10.1 .	N/A

Background

- 3 The ATG has updated the 2020-21 Technical Work Program following feedback received from AUASB members on the initial plan presented and discussed at the October 2020 AUASB meeting.
- 4 In preparing this Technical Work Program Update for the AUASB the ATG have consulted with all ATG staff and also on an informal basis with the AASB staff, technical staff from the CA ANZ and CPA Australia, the CEO of the APESB and the ASIC Chief Accountant.

Previous Discussions on Topic

- 5 The AUASB were consulted on the status and content of the 2019-20 AUASB Technical Work Program at the April 2020 AUASB Meeting (refer Agenda Item 9).
- 6 In October 2020 AUASB members were provided with a slide pack which contained a 'stocktake' of projects completed to date in 2020 and the status of current projects that are in progress by the ATG. Additionally, other outstanding tasks or new projects in the AUASB Technical Group's project pipeline were presented for consideration.

Matters for Discussion

- 7 The information shared and discussed with AUASB members at the October 2020 AUASB meeting has now been converted into a more detailed work program at **Agenda Item 10.1**. The more detailed 2020-21 AUASB Technical Work Program includes additional information requested by the AUASB, such as greater granularity about AUASB technical staff allocated to each project, details of which AUASB member are flagged as board sponsors for each project and specific timelines where this are known and can be reliably assessed. The ATG has also considered resourcing requirements for each project to identify which projects may be carried out with the assistance of external resources or may have elements contracted out to an external party (such as was the case when GS 009 on the audit of SMSF's was completed earlier in 2020).
- 8 The following aspects of the updated 2020-21 AUASB Technical Work Program are highlighted for AUASB members:
 - (a) The Technical Work Program has been designed as an excel spreadsheet to enable staff to easily sort or filter projects based on different criteria. A formal word based version of the document will also be produced once the document is finalised after the December 2020 AUASB meeting.
 - (b) Each project on the Technical Work Program has been mapped back to relevant AUASB strategic objectives.
 - (c) The status of each project is noted and colour coded, based on progress as at 17 November 2020. The ATG will review the work program and update the status before each AUASB meeting for future meetings.

- (d) The relevant AUASB technical staff and (where relevant) AUASB Board sponsor is allocated to each project, however this is not an full list of AAUSB staff or board members which may work on or contribute to a project, just the leaders or most prominent persons in each of these roles. Staff have been allocated based on expertise, experience and linkage with different projects. From time to time staff allocations will change based on progress with different projects and staff development needs. Also, some AUASB board members have been allocated as sponsors for certain projects which are yet to commence, and these may be subject to change. If any AUASB members has queries about how these positions have been allocated, then they are encouraged to raise these with the Technical Director.
 - (e) Further to the resourcing of each project in the Technical Work Program, there are still some projects where personnel is yet to be formally allocated as the timing of these projects is in some cases yet to be determined (e.g. where we are awaiting IAASB materials). Additionally, those projects where it may be possible to utilise external resources as part of the project team have been flagged in the Technical Work Program and will be used as the basis for any future recruitment considerations by the AUASB Chair and Managing Director.
 - (f) The timing of each project has been based on either existing, known deadlines or best estimates of when the AUASB technical staff expect projects to be brought to the AUASB for review and/or approval. Once the final Technical Work Program is approved the ATG will map the timing of each project against 2021 AUASB Board Meeting dates to develop our AUASB Forward Agenda.
 - (g) Finally, also captured in the Technical Work Program document is the key stakeholders the AUASB staff will collaborate with on each project and brief comments on the status of each project (which will be updated as required).
- 9 Note that the projects and initiatives included in the Technical Work Program include only those matters directly impacting the outputs and outcomes of the AUASB. Projects of a more corporate nature only impacting the AUASB Technical Group and the AASB-AUASB offices (e.g. HR or IT matters) are not included.

Question for the AUASB
Please provide feedback on the current status and planned projects/tasks for 2020-21 outlined in the 2020-21 AUASB Technical Work Program presented at Agenda Item 10.1 .

Collaboration with NZAuASB and other standard setters

- 10 The ATG has a regular dialogue with NZAuASB technical staff to identify projects and activities where sharing and collaboration of information should occur. With this updated version of the 2020-21 AUASB Technical Work Program now complete the ATG will engage in further discussions with NZAuASB staff before the end of the 2020 year to identify further opportunities for collaboration in 2021.

- 11 The AUASB and NZAuASB technical staff collaborate on IAASB projects through their roles as technical advisors to IAASB members in each territory and also through the IAASB National Standard Setters forum.
- 12 The 2020-21 AUASB Technical Work Program outlines in a dedicated column which other standard setters or key stakeholders it collaborates with on each specific project, in particular the IAASB, other National Standards Setters (NSS) and the AASB. Currently collaboration is actively undertaken with NSS representatives from Canada, New Zealand and the Netherlands, however from time to time may also involve other NSS. In 2021 we are looking to expand the NSS network we engage with to include the UK FRC and other prominent NSS representatives.

Next steps/Way Forward

- 13 The ATG will address any further feedback and comments from AUASB members on the 2020-21 AUASB Technical Work Program provided at the December 2020 AUASB Meeting and once finalised place a scaled down version on the AUASB Website.
- 14 The intention is that once the AUASB Technical Work Program for the next reporting period is finalised the AUASB will conduct an Agenda Consultation process with key stakeholders and conduct a public consultation process in early 2021. The format and timing for this is Agenda Consultation is still to be determined.

Materials Presented

- 15 The updated of the 2020-21 AUASB Technical Work Program for consideration is at **Agenda Item 10.1**.

AUASB Technical Work Program - 2020/21

Updated 17 November 2020 for December 2020 AUASB Meeting

Project	Link to AUASB Strategic Objectives	Priority	Status	AUASB Staff	AUASB Sponsor	Timing	Collaboration	Use of external resources?	Comments (updated November 2020)
Updated Auditor's Responsibilities Statements	2	Normal	Complete	See Wen	Not required	Aug-20	n/a	n/a	Completed August 2020
ASRE 2410	2,4	High	Complete	Anne	Carolyn / Justin Reid	Sep-20	NZAuASB	n/a	Completed September 2020
COVID-19 Guidance on AUASB Website	2,5,6,7	High	Complete	Anne / See Wen	Roger	Sep-20	AASB	n/a	No further changes planned
GS 012	2	Normal	Complete	Johanna	Klynton	Sep-20	n/a	n/a	Completed September 2020
AUASB-UNSW Going Concern Roundtable	5,6,7	Normal	Complete	Anne	Noel / Carolyn	Nov-20	UNSW, AASB	No	Held in November 2020
Ethics Code Conforming Amendments for Non Force of Law Standards	1,2	Normal	Delayed	See Wen	Roger	Nov-20	n/a	No	Papers ready for final review and to be sent to the AUASB for approval soon
Auditor Reporting Post Implementation Review - Survey response to IAASB	1,3,4,5,6,7	Normal	On Track	Anne	Carolyn	Nov-20	IAASB, NSS	No	Response to be sent to IAASB by 23 November 2020
Assurance Framework Publication 2 - Guide for Prescribers	2,4,5,7	High	Delayed	Tim	Roger / Andrew	Dec-20	n/a	No	Final draft completed and shared with stakeholders for final review
ASA 540 Implementation Support	1,7	Normal	On Track	Rene / See Wen	Klynton	Dec-20	NSS	No	Updates to website and planned communications in progress
ASRS 4400 (AUP)	1,2	Normal	On Track	Rene	Roger	Dec-20	NZAuASB	n/a	Finalise standard after NZAuASB approval
AUASB Digital Standards Portal	2,4,5,7	High	On Track	Tim	Roger	Dec-20	n/a	No	Build complete. Training and finalisation of content in progress.
AUASB Due Process Framework Document	1,2,3,4,7	High	On Track	Johanna	Roger / Julie	Dec-20	n/a	No	Final version to be sent for AUASB review and approval at December 2020 meeting
AUASB/NZAuASB Conformance and Harmonisation Policy	1,2,3,4,7	High	On Track	Matthew	Roger	Dec-20	NZAuASB	No	Final version to be sent for AUASB review and approval at December 2020 meeting
COVID-19 impact on ASX Listed Audit Reports (Research Report)	4,5,7	High	On Track	James/Anne	Roger	Dec-20	AASB	No	Research progressing well. Update to be provided at December 2020 meeting
PJC Inquiry - response to final report	4,5,6,7	High	On Track	Anne	Roger	Dec-20	AASB, FRC	No	Discussion with FRC Chair about actions arising from final report currently being considered
Response to IAASB Discussion Paper on Fraud and Going Concern	1,3,4,5,6,7	High	On Track	Anne / Marina	Carolyn / Justin Reid	Dec-20	IAASB, NSS	No	Submission to be developed in December 2020 well before due date to IAASB in January 2021
ASA Compilations for ASA 315	1	Normal	Yet to Start	See Wen / James	Not required	Feb-21	n/a	Yes	To begin in January 2021
AUASB Foreword to Pronouncements	1,2,3,4,7	Normal	Deferred	Johanna	Roger	Mar-21	n/a	No	Deferred until Due Process and Preamble work done
Withdrawal of GS 014 and GS 021	2	Normal	Deferred	See Wen	Not required	Mar-21	n/a	No	Project deferred - to be reconsidered in early 2021
Assurance Framework Publication 1 - Assurance 101	2,4,5,7	Normal	Delayed	Tim / See Wen	Roger	Mar-21	n/a	Yes	Work deferred to early 2021. Focus on prescribers publication first.
AUASB Communications Strategy	7	Normal	Delayed	Matthew	Justin Williams	Mar-21	AASB	Yes	Initial version being redeveloped. Work to recommence in December 2020 after AUASB meeting.
Audit Committee Chairs Audit Quality Survey	4,5,7	Normal	On Track	Anne	Roger	Mar-21	FRC	No	Current survey open for completion
EER Guidance	1,5	Normal	On Track	Marina	Jo / Roger	Mar-21	IAASB, NSS, BLRF	No	Roger and Marina reviewing final IAASB materials
ISA 220/ASA 220	1	Normal	On Track	Tim	Julie	Mar-21	NSS	No	Plan included in December 2020 meeting, then development of AU standards to be performed in early 2021 for approval at March AUASB meeting
ISQM 1/ASQM 1	1	Normal	On Track	Rene	Gareth	Mar-21	APESB, NSS	No	Plan included in December 2020 meeting, then development of AU standards to be performed in early 2021 for approval at March AUASB meeting

AUASB Technical Work Program - 2020/21

Updated 17 November 2020 for December 2020 AUASB Meeting

Project	Link to AUASB Strategic Objectives	Priority	Status	AUASB Staff	AUASB Sponsor	Timing	Collaboration	Use of external resources?	Comments (updated November 2020)
ISQM 2/ASQM 2	1	Normal	On Track	Marina	Gareth	Mar-21	APESB, NSS	No	Plan included in December 2020 meeting, then development of AU standards to be performed in early 2021 for approval at March AUASB meeting
Conforming Amendments Arising to ISAs from Quality Management Standards	1	Low	Yet to Start	Rene / See Wen	Not required	Mar-21	n/a	Yes	Awaiting IAASB materials
GS 008 (Remuneration Reporting)	2	Normal	Deferred	See Wen	Carolyn/Klynton	Apr-21	ASIC, AASB	Yes	Project started in 2019 but deferred due to COVID. Work to recommence in early 2021
Technology PAG – Data Integrity Guidance	2,5,7	Normal	On Track	Tim	Rodney	Apr-21	NSS	Yes	Work to be performed in early 2021
AUASB Preamble	2	Normal	On Track	Tim	Roger	Apr-21	n/a	No	Work to recommence, including obtaining external legal advice in early 2021
AUASB Bulletin on Cybersecurity implications for Auditors	2,5,7	Normal	Yet to Start	Tim	Rodney	Apr-21	NSS	Yes	Work to be performed in early 2021
Review of ASIC Inspection Findings	4,6,7	Normal	Deferred	Anne	Roger	Jun-21	AASB, FRC	No	Awaiting December 2020 version of ASIC Inspection Report. Initial planning discussions with ASIC already commenced.
Develop outstanding guidance for the Public Sector Audit Issues PAG	2,4,7	Normal	Delayed	Matthew / Johanna	Julie	Jun-21	ACAG	Yes	PAG to reconvene in December 2020 and plan for 2021 to be developed to address outstanding matters
ASA 315 Implementation Guidance and Outreach	1,7	Normal	Yet to Start	Anne / See Wen	Justin Reid	Jun-21	IAASB, NSS	No	Awaiting materials from IAASB
ASA 560 Subsequent Events (aligning with the NZAuASB)	2,3	Low	Yet to Start	See Wen	TBD	Jun-21	NZAuASB	Yes	Work yet to commence. Timing dependent on completion of higher priority AUASB projects
Assurance Framework Publication 3 - Assurance Engagements	2,4,5,7	Normal	Yet to Start	Marina	Jo	Jun-21	NSS	Yes	Work to commence after completion of Assurance Framework Publication 1
Auditor Reporting Post Implementation Review – Phase 2	1,3,7	Normal	Yet to Start	Anne	Carolyn	Jun-21	IAASB, NSS	No	Awaiting IAASB project plan due in March 2021
Conforming Amendments Arising to other IAASB Standards from Quality Management Standards	1	Low	Yet to Start	Rene / See Wen	Not required	Jun-21	n/a	Yes	Work to be planned after review of final AU Quality Management Standards
GS 007 (Service Organisations)	2	Normal	Yet to Start	Marina	TBD	Jun-21	ASIC	Yes	Work yet to commence. Timing dependent on completion of higher priority AUASB projects
GS 010 (Questions at AGMs)	2	Low	Yet to Start	Anne / See Wen	TBD	Jun-21	AICD	Yes	Work yet to commence. Timing dependent on completion of higher priority AUASB projects
GS 016 (Bank Confirmations)	2	Low	Yet to Start	See Wen	Klynton	Jun-21	ABA	Yes	Work yet to commence. Timing dependent on completion of higher priority AUASB projects
Investor Survey on Audit Quality (with FRC)	4	Normal	Yet to Start	Anne	Roger	Jun-21	FRC	No	To be carried out after completion of the Audit Committee Chairs Survey
Post Implementation Review of ASAE 3500 Performance Engagements	2,7	Normal	Yet to Start	Marina / James	Julie	Jun-21	ACAG	Yes	Work to commence in first quarter of 2021
NFP Assurance – Independent Examinations Project (with NZAuASB)	2,5,7	Low	Delayed	Tim	Roger	Ongoing	ACNC	No	Link with AASB NFP Framework
National Auditing Standards Setters (NASS) Collaboration	3	Normal	Delayed	Matthew	Roger / Robert	Ongoing	NSS	No	Next NSS meetings being held in November and December with plan for 2021 under consideration around IAASB agenda and NSS work plans
Audit Evidence Project	1	Normal	On Track	Tim	TBD	Ongoing	IAASB, NSS	No	AUASB work to be considered after IAASB project plan released in December 2020

AUASB Technical Work Program - 2020/21

Updated 17 November 2020 for December 2020 AUASB Meeting

Project	Link to AUASB Strategic Objectives	Priority	Status	AUASB Staff	AUASB Sponsor	Timing	Collaboration	Use of external resources?	Comments (updated November 2020)
IAASB - Fraud	1	Normal	On Track	Marina	Justin Reid	Ongoing	IAASB, NSS, FRC	No	Work to be dependent on IAASB work program and materials
IAASB - Going Concern	1	Normal	On Track	Rene	Carolyn	Ongoing	IAASB, NSS, FRC, AASB	No	Work to be dependent on IAASB work program and materials
IAASB - Technology Working Group Guidance	1	Normal	On Track	Tim	Rodney	Ongoing	IAASB, NSS	No	Next Technology PAG meeting being held this month
ISA 600/ASA 600	1	Normal	On Track	Rene	Rodney	Ongoing	IAASB, NSS	No	Awaiting next version of standard from IAASB - likely March 2021
Less Complex Entities and CUSP	1,7	Normal	On Track	Rene	Roger / Justin	Ongoing	IAASB, NSS	No	Work by Roger and team members ongoing in line with IAASB timetable
Technology PAG	2,5,7	Normal	On Track	Tim	Rodney	Ongoing	NSS	No	Next Technology PAG meeting being held this month
Evidence Informed Standards Setting Activities (incl. Academic Liaison)	5	Normal	On Track	Anne	Noel	Ongoing	AFAANZ	No	Anne and Noel working on this as required
AASB Collaborative Projects	6	Normal	On Track	Matthew	Roger	Ongoing	AASB	No	On track based around bi-monthly meetings with AASB and AUASB Chairs
Climate Change Research Report/Article (with AASB)	5,6,7	Low	Deferred	Marina	Roger	TBD	AASB	Yes	Project deferred - to be reconsidered in early 2021
GS 019 (Fundraising Revenue for NFP entities)	2,7	Low	Yet to Start	Tim / See Wen	TBD	TBD	ACNC	Yes	Work yet to commence. Timing dependent on completion of higher priority AUASB projects
Post Implementation Review of ASAE 3100 Compliance Engagements	2	Low	Yet to Start	Marina / James	Klynton	TBD	NZAuASB	Yes	Work yet to commence. Timing dependent on completion of higher priority AUASB projects
GS 003 (AFSLs)	2	Normal	Yet to Start	Johanna	Klynton	TBD	ASIC	Yes	Work to commence in February 2021

AUASB Strategic Objectives

Priority Area	Strategic Objectives
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) Develop and maintain Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required.
International Influence	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
Audit Quality	4) In conjunction with the Financial Reporting Council, identify and implement initiatives designed to enhance Audit Quality in Australia.
Thought Leadership	5) Demonstrate thought leadership through robust evidence-based research to inform strategic projects that address emerging areas of auditing and assurance
Frameworks	6) Partner with the AASB and others to reform the Australian external reporting and assurance frameworks.
Stakeholder Engagement	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.



AUASB Agenda Paper

Project:	IAASB Proposed Non-Authoritative Guidance – Extended External (EER) Assurance	Meeting:	1 December 2020
Topic:	EER	Agenda Item:	11
Strategic Objective:	International Influence	Decision-Making:	For Update and Discussion
ATG Staff:	Marina Michaelides	Project Status:	In Progress
AUASB Sponsor:	Jo Cain		

Action Required and Decisions to be Made

- 1 The purpose of this Agenda Item is to update the AUASB on the key changes proposed by the Taskforce to the *Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance* as a result of significant areas identified in the responses received from the Public Consultation and specific feedback from the IAASB on Chapters 2 (Professional Scepticism) and 12 (Reporting) and to obtain the views of the AUASB.
- 2 A link to the IAASB *Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance* is provided [\[here\]](#).

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Q1. Does the AUASB have any comments or feedback on the proposed enhancements to the IAASB's <i>Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance</i> .	ATG agree that the TF has appropriately addressed the key themes from the 43 CP Responses as summarised at A.

<p>Question 2</p>	<p>Q2. Does the Board support the Task Force’s proposal to include a table in an appendix to the Guidance document to illustrate differences between a limited (LA) and reasonable assurance (RA) engagement?</p>	<p>ATG agree with inclusion of LA vs RA table illustrating differences in procedures for areas covered in the guidance – however further consideration should be given to whether illustrating the differences between two levels of limited assurance procedures is actually a useful distinction for practitioners?</p>
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Background

- 3 The IAASB issued *Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance* in March 2020, with a comment period ending 13 July 2020.
- 4 The AUASB undertook virtual outreach with the NZAuASB in June 2020 on this Guidance and [submitted a response to the IAASB](#).
- 5 The ATG considers that the EER taskforce has addressed the substantive matters raised by the AUASB in the submission. A summary of all AUASB matters raised matters and where the IAASB task force has gotten to on these is summarised in section A of this paper.
- 6 Since the September IAASB meeting the Taskforce has met numerous times to work through the proposed enhancements to the guidance and to address comments from respondents to streamline the guidance and to focus on:
 - EER-specific considerations
 - Eliminating repetition of material from the Standard
 - Using ‘plain English’ to help make the Guidance more accessible.

The outcomes from this process resulted in there being considerable changes throughout many of the chapters including: a rewrite of Chapters 2 – Exercising Professional Scepticism and Professional Judgement to be more EER specific and Chapters 12 - Communicating Effectively in the Assurance Report to include two examples reports illustrating an unmodified RA and LA opinion/conclusion. Inclusion of 5 new examples in [Supplement B](#) that include subject matters of Climate-related disclosures through the TCFD recommendations and Sustainable Accounting Standards (SASB) as suitable criteria as suggested by respondents. The appendix to the guidance – LA and RA EER Illustrative table now depicts illustrative procedures in a cumulative approach for three levels of assurance being:

- The lower end of the range of limited assurance
- The upper end of the range of limited assurance
- Reasonable assurance

The EER TF will be asking the IAASB for its final comments on these major changes and enhancements to the guidance at the December meeting.

Previous Discussions on Topic

7 Over the past year, the AUASB has been tracking the progress on the IAASB proposed EER guidance against the key matters raised in the AUASB’s submissions to the IAASB and throughout the updated progress of the guidance. This tracking is reflected in the following AUASB meeting papers:

- (a) 16 April 2019 (Agenda item 6.1)
- (b) 11 September 2019 (Agenda Item 4.7)
- (c) 3 December 2019 (Agenda Item 16.6)
- (d) 9 September 2020 (Agenda Item 9.2)

Matters for Discussion and ATG Recommendations

8 The table below reflects a summary of AUASB key themes raised in our submission to the IAASB and how the EER TF have addressed these matters in the proposed draft:

	<i>AUASB Key Theme (refer to AUASB Submission)</i>	<i>Approach by EER TF</i>
1	Limited and Reasonable Assurance	<p>The TF has summarised, in a table, the key differences and implications btw LA and RA:</p> <ul style="list-style-type: none"> • including illustrative procedures for two levels of limited assurance engagements: one up the upper end and one at the lower end of the range of limited assurance, • using the material in ISAE 3410, <i>Assurance Engagements on Greenhouse Gas Statements</i> as a basis for illustrative considerations and procedures, • making it clear that the summary does not suggest a requirement or best practice, but is included for illustrative purposes only, and • positioning the table as an appendix to the Guidance.
2	Use of Examples – Supplement B	<p>The TF has included five further longer examples in Supplement B – including one to illustrate the assurance of reporting in line with the TCFD recommendations, and another illustrating the use of SASB standards, both of which address the reporting of a mix of qualitative and quantitative information, and historical and future-oriented information.</p> <p>The TF has also replaced theoretical or conceptual content within the Guidance with shorter practical examples e.g. in Chapter 2, 4,10 and 11.</p>
3	Professional Scepticism and Professional Judgement	<p>The TF has streamlined the guidance in Chapter 2, by focusing on:</p> <ul style="list-style-type: none"> • why the exercise of professional scepticism and professional judgment are important in an EER engagement, • impediments that are more likely to arise in such engagements, and • including a short EER-specific example within the chapter to illustrate the exercise of professional scepticism and professional judgment in an EER context.
4	Qualitative Information	<p>The TF has retained the guidance in a separate chapter and enhancing the linkage between this chapter and the other chapters, where relevant.</p>

		The TF has enhanced the guidance on obtaining evidence and the evaluation of qualitative misstatements for qualitative information by including two further examples in Supplement B.
5	Communicating Effectively in the Assurance Report	The TF has included two interactive examples of unmodified reports illustrating RA and LA in line with para 69(f) of ISAE 3000.
6	Length, Format and Use of Language	The TF is of the view that the perceived length of the Guidance is inextricably linked with the format in which the Guidance is to be published, and that presenting the Guidance in an innovative, easily accessible manner would, to a large extent, overcome possible barriers to its use as a result of its length. In finalising the Guidance, it is proposed to hyperlink from the Guidance to the requirement(s) or application material in ISAE 3000. The Task Force will continue to work with IFAC on the digital version being ready for release in early 2021.
7	Order of Chapters	The TF has repositioned Chapter 6 before Chapter 4, as the guidance on considering the entity's process to identify reporting topics follows logically from the guidance on preconditions (Chapter 3), and reinforces the preparer's role in preparing for assurance. The TF has also moved Chapter 11 and Chapter 12 to before the reporting chapter (Chapter 10), as reporting is the last stage in an assurance engagement.

A. Other matters for noting

9 No other matters to note.

Collaboration with NZAuASB and other standard setters

10 The AUASB will continue to collaborate with the NZAuASB on how both Board's may look to adopt the non-authoritative guidance in our respective jurisdictions once approved in March 2021. This may also be combined with further outreach on broader strategic areas of EER.

Next steps/Way Forward

11 The IAASB EER TF will seek approval of final EER Guidance and supplements in March 2021.



AUASB Agenda Paper

Project:	Less Complex Entities	Meeting:	December 2020
Topic:	Separate Standard	Agenda Item:	14.1
Strategic Objective:	Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards	Decision-Making:	For Discussion and AUASB input
ATG Staff:	Rene Herman	Project Status:	Early in project – project plan phase
AUASB Sponsor:	Roger Simnett		

Action Required and Decisions to be Made

- 1 The hyperlinks to IAASB papers are included in this document for ease of reference, it is not expected that AUASB members will have a detailed read of all these papers.
- 2 The purpose of this Agenda Paper is to update the AUASB and receive input from the AUASB on the LCE separate standard project. At the December 2020 IAASB meeting the IAASB will be asked to approve the [project proposal](#) to develop a separate standard for LCEs and will also be asked for views on the first draft standard which has been included as a hyperlink [\[here\]](#).

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Does the AUASB have any comments around the principles using in drafting the separate standard described in paragraph 6 below?	N/A
Question 2	Does the AUASB have any comments on the applicability of the standard as described in paragraph 7 below?	N/A
Question 3	Does the AUASB have any comments on the additional matters described in paragraph 8 below?	N/A

Background

- 3 The IAASBs outreach has indicated that many of the challenges and issues that LCEs face are also applicable to all audits. In balancing the needs of all its stakeholders, as well as the time needed to develop changes to address the issues and challenges within the broader suite of ISAs, the IAASB agreed to two workstreams: one to develop a separate standard focused on audits of LCEs, and the other to address issues related to complexity, understandability, scalability and proportionality in the ISAs more broadly. This Agenda Paper deals with the LCE separate standard stream.
- 4 The IAASB has prepared a detailed Issues Paper that is hyperlinked [[here](#)]. Some of the highlights from the paper are summarised below in the matters for discussion section.

Previous Discussions on Topic

- 5 In September 2019, the AUASB made a [submission](#) into the [IAASB's Discussion Paper Audits of Less Complex Entities: Exploring the Possible Options to Address the Challenges in Applying the ISAs](#).

Matters for Discussion

- 6 *Some of the principles around the separate standard for LCEs:*

The separate standard is being developed on the following basis (IAASB has yet to provide input into the first draft, so this is still subject to change):

- The separate standard will contain all of the requirements relevant to an audit of an LCE within one standard. These requirements are based on 'core' requirements within the International Standards on Auditing (ISAs) that would be applicable in the circumstances of an audit of an LCE.
- The standard will adopt a principles-based risk-based approach.
- The standard will be divided into "Parts" which sets out the relevant requirements for the various components within an audit. There is expected to be minimal application material.
- The Parts follow the flow of an audit, which some more fundamental and overarching concepts set out upfront.
- This will be a reasonable assurance product.

Question 1 for the AUASB: Does the AUASB have any comments around the principles described above?
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- 7 *Who will be able to use the separate standard (applicability / scope)?*

The introduction to the standard will explain the applicability of the standard (i.e., the types of audits for which it will be appropriate) – this is still under discussion by the IAASB and so may change as the separate standard is further developed. In the LCE Working Group's view, there are two items that drive complexity: the nature of the entity, and the entity's application of the applicable financial reporting framework. There are matters specifically under consideration that may impact the applicability of the standard relating to complexity, those are: group audits, using the work of experts and service organisations.

A preliminary decision has been made that it will not be appropriate for use in audits of listed entities (the standard will contain no requirements that are unique to listed entities). Further consideration is still needed about whether this 'restriction' should be extended to other 'public interest entities.'

Law and regulation in a particular jurisdiction may also restrict use of the separate standard. The description of the applicability will further set out the characteristics of an audit for which the separate standard is appropriate.

If not specifically prohibited (as explained above), and if it is applicable because it is judged to be an audit of a less complex entity, auditors will still have a choice whether to use this standard or the full ISAs.

Question 2 for the AUASB: Does the AUASB have any comments on the applicability of the standard?

8 *Other Matters for AUASB comment*

- a) Reporting: Basis for auditor's opinion - highlighting the reasonable assurance is under a separate standard?
- b) Whether the standard should be standalone or interact with the full body of ISAs?
- c) Other comments/considerations?

Question 3 for the AUASB: Does the AUASB have any comments on matters 8(a)-8(c) above?

Collaboration with NZAuASB and other standard setters

- 9 At this stage of the project - through the AUASB international influencing strategy.

Way Forward

- 10 The IAASB is working towards a June 2021 Exposure Draft of the separate standard, with a final standard approval target date of December 2022.
- 11 The AUASB technical group will continue to monitor the progress of this project and influence the direction of the standard through the AUASB international influencing strategy.



AUASB Agenda Paper

Project:	Audit Evidence	Meeting:	2 & 4 December 2020
Topic:	Project Plan Review	Agenda Item:	14.2.0
Strategic Objective:	International Influence	Decision-Making:	For Discussion
ATG Staff:	Tim Austin	Project Status:	In Progress
AUASB Sponsor:	TBD		

Action Required and Decisions to be Made

- The purpose of this Agenda Item is to update the AUASB on significant developments in the IAASB's Audit Evidence project since the last update at the June 2020 AUASB Meeting and to request AUASB Member feedback to the questions below.
- At the December 2020 IAASB Meeting, the IAASB is being asked to:**
 - Approve the Audit Evidence Project Proposal; and**
 - Obtain IAASB Member feedback on the Audit Evidence Working Group's views on four key areas:**
 - The purpose and scope of ISA 500 *Audit Evidence*;**
 - The concept and evaluation of sufficient appropriate audit evidence;**
 - The distinction between sources of information in ISA 500; and**
 - Using information for different types of audit procedures.**
- In line with the AUASB International Strategy, AUASB members are being asked to respond to questions 1-6 to inform the AUASB Chair in their role as an IAASB Member.**
- A link to the draft project proposal is provided [\[here\]](#) and has also been included as **Agenda Item 14.2.1** in the AUASB December 2020 Meeting papers.

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Do AUASB Members agree with the ATG's view that the project objectives are appropriate?	ATG considers that the overall project objectives are appropriate.
Question 2	Do AUASB Members consider that the limited scope of the project is appropriate?	The ATG has raised previously that limiting the scope may not achieve the objectives of the project as a number of standards are linked to ISA 500.

AUASB Agenda Paper

Question No.	Question for the Board	ATG Recommendation Overview
Question 3	Do AUASB Members agree with the AEWG's view on the purpose of ISA 500?	The ATG agrees in principle with the AEWG's view.
Question 4	Do AUASB Members agree with the AEWG's views on enhancing the concept of sufficient appropriate audit evidence?	The ATG agrees in principle with the AEWG's view.
Question 5	Do AUASB Members agree with the AEWG's view that this matter is appropriately addressed through the previous response?	The ATG agrees in principle with the AEWG's view.
Question 6	Do AUASB Members agree with the AEWG's view that this matter is appropriately addressed through application material?	The ATG agrees in principle with the AEWG's view.

Background

- 5 At the March 2019 IAASB Meeting, the Audit Evidence Working Group (AEWG) presented to the IAASB an update on the AICPA's audit evidence project which included a walkthrough of the proposed revised AICPA audit evidence standard and a number of matters for discussion to guide the IAASB's audit evidence project.
- 6 The matters presented were discussed by the IAASB in a breakout session where feedback from IAASB Members included that the AEWG needed to:
 - (a) further understand the issues raised and activities need to be exploratory at this stage;
 - (b) prioritise the issues and consider the most appropriate response to priority issues;
 - (c) keep a broader perspective and understand that issues do not just impact ISA 500.
- 7 In response to this feedback, the AEWG developed a Workstream Plan which summarised all the issues raised as part of the project and possible responses to each. This Workstream Plan was presented to the IAASB at the June 2019 IAASB Meeting. The IAASB agreed that the list of issues was comprehensive but did not support the development of a project plan at the time recommending that further information-gathering and research activities are necessary to understand which issues are causing the most problems in practice and how individual issues may be best addressed.
- 8 In January 2020, the IAASB issued a request to National Standard Setters and IFAC Member Organisations for feedback on the issues focussing on the prioritisation of issues and possible responses to each. The AUASB Technical Group (ATG) undertook outreach activities jointly with CAANZ and CPA Australia and submitted a joint response in April 2020 to the IAASB. The response was developed based on AUASB Member feedback to the list of issues at the June 2020 AUASB Meeting and a short survey accompanied by a webinar.
- 9 At the June 2020 IAASB Meeting the AEWG presented a summary of the feedback and asked IAASB Members for initial views on the results of the outreach activities and possible responses.

Previous Discussions on Topic

- 10 The AUASB has been tracking the progress of the Audit Evidence information gathering and the development of the project proposal. This tracking is reflected in the following AUASB meeting papers:
- (a) 6 March 2019 (Agenda Item 7.4.0) – Update to AUASB on AICPA audit evidence standard.
 - (b) 26 June 2019 (Agenda Item 2.3.0) – Feedback on list of issues including prioritisation.
 - (c) 10 June 2020 (Agenda Item 8.3.0) – Verbal update on project progression.

Matters for Discussion and ATG Recommendations

- 11 The Matters for Discussion in this paper have been broken up into:
- (a) Consideration of the IAASB Audit Evidence Project Proposal, focussing on:
 - (i) Project Objectives;
 - (ii) Project Scope;
 - (iii) Major issues to be addressed; and
 - (iv) Project Timeline.
 - (b) Specific Issues raised by the AEWG and their initial views.

A. Project Proposal

- 12 A link to the draft project proposal is provided [\[here\]](#) and has also been included as **Agenda Item 14.2.1** in the AUASB December 2020 Meeting papers.

Project Objective

- 13 The overall proposed objective of the project is to “Clarify the purpose and scope of ISA 500 and explain its relationship with other standards”. The project has been broken down into further objectives relating to:
- (a) Sources of information:
 - (i) Enhancing and clarifying the auditor’s responsibilities in relation to information to be used as audit evidence, for both internal and external sources of information, and evaluating the sufficiency and appropriateness of audit evidence.
 - (ii) Developing an enhanced set of factors or attributes of information to be considered by the auditor.
 - (b) Technology:
 - (i) Modernising ISA 500 to be sufficiently adaptable to the current business and audit environment.
 - (c) Professional Skepticism:
 - (i) Emphasize the role of professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained.
- 14 The ATG views that the project objectives are appropriate.

Questions

1. Do AUASB Members agree with the ATG’s view that the project objectives are appropriate?

Project Scope

- 15 To address the project objectives, the project scope is to:
- (a) Develop revisions to ISA 500 to establish more robust requirements and appropriate application material. It is intended that these revisions will achieve greater consistency in auditor judgments about audit evidence, as well as better explain the scope of the standard and its relationship with other standards, such as ISA 200 and ISA 330.

- (b) Propose only conforming and consequential amendments to other ISAs that may be necessary as a result of revisions to ISA 500.
 - (c) Determine whether non-authoritative materials should be developed by the IAASB, or others, to supplement revisions to ISA 500 and thereby aid its effective implementation through first-time implementation support activities.
- 16 Overall the ATG views that limiting the modernisation of the standards to ISA 500 and necessary conforming amendments may not achieve the project objectives. Throughout the suite of standards there are specific procedures for obtaining audit evidence which require review/modernisation and should be considered alongside the revisions to ISA 500.
- 17 The ATG considers that ASA 230 *Audit Documentation* should be modernised as part of this project to ensure revised audit evidence concepts align with how audit evidence is to be documented.

Questions

2. Do AUASB Members consider that the limited scope of the project is appropriate?

Major issues that will be addressed

- 18 The major issues that are intended to be addressed by this project are:
- (a) Clarifying the purpose and scope of the standard (further discussed in paragraphs 24–28) – Questions have arisen about the purpose of ISA 500 in the context of the other ISAs, and in particular whether the standard is intended to be a performance standard or to provide context to other standards;
 - (b) Sources of information (further discussed in paragraphs 29-44) – The evolution in the nature and sources (as well as volume) of information and the use of technology in designing and performing audit procedures have raised questions about the factors or attributes that are considered by the auditor in relation to information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained.;
 - (c) Continual developments in technology – New technologies have raised questions about where audit procedures performed using automated tools and techniques fit within the types of audit procedures that may be performed (i.e., inspection, observation, inquiry etc.) and the nature of audit procedures (i.e., risk assessment procedures or further audit procedures comprising tests of controls and substantive procedures); and
 - (d) Professional Skepticism – ISA 500 could more robustly address the need for professional skepticism when making judgments about information to be used as audit evidence and whether sufficient appropriate audit evidence has been obtained.
- 19 As outlined above, the ATG considers that where the nature of procedures are being challenged that limiting this to ISA 500 and limited other changes will not achieve the objective or address the issue. The ATG recommends that the AEWG develop a list of specific audit evidence gathering procedures that are required to be performed throughout the standards (for example, requirement to attend a physical stocktake) to determine which standards may be impacted by the proposed changes to ISA 500.

Project Timeline

- 20 The proposed project timeline is:

Date	Action
December 2020	Approval of project proposal and deliberation of issues.
January 2022 – February 2022	Development of the exposure draft – progressing issues and drafting the proposed revisions to ISA 500. Dialogue with stakeholders on key issues and proposals.
March 2022	IAASB approval of exposure draft, with a 120-day comment period, including proposed conforming and consequential amendments to other ISAs.
August 2022 – May 2023	Analysis of responses and resulting revisions to the exposure draft in developing the final standard.

Date	Action
	Dialogue with stakeholders on key issues and proposals.
June 2023	IAASB approval of ISA 500 (Revised).

21 There is no indication of the proposed effective date of the standard. Based on recent standards, it is anticipated that the effective date will be 18 months after the approval of the standard so is likely to be effective December 2024.

22 The ATG considers that the proposed project milestones are appropriate but raise that the 12 months between the project proposal approval and commencement of the development of the exposure draft could be problematic.

B. Specific Issues and AEWG Views:

23 As outlined in paragraph 2(b), the AEWG have identified a number of “Matters for Discussion” which they consider fundamental to the project and have brought them for discussion with the IAASB at the December 2020 IAASB Meeting. The AUASB is asked for their feedback on each of the matters to inform the AUASB Chair.

Purpose and Scope of ISA 500

Background

24 During the information gathering the nature of ISA 500 and whether it is a performance standard or is intended to provide context for performance requirements in other standards has been raised as an issue.

25 The AEWG noted from the feedback that the overlapping between ISA 500 and ISA 330 *The Auditor’s Responses to Assessed Risks* was causing confusion, in particular paragraph 26 of ISA 330¹, and that both standards require the performance of audit procedures to obtain sufficient appropriate audit evidence but the overall conclusion on the evidence is contained in ISA 330 as well as application material in ISA 330 about what may influence the auditor’s judgement of what constitutes sufficient appropriate audit evidence².

26 The AEWG notes that the AICPA in revising their audit evidence standard shifted the focus of the standard from the design and performance of audit procedures for the purpose of obtaining sufficient appropriate audit evidence, to understanding the attributes of information to assist the auditor in evaluating information to be used as audit evidence.

AEWG View

27 The AEWG is of the view that ISA 500 underpins the other ISAs, and that its main purpose is to support the auditor’s judgments when considering information to be used as audit evidence more broadly and that ISA 500 should not focus on designing and performing procedures.

28 This change could be achieved through:

- (a) revising the objective of ISA 500 to focus on providing the auditor with guidance to make judgements about the sufficiency and appropriateness of information to be used as audit evidence to support the auditor’s overall conclusion in ISA 330;
- (b) including introductory paragraphs within ISA 500 to clarify the relationships between ISA 500, ISA 200 and ISA 330; and
- (c) considering whether the relationship of ISA 500 with other standards such as ISA 520 could be enhanced.

Questions

3. Do AUASB Members agree with the AEWG’s view on the purpose of ISA 500?

¹ ISA 330 paragraph 26, ‘The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements’

² See ASA 330 paragraph A62.

The Concept and Evaluation of Sufficient Appropriate Audit Evidence

Background

- 29 During the information gathering the adequacy of the characteristics used to define sufficient and appropriate audit evidence was raised as an issue, in particular that the definition was causing uncertainty in practice about how much evidence is enough.
- 30 Stakeholders raised whether the concept of persuasiveness may be more relevant noting that persuasiveness of audit evidence was a concept dealt with in standards other than ISA 500. In particular, it was raised that if the audit evidence is persuasive, only a limited amount of audit evidence may be sufficient and conversely obtaining more of the same type of audit evidence may not compensate for its lack of appropriateness.
- 31 The concept of persuasiveness is used in the AICPA audit evidence standard and recognises that the auditor is required to obtain more persuasive audit evidence the higher the assessment of risk and that as the quality of audit even increases, the need for corroborating audit evidence decreases.
- 32 Stakeholders also raised that the evolution of technology and changes in the number and nature of sources of information resulted in concerns over the use of electronic information to be used as audit evidence and how the use of such information may affect the auditor's considerations related to sufficient appropriate audit evidence. Stakeholders also raised concern over generalisations such as:
- (a) The reliability of audit evidence increases when it is obtained from independent sources outside the entity; and
 - (b) Audit evidence provided by original documents is more reliable than digitised versions.

AEWG View

- 33 The AEWG supports the introduction of the concept of the 'persuasiveness of audit evidence' in ISA 500, in particular as this concept is already discussed in the context of sufficient appropriate audit evidence in other ISAs.
- 34 The AEWG is of the view that a principles-based approach is needed in considering information to be used evidence, given the significant changes in the nature and volume of information, including information that may be obtained from sources external to the entity.
- 35 Specifically, the AEWG proposes developing a set of attributes of information that should be considered by the auditor when making judgments about information to be used as audit evidence. These attributes would be applicable to all information sources.
- 36 The preliminary list of attributes are³:
- (a) Relevance of Information:
 - (i) Understandability – The degree to which an auditor can perceive the significance of the information to the auditor's purposes.
 - (ii) Relation – The degree to which information logically relates to, or bears upon, the purpose of an audit procedure, including, where appropriate, the assertion under consideration.
 - (iii) Impact – The degree to which information is either consistent or inconsistent with a matter subject to an audit procedure.
 - (iv) Precision – The degree of exactness or level of detail for the auditor's purposes.
 - (b) Reliability of Information:
 - (i) Authenticity – The source noted actually generated or provided the information and is who it claims to be, as well as whether the information can be altered without a record of the alteration.

³ The AEWG considered the use of factors or attributes in: Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework; International Standards on Related International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information; International Financial Reporting Standards – Conceptual Framework; and the International Integrated Reporting Council Framework.

- (ii) Accuracy – The degree to which information is free from error in its reflection of the underlying events and conditions, including attributing the appropriate time period or point in time to the conditions or events.
- (iii) Bias – The degree to which the information is free from bias, including from fraud, in its reflection of the underlying events or conditions.
- (iv) Completeness – The degree to which the information reflects all of the underlying events or conditions.
- (v) Authorisation - Information generation or provision is appropriately authorized. This relates to the individual or organization providing the information – not the auditor
- (vi) Credibility – The degree to which credence can be given to specific information received from that source.

37 The AEWG is also proposing that work effort will relate to whether information is from an information source which is internal or external to the entity and information generated by the auditor.

Questions

4. Do AUASB Members agree with the AEWG’s views on enhancing the concept of sufficient appropriate audit evidence?

The Distinction Between Sources of Information in ISA 500

Background

- 38 During the information gathering, stakeholders raised questions over ISA 500’s differentiation in work effort between information produced by the entity and external sources of information but also raised that difficulties in determining or classifying whether information is ‘produced by the entity’ as contemplated by paragraph 9 of ISA 500, as entity management uses information from a wide range of internal and external sources.
- 39 Stakeholders also raised whether the standard adequately addresses the auditor’s inability to gain sufficient access to certain information sources for the purposes of the auditor’s consideration of relevance and reliability.

AEWG View

- 40 The AEWG view is that this is appropriately responded to by the previous response of developing attributes to assess information and that those attributes apply regardless of whether the information is internal and external.
- 41 In relation to the second matter, the AEWG proposes to clarify in the application material that the scope of ISA 500 addresses situations where the auditor is able to gain access to information to be used as audit evidence and that if the auditor is unable to obtain access to or use certain data in performing planned procedures to obtain sufficient appropriate audit evidence, the auditor has to attempt to perform alternative or additional procedures to obtain further audit evidence.

Questions

5. Do AUASB Members agree with the AEWG’s view that this matter is appropriately addressed through the previous response?

Using Information for Different Types of Audit Procedures

Background

- 42 Stakeholders raised that it would be useful to consider and clarify whether the level of work effort required over information to be used as audit evidence changes for different types of audit procedures.
- 43 Currently ISA 500 does not explicitly distinguish between work effort for risk assessment procedures or further audit procedures.

AEWG View

- 44 The AEWG does not believe that this issue can be addressed through a prescriptive requirement that applies to all circumstances. The response to this matter is proposed to be through application material which outlines that the work effort is influenced by:
- (a) The nature of the audit procedure;
 - (b) The relative important of the evidence to the overall purpose of the audit procedure; and
 - (c) Whether the evidence is corroborative or contradictory.

Questions

6. Do AUASB Members agree with the AEWG's view that this matter is appropriately addressed through application material?

Next steps/Way Forward

- 45 The ATG will provide the response to the questions in this paper to the AUABS Chair to inform them in their role as an IAASB Member and will continue to monitor the project and provide updates to the AUASB.

REVISION OF INTERNATIONAL STANDARD ON AUDITING (ISA) 500, AUDIT EVIDENCE

[This project proposal was developed and approved by the International Auditing and Assurance Standards Board (IAASB)] – *Text subject to IAASB approval of project proposal in December 2020.*

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 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.

I. Subject

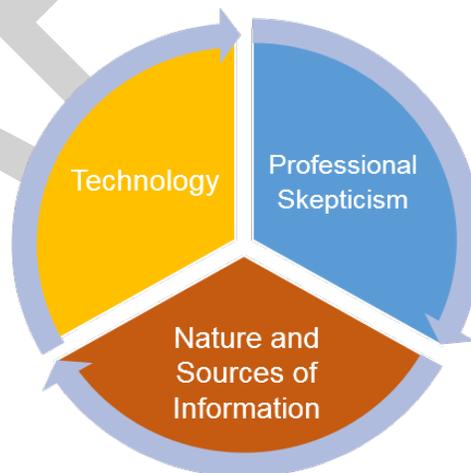
1. This project proposal addresses the revision of ISA 500.

II. Background

2. ISA 500 deals with the auditor's responsibilities to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. The IAASB considered ISA 500 in December 2008 as part of the IAASB's revisions to improve the clarity of its International Standards. In addition, consequential amendments were made to the standard in 2018 as part of the project to revise ISA 540¹ (i.e., to include material addressing external information sources, as defined). No other updates have been made to ISA 500 during a period where the world has evolved with rapid changes in technology and the types of information sources available to auditors.
3. Given the evolving use of technology by auditors, the IAASB released a [Request for Input, Exploring the Growing Use of Technology in the Audit, With a Focus on Data Analytics](#) in December 2016. The paper identified and explored various issues and challenges associated with the use of data analytics and other technology in the performance of audits. Simultaneously, the purpose of the publication was to obtain stakeholder input and perspectives on the issues identified, including whether all of the issues relevant to the use of data analytics and other technology in a financial statement audit had been identified.

¹ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

4. To provide an overview of the key messages from the responses to the Request for Input, the IAASB issued a [Feedback Statement](#), *Exploring the Growing Use of Technology in the Audit, With a Focus on Data Analytics* in January 2018. Key messages included that the ISAs aren't broken and should remain principle-based, but need to reflect the digital era. Moreover, specific views were expressed in relation to the topic of audit evidence, including:
- Emphasizing the need to exercise professional skepticism when using data analytics.
 - Clarifying how the use of data analytics contributes to the audit evidence model.
 - Highlighting the importance of the source and quality of the data used and challenges in considering the relevance and reliability of both internal and external data.
5. Subsequently, the IAASB established the Audit Evidence Working Group (AEWG) in January 2019. The preliminary purpose of the AEWG was twofold, to:
- Identify and explore possible issues related to audit evidence and technology in the context of ISAs, and in particular, ISA 500; and
 - Develop recommendations for possible further actions, such as guidance or standard setting, if it was identified that further action was necessary.
6. The AEWG developed an initial listing of possible issues categorized into the following topics related to the auditor's consideration of audit evidence:
- Changes in the source of information and how the information is processed, communicated and used;
 - Continual developments in technology; and
 - Professional skepticism.
7. The AEWG presented the initial listing of issues and possible actions to address the identified issues to the Board in June 2019.² In determining whether ISA 500 and possibly other standards needed to be revised, the Board was of the view that further information-gathering and targeted outreach activities were necessary to understand:
- The extent to which the issues identified or other issues (if any) are creating challenges in practice, including the reasons or causes of those issues; and
 - How the issues may be best addressed.
- The nature and extent of the further information gathering and targeted outreach activities were captured in the [Audit Evidence Workstream Plan](#).
8. The Board also noted the importance and need to address audit evidence issues related to technology, and specifically for issues where there was an opportunity for a timely response through developing and



² [Agenda Item 7](#) of the June 2019 IAASB Audit Evidence issues paper

issuing of non-authoritative support material. The Data Analytics Working Group was renamed the Technology Working Group (TWG) and was tasked to develop and issue such non-authoritative support material. The Board also recommended establishing a [Technology Workstream Plan](#), setting out a process for the identification, development and issuance of non-authoritative support materials. With the establishment of the Audit Evidence and Technology Workstream Plans, and the related allocation of responsibility to the AEWG and TWG, the differentiation between the activities of these two working groups was clarified.

9. At its June 2020 meeting, the IAASB discussed the outcome of the AEWG's information gathering and targeted outreach activities, which included an updated listing of audit evidence related issues.³ Key overall messages communicated to the Board included that:
- Issues creating the most difficulties in practice were generally closely related to the information to be used as audit evidence, the evaluation of whether sufficient appropriate audit evidence has been obtained and the definitions of 'sufficiency' and 'appropriateness.' Further, the evolution of technology has created additional challenges in relation to the evaluation of whether sufficient appropriate audit evidence has been obtained.
 - Notwithstanding the evolution in technology, the relevance of many of the audit evidence issues identified were further emphasized in light of the COVID-19 pandemic.
 - A project to revise ISA 500, including conforming and consequential amendments to other ISAs was broadly noted as the desired approach by stakeholders to address the identified audit evidence issues. Accordingly, the AEWG recommended, and the Board supported, prioritizing those issues that were directly related to a project to revise ISA 500, and only making necessary conforming and consequential amendments to other ISAs.
10. A number of other issues were identified by the AEWG as part of its information gathering and research activities that will not be further explored in the audit evidence project, as agreed with the Board in June 2020. These issues have been disposed as follows:
- Certain issues will form part of future work plan decisions in accordance with the IAASB's Framework for Activities⁴ (i.e., topics in "Category A" of the Framework for Activities for consideration for future IAASB action). These issues primarily related to possible enhancements to standards other than ISA 500 (e.g., ISA 330)⁵, and assurance other than audits or reviews of financial statements.
 - Issues that are more closely related to the activities of other working groups or task forces, for example, the Technology Working Group, Fraud Working Group or ISA 600⁶ Task Force.
 - Issues that require no further action by the IAASB, for example, because they cannot be addressed through standard setting activities. Also, upon further reflection, a few issues have already been dealt with in a recently completed IAASB project or are sufficiently addressed in terms of the principles-based requirements and related application material in the current ISA.

³ See [Agenda Item 7](#) of the June 2020 IAASB meeting

⁴ The IAASB's 'Framework for Activities' sets out a framework for how it undertakes its work, including describing the processes and procedures for selecting and prioritizing specific activities to deliver on its committed actions.

⁵ ISA 330, *The Auditors Responses to Assessed Risks*

⁶ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Basis of Project Proposal

11. The IAASB has undertaken wide-ranging information gathering and research activities to identify emerging issues, changing business or public practice environments, developments in accounting and auditing practices, and changes in technology that inform the development of new and revised standards that are relevant and address the needs of the IAASB's stakeholders.
12. This project proposal has been formed on the basis of:
 - (a) Information gathering activities which included analyzing the results of the:
 - [Post-implementation review](#) of the clarified ISAs.
 - Request for Input, *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*.
 - Input received on IAASB public consultations relating to other standard setting projects, including input received in the projects to revise ISA 315 (Revised)⁷ and ISA 540.
 - (b) Targeted outreach activities with stakeholders, including:
 - Regulators and audit oversight bodies; including representatives from regulator inspection teams;
 - National Standard Setters;
 - Accounting firms, including members of the Global Public Policy Committee and other members of the Forum of Firms;
 - Public Sector Organizations;
 - International Federation of Accountants' (IFAC) Professional Accountancy Organization Members; including the IFAC Small and Medium Practices (SMP) Advisory Group; and
 - Preparers of financial statements.
 - (c) Analysis of the Audit Evidence Project of the American Institute of Certified Public Accountants (AICPA);
 - (d) Review of academic research on the topic of audit evidence;
 - (e) Consideration of the IAASB's [Strategy for 2020-2023](#) and [Work Plan for 2020-2021](#);
 - (f) Consideration of the activities of the Professional Skepticism Working Group (PSWG), in particular its work in relation to the IAASB's [Invitation to Comment \(ITC\)](#), *Enhancing Audit Quality in the Public Interest*; and
 - (g) The Audit Evidence Working Group's and Board's discussions to date.

⁷ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*

Coordination with Other Working Groups to Date

Technology Working Group

13. In preparing the listing of audit evidence related issues, some issues were identified by the AEWG and the TWG as being more suited to be addressed by non-authoritative support material focused on the effect of technology when applying certain aspects of the ISAs. Therefore, where the TWG included any of these issues in the Technology Workstream Plan for the development of non-authoritative support material, the issue was excluded from the scope of issues to be covered by the audit evidence project proposal.

Professional Skepticism Working Group

14. In June 2015, the IAASB established the PSWG to commence a project on professional skepticism.⁸ The objective of the project was to formulate views on whether and how the IAASB could further contribute to strengthening the understanding and application of the concept of professional skepticism as it applies to an audit.
15. To solicit input, among other matters, on how to reinforce the fundamental concept of professional skepticism throughout the audit, the IAASB included a section on professional skepticism in the ITC. In the spirit of the IAASB's efforts to improve the exercise of professional skepticism throughout the audit, the AEWG considered the work of the PSWG from the responses to the ITC in the context of audit evidence.

III. How the Project Serves the Public Interest

16. The IAASB's remit is to set robust global standards that enable high-quality audits, assurance and related services engagements with a view to building trust in the financial and non-financial reporting process. The IAASB also issues other non-authoritative pronouncements to support implementation and application of its standards. In focusing on revisions that are in the public interest, this project proposal sets out the IAASB's work effort to:
 - Promote consistent practice and behaviors by auditors;
 - Drive effective actions by auditors in addressing audit evidence;
 - Reinforce a skeptical mindset by auditors; and
 - Allow for scalability and proportionality of any proposals in the development and revision of the standard(s) addressed by this project proposal.

The IAASB's work is also intended to enhance confidence in, and the reputation of, the global auditing and assurance profession.

17. In addressing these broad public interest issue objectives, the IAASB identified three audit evidence related public interest issues. These public interest issues are based on the categorization of the listing of audit evidence related issues (as identified in paragraph 6).

⁸ The IAASB has a project looking at professional skepticism more broadly. For details, see [Project Page](#)

Responding to Changes in the Information that is Being Used by Auditors, Including the Nature and Source of the Information

18. The world of information is transforming at a rapid pace, largely as a result of the evolution of technology, including entities' increasing use of electronic or digitized information. Changes because of the use of big data and social media for example, have affected the sources, diversity and volume of information available to entities and auditors. This has impacted the manner in which entities obtain, process, manage, use, communicate and report information, and has also influenced how, and from where, auditors obtain audit evidence. As a result, the IAASB has determined that consideration is needed about whether ISA 500, as a foundation standard for the auditor's considerations and judgments relating to audit evidence, remains fit for purpose.
19. Given the expansion of the sources and volume of information, it is in the public interest to explore the nature and extent of the auditors' consideration of the relevance and reliability of information, including how the source of information may influence its relevance and reliability.

Modernizing and Supporting a Principle Based Standard that Recognizes the Evolution in Technology

20. The availability of more information and the ability of the auditor to use innovative audit techniques to obtain, prepare or analyze such information, allows the auditor to process and consider increasing volumes of information and data. This raises questions about how the use of automated tools and techniques 'fit' within ISA 500, including:
 - How the use of automated data analytics contributes to issues such as the categorization of audit procedures. For example, where audit procedures are performed using automated tools and techniques, questions have arisen about the categorization or nature of such procedures (e.g., risk assessment, tests of controls, tests of details); and
 - The importance of the source and quality of the data used and challenges in considering the relevance and reliability of both internal and external data.
21. In today's changing environment, auditors are more commonly using automated tools and techniques, including, for example data analytics, robotic process automation, drone technology, machine learning and other artificial intelligence applications. However, ISA 500 does not specifically address the potential benefits and implications when such tools and techniques are used in obtaining, preparing or analyzing information to be used as audit evidence. The IAASB therefore believes it is in the public interest, to enhance or clarify ISA 500 to address the increasing use of technology.

Fostering the Maintenance of Professional Skepticism when Making Judgments About Information to be Used as Audit Evidence and Sufficient Appropriate Audit Evidence

22. Professional skepticism is a fundamental concept and core to audit quality, and it is therefore in the public interest to explore what should be done to reinforce the exercise of professional skepticism when evaluating the sufficiency and appropriateness of audit evidence. Some corporate failures have resulted in questions being raised about the role of the auditor, including highlighting concerns about the appropriateness of professional skepticism exercised by auditors when making professional judgments about information to be used as audit evidence and whether sufficient appropriate audit evidence has been obtained.

23. The use of technology may facilitate the auditor's exercise of professional skepticism when making judgments about information to be used as audit evidence. On the other hand, there are also challenges associated with the overreliance on technology when making such judgments.
24. The relevance of many of the audit evidence issues identified were further emphasized in light of the COVID-19 pandemic. These developments underline the importance and need for the auditor to exercise professional skepticism when making judgments about audit evidence in the context of ISA 500.

IV. Project Objectives

25. In developing the proposed changes to ISA 500, the IAASB will focus on the clarity and conciseness of the proposed changes to facilitate a proper understanding of the standard once complete. Consideration will also be given to the to the global operability, the implementability and ability to be consistently applied as the standard is being developed and finalized.
26. Given the public interest issues identified, the IAASB believes it will be necessary to enhance its International Standards by undertaking a project to revise ISA 500, with the following objectives:

Overarching

- Clarify the purpose and scope of ISA 500 and explain its relationship with other standards.

Sources of Information

- Enhance and clarify the auditor's responsibilities in relation to information to be used as audit evidence, for both internal and external sources of information, and evaluating the sufficiency and appropriateness of audit evidence. In doing so, the IAASB will evaluate the appropriateness of the definitions and common terms used in extant ISA 500.
- Develop an enhanced set of factors or attributes of information to be considered by the auditor when making judgments about information to be used as audit evidence and evaluating and concluding whether sufficient appropriate audit evidence has been obtained.

Technology

- Modernize ISA 500 to be sufficiently adaptable to the current business and audit environment, and to better reflect the digital era, but retaining a principles-based approach that would contribute to the standard being scalable to a wide variety of circumstance (i.e., in terms of both the entity's and auditor's use of technology). In doing so, the IAASB intends to clarify:
 - The effect of technology in relation to sources of information. For example, the use of big data and other external sources have affected the diversity and volume of information available to entities and auditors.
 - Considerations when automated tools and techniques are used to obtain or prepare information to be used as audit evidence, including regarding the nature and format of information that may be available to the auditor. However, in the context of ISA 500, this project will not address how to design and perform audit procedures through the use of automated tools and techniques.

Professional Skepticism

- Emphasize the role of professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained.
27. The IAASB will also consider whether improvements in the structure of the standard are necessary to facilitate improvements in effectively applying ISA 500 in achieving the purpose and objective of the standard.

V. Project Scope

28. To address the project objectives, the project scope is to:
- Develop revisions to ISA 500 to establish more robust requirements and appropriate application material. It is intended that these revisions will achieve greater consistency in auditor judgments about audit evidence, as well as better explain the scope of the standard and its relationship with other standards, such as ISA 200⁹ and ISA 330.
 - Propose only conforming and consequential amendments to other ISAs that may be necessary as a result of revisions to ISA 500.
 - Determine whether non-authoritative materials should be developed by the IAASB, or others, to supplement revisions to ISA 500 and thereby aid its effective implementation through first-time implementation support activities.

VI. Outline of the Project

Major Issues that Will Be Addressed

29. As noted, the IAASB discussed the outcome of the information gathering and targeted outreach activities of the AEWG at its June 2020 meeting. The discussion included the Board's consideration of and support for an updated listing of audit evidence related issues,¹⁰ which has been taken into account in developing this project proposal.
30. The major issues that the IAASB will address can be summarized by theme, as presented in paragraphs 31 to 44.

Clarifying the Purpose and Scope of the Standard

31. ISA 500 sets out a principles-based approach in relation to the requirements that are appropriate to achieve the auditor's objective to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions

⁹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

¹⁰ The listing of issues was included in appendix 4 of the June 2020 [IAASB Audit Evidence Issues Paper](#)

on which to base the auditor's opinion. Questions have arisen about the purpose of ISA 500 in the context of the other ISAs, and in particular whether:

- ISA 500 is intended to be a performance standard;¹¹ as opposed to a standard designed to provide context for auditor performance requirements in other standards; and
 - The objective of the standard is sufficiently distinct from the objective in ISA 330.
32. Based on the outcome of the discussions about the purpose and scope of ISA 500, there may be consequences for the relevance or placement of extant ISA 500 requirements. For example, if the objective is changed to focus on judgments about the sufficiency and appropriateness of information to be used as audit evidence, it may be necessary to reconsider whether some extant requirements, relevant to the design and performance of audit procedures, are to be retained or relocated to another ISA.
33. In addition to the consideration of the objective, the IAASB will also consider whether existing application material adequately explains the distinction between ISA 500 and ISA 330.¹²

Sources of Information – Clarifying the Auditor's Responsibility When Considering the Relevance and Reliability of Information to be Used as Audit Evidence, and Evaluating Audit Evidence Obtained

34. Many of the audit evidence issues creating the most difficulties in practice are closely related to the concept and evaluation of sufficient appropriate audit evidence. The evolution in the nature and sources (as well as volume) of information and the use of technology in designing and performing audit procedures have raised questions about the factors or attributes that are considered by the auditor in relation to information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained. The IAASB will explore changes that may be needed to address these matters, including:
- Whether the definitions of appropriateness of audit evidence and sufficiency of audit evidence¹³ remain appropriate.
 - What factors or attributes are to be considered by the auditor when making judgments about information to be used as audit evidence, and in evaluating whether sufficient appropriate audit evidence has been obtained.
35. The IAASB will explore whether the definition of sufficiency should have a broader focus than quantity alone (e.g., the 'strength' of audit evidence), given the significant changes in the nature and sources (as well as volume) of information.
36. The IAASB will also explore the relevancy of the notion of the 'persuasiveness' of audit evidence in the context of ISA 500, given the auditor's responsibility to obtain more persuasive audit evidence the higher the auditor's assessment of risk.¹⁴

¹¹ For example, the objective of ISA 500 indicates that 'the objective of the auditor is to design and perform audit procedures,' and paragraph 6 requires the auditor to 'design and perform audit procedures.'

¹² ISA 500, paragraph A6

¹³ Paragraph 5(e) of ISA 500 describes the sufficiency of audit evidence as the measure of the quantity of audit evidence.

¹⁴ ISA 330, paragraph 6(b)

37. In relation to the concept of sufficient appropriate audit evidence, the IAASB intends to explore whether the development of a set of relevant factors or attributes is useful in enhancing auditor judgments. Such a framework of factors or attributes may achieve greater consistency in auditor judgments about the concept and evaluation of sufficient appropriate audit evidence.
38. In particular, in addressing the auditor's consideration of the reliability of information to be used as audit evidence, ISA 500 addresses specific characteristics of the reliability of information produced by the entity that the auditor is required to evaluate.¹⁵ Such work effort is not specifically addressed in relation to information from other sources. The IAASB will explore whether such distinction remains appropriate.
39. The IAASB will also explore whether changes to ISA 500 are needed related to:
- The notion that information from any source may be susceptible to different biases, including auditor bias in considering information to be used as audit evidence.
 - Challenges when distinguishing between internal and external information, including whether the distinction between information obtained from internal and external information sources is clear in the context of pre-existing concepts (e.g., information produced by the entity, external information sources, a management's expert, and a service organization).
 - Challenges in considering the reliability of external information (e.g., restrictions on access to external sources of information and the auditor's ability to determine reliability).
 - Challenges related to possible overreliance on information from certain sources.
 - Whether information to be used as audit evidence should be subject to consideration of the same factors or attributes and work effort, irrespective of its source, when considering its relevance and reliability. For example, should information to be used in risk assessment procedures be subject to the same level of consideration as information to be used in a substantive analytical procedure?

Continual Developments in Technology – Providing Clarity about the Categorization of Audit Procedures When Using Automated Tools and Techniques, and Other Technology Related Challenges

40. New technologies have raised questions about where audit procedures performed using automated tools and techniques fit within:
- The types of audit procedures that may be performed (i.e., inspection, observation, inquiry etc.); and
 - The nature of audit procedures (i.e., risk assessment procedures or further audit procedures comprising tests of controls and substantive procedures).

In addition, questions are being asked about whether an audit procedure could be both a risk assessment procedure and a further audit procedure at the same time. This question is particularly relevant, but not limited, to circumstances where the auditor uses automated tools and techniques.

¹⁵ ISA 500, paragraph 9

41. Although the question about ‘dual purpose’¹⁶ is not dependent on the use of automated tools and techniques, the IAASB recognizes that the capabilities of modern automated tools and techniques (such as data analytics) may allow the auditor to perform risk assessment procedures that go beyond traditional risk assessment procedures as the information is analyzed at a significantly more granular level. It was therefore questioned, for example:

- Under which conditions (if any) do risk assessment procedures reduce risks of material misstatement to an acceptably low level; and
- Can data analytics be designed in such a way to simultaneously serve the purpose of identifying and assessing risks of material misstatement and detecting material misstatements at the assertion level (and if so, when and how).

Aspects of these questions have been addressed by the IAASB’s TWG through the issuance of non-authoritative support material. The IAASB will consider the work of the TWG in exploring whether, and if so, how, ISA 500 could more robustly address the categorization of audit procedures, in particular when using automated tools and techniques.

42. The IAASB will also consider other challenges arising from the continual developments in technology, for example technology enabling the auditor to use information from a wider range of sources, the use of innovative audit techniques to obtain, prepare or analyze information, and to process and consider increasing volumes of information and data. Such challenges may include:

- The impact of technology in relation to sources of information and whether and how the risk of the auditor over-relying on technology should be addressed or clarified.
- Whether the standard remains relevant and appropriate in relation to the selection of items for testing.
- The required work effort to follow up on exceptions identified when using automated tools and techniques in performing audit procedures.

Professional Skepticism

43. Based on its information gathering activities, the IAASB concluded that ISA 500 could more robustly address the need for professional skepticism when making judgments about information to be used as audit evidence and whether sufficient appropriate audit evidence has been obtained. In particular, it was suggested that the IAASB needs to focus on elaborating what the phrase ‘a critical assessment of evidence’ in the definition of professional skepticism entails (e.g., by seeking to enhance ISA 500).

44. The IAASB will also explore how ISA 500 can reinforce the role of professional skepticism when making judgments about information to be used as audit evidence, irrespective of the auditor’s use of manual procedures or automated tools and techniques.

¹⁶ Dual purpose in this context refers to whether a procedure could be both a risk assessment procedure and a further audit procedure at the same time. However, the question here is distinct from and does not address the design of a test of controls to be performed concurrently with a test of detail on the same transaction, as addressed by ISA 330 paragraph A23.

Coordination with Other Working Groups

Technology Working Group

45. Paragraph 13 provides information regarding coordination with the TWG to date. The AEWG will continue to coordinate with the TWG in relation to technology related aspects of audit evidence.
46. As the IAASB progresses its work, audit evidence matters may be identified for which there is an opportunity for a more timely response in the form of non-authoritative support material. To the extent that such issues relate to technology, the AEWG will continue to coordinate with the TWG to consider such matters.

Professional Skepticism Working Group

47. Paragraphs 14 and 15 provide information regarding coordination with the PSWG to date.
48. The AEWG, in conjunction with the PSWG, will further explore what could be done to enhance ISA 500 in terms of more robustly addressing the need for professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained.

Coordination with the International Ethics Standards Board for Accountants (IESBA)

49. The AEWG notes that the IESBA established a Technology Working Group (IESBA TWG) in 2018, with the objective to identify potential ethical implications of technology developments on the robustness and relevance of the fundamental principles and independence standards in the IESBA Code.¹⁷ The AEWG will coordinate with the IESBA TWG or liaise with the IAASB TWG in terms of its coordination with the IESBA TWG in relation to technology related aspects of audit evidence. In addition, the AEWG will engage with IESBA representatives and staff more broadly to identify any ethics considerations or matters of relevance in terms of the audit evidence related issues that are within the scope of this project.

Other

50. ISA 500 includes one explicit reference to fraud or ISA 240.¹⁸ The application material explains that ISA 240 deals with circumstances where the auditor has reason to believe that a document may not be authentic, or may have been modified without that modification having been disclosed to the auditor. In progressing the project, the AEWG will consider whether fraud considerations are appropriately addressed in ISA 500 in the context of audit evidence.

VII. Impact Analysis Considerations

51. The primary expected benefit of this project is to better enable the consistent performance of quality audits by enhancing and clarifying the auditor's responsibilities in relation to information to be used as audit evidence and evaluating the sufficiency and appropriateness of audit evidence. This will assist auditors when making judgments in this regard.
52. Regardless of whether the outcome of this project results in new or revised requirements or application material or other guidance, there will be cost and benefit implications for audits of financial

¹⁷ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

¹⁸ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A33

statements. It is anticipated that the impact on individual audits would vary depending on the facts and circumstances of the entity. The impact at firm level will also vary depending on the firm's policies or procedures currently in place, and the impact of any changes on the firms' human, technological and intellectual resources.

53. By addressing the public interest matters highlighted in Section III of this project proposal, the IAASB will clarify how auditors apply ISA 500 in the context of using information from a wide range of information sources, including when information has been obtained through the use of automated tools and techniques. This in turn may have benefits in terms of the auditor's engagement with management and those charged with governance, and ultimately, the confidence of users in the audit of the financial statements. Regulators and audit oversight bodies also will have more clarity in undertaking inspections and other activities with respect to auditors' responsibilities relating to audit evidence
54. In summary, establishing robust principles within the standard to assist the auditor in considering the relevance and reliability of information to be used audit evidence is expected to enhance auditor judgments about whether sufficient appropriate audit evidence has been obtained. As the auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level, such changes are expected to positively impact the quality of audits, which is in the public interest.

Implications for Any Specific Persons or Groups

55. As noted, the project has implications for all participants in the financial reporting ecosystem. For example, the project will impact participants to the standard-setting process, including the adoption and implementation of the standards (i.e., regulators and audit oversight bodies, national standard setters and audit firms) and will also impact preparers, those charged with governance, users of financial statements and auditors.
56. As the ISAs apply to audits of financial statements of all entities, the risk of unintended consequences to audits of less complex entities (LCEs) needs to be considered. In addition to other outreach activities, IFAC's SMP Advisory Group and the IAASB's Working Groups (WGs) that are addressing audits of LCEs (LCE WG), and complexity, understandability, scalability and proportionality (CUSP WG) will be kept informed of developments to ensure appropriate input is received at key stages of the project.

VIII. Development Process, Project Timetable and Project Output

Development Process and Project Timetable

57. The project will be conducted in accordance with the Public Interest Activity Committees' Due Process and Working Procedures.¹⁹

¹⁹ [PIAC Due Process and Working Procedures](#)

58. Below is a preliminary timetable, noting that specific project milestones and outputs may change as the project develops. The IAASB Consultative Advisory Group’s input will be obtained throughout the project.

Timing	Action
December 2020	Approval of project proposal and deliberation of issues
January 2022 – February 2022	Development of the exposure draft – progressing issues and drafting the proposed revisions to ISA 500
	Dialogue with stakeholders on key issues and proposals
March 2022	IAASB approval of exposure draft, with a 120-day comment period, including proposed conforming and consequential amendments to other ISAs
August 2022 – May 2023	Analysis of responses and resulting revisions to the exposure draft in developing the final standard
	Dialogue with stakeholders on key issues and proposals
June 2023	IAASB approval of ISA 500 (Revised)

Project Output

59. The expected output of the project is a revised ISA 500, with conforming and consequential amendments to other ISAs as may be necessary. The ISA 500 Task Force will, throughout the revision of the standard, consider and advise the IAASB as to the need for, and potential timing of, development of other non-authoritative materials. First-time implementation support activities or non-authoritative support materials may include, for example, fact sheets, questions and answers, webinars or presentations and flow charts, diagrams or illustrations.

IX. Resources Required

60. A project Task Force will be responsible for the project to revise ISA 500, and will be comprised of IAASB members, technical advisors, and external experts, as appropriate, with diverse backgrounds. For this purpose, and to appropriately consider the work performed by other national standard setters, the IAASB intends to include IAASB members or technical advisors who participated in the development of the AICPA’s Audit Evidence Project. IAASB Staff will provide support to the ISA 500 Task Force.



AUASB Agenda Paper

Project:	ISA 600 Group Audits	Meeting:	December 2020
Topic:	Comments from ED process	Agenda Item:	14.3
Strategic Objective:	Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards	Decision-Making:	To update the AUASB
ATG Staff:	Rene Herman	Project Status:	Early in the process of reviewing comments from ED
AUASB Sponsor:	Rodney Piltz		

Action Required and Decisions to be Made

- 1 The purpose of this Agenda Paper is to provide the AUASB with a high level overview of some of the key themes identified (on certain areas) by the ISA 600 Task Force from the comments on the Exposure Draft of Proposed ISA 600; and to provide the AUASB with a summary of the proposals of the Task Force. There is one general question for the AUASB that the AUASB technical group seeks AUASB input on.

ATG Questions for the Board

Question No.	Question for the Board
Question 1	Does the AUASB have any comments on paragraphs 6-9 of this Agenda Item?

Background

1. In April 2020, the IAASB issued Exposure Draft ISA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, with comments due by 2 October 2020.
2. At the 26 May 2020 AUASB meeting, the AUASB approved Phase 1 of the ISA 600 project plan – to conduct outreach and respond to the IAASB ED-ISA 600.
3. After outreach, webinars, roundtables and AUASB discussion on this topic, on 2 October 2020 the AUASB made their [submission to the IAASB on ED-ISA 600](#).

4. At the upcoming December 2020 IAASB meeting, the IAASB will begin discussions on the responses to ED-ISA 600 and commence input into recommendations by the ISA 600 Task Force relating to key themes on 4 of the questions raised on ED.

Matters for Discussion

5. The IAASB received 82 responses to the ED, from the key themes identified, the Task Force has selected 4 themes for discussion with the IAASB at this upcoming December 2020 IAASB meeting:

- The scope and applicability of ED-600, including the definitions of group financial statements and consolidation process (the 'entry point' into ED-600) [refer paragraph 6 below];
- The revised definition of component [refer paragraph 7 below];
- The risk-based approach, including the involvement of component auditors in identifying, assessing and responding to the risks of material misstatement of the group financial statements [refer paragraph 8 below]; and
- The revised definition of engagement team, particularly the practical implications of including component auditors in that definition [refer paragraph 9 below].

6. Scope and Applicability

a) *AUASB response to ED-600*

The AUASB generally supported the scope and applicability of ED ISA 600, including the definition of group financial statements and the linkage to a consolidation process. However, the AUASB recommended that the scope and application of the standard be clarified and that the introductory paragraphs be strengthened in this regard.

b) *General Responses to ED-600*

Over 80% of respondents supported the scope and applicability of ED ISA 600 however 59% of these respondents still had comments and concerns. The respondents' comments were largely aligned to those of the AUASB.

c) *Task Force Proposals*

The Task Force Proposals to be discussed at the upcoming IAASB meeting are largely aligned to some of the AUASB recommendations including:

- Tighter linkage of the definition of group financial statements and the description of consolidation process; and clarification that the term 'consolidation process' as used in ED-600 is different to consolidation process used in applicable financial reporting frameworks.
- Clarification of branches or divisions and their treatment and consideration of the recommendation to exercise professional judgement for simple structures or further consideration of the scalability of the standard.
- Linkage to ISA 220 to provide greater clarity that ISA 600 may be applied where appropriate when the auditor involves other auditors in the audit of financial reports that are not group financial reports (similar to extant ISA 600 and already facilitated in paragraph A1 of Revised ISA 220).

7. Definition of component

a) *AUASB response to ED-600*

The AUASB supported the revised definition of a component to focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit but highlighted that the “auditor view” definition of a component may lead to some practical implementation challenges.

b) General Responses to ED-600

Over 85% of respondents supported the revised definition of component however 52% of these respondents still had comments and concerns. The respondents’ comments were largely aligned to those of the AUASB including availability and accessibility of financial information and identification of component management.

c) Task Force Proposals

The Task Force Proposals to be discussed at the upcoming IAASB meeting are largely aligned to some of the AUASB recommendations including:

- Re-emphasising that in practice many group engagement teams may consider the group structure as a starting point; including relocating application material emphasising that management may organise its financial reporting in a manner different from legal or operating structure and that the auditor may align components the same way as management
- Re-emphasising that the flexibility in the group engagement teams (GET) approach is predicated on the understanding of the group and its environment as required by ISA 315.
- Further discuss factors that the GET may consider in determining factors and whether greater clarity is required around the documentation of the considerations.
- Revisit definition of component to include a reference to business entities or entities.

8. Risk Based approach

a) AUASB response to ED-600

While the AUASB strongly supports a risk-based approach to ISA 600, the AUASB did raise the following substantive issues:

- While the AUASB largely supports that the decision of the nature and extent of the involvement of component auditors should be determined by the group engagement team based on an assessment of risk, the AUASB highlights that component auditors may not hold a sense of accountability and responsibility towards the group auditor and that this may impact on the auditors exercise of professional scepticism in the audit work assigned to them.
- The standard may diminish the importance and role of component auditors, with too great a focus on the group auditor. The AUASB noted that ED ISA 600 does not sufficiently recognise that, for groups that are complex and large that may need localised knowledge and specialisation, high levels of involvement by component auditors is of critical importance to audit quality.

b) General Responses to ED-600

The responses by stakeholders are split into the components of the subject matter:

- 60% of respondents supported a risk-based approach to ISA 600
- 80% considered the responsibilities between GET and component auditor to be clear and appropriate.

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- 80% considered the interaction between the GET and component auditor to be clear with sufficient involvement by the group engagement partner/team.

These %'s have a high proportion of stakeholders that while supportive, still include comments and concerns including:

i. Risk based approach

- A top-down approach may undermine the important role of the component auditor which is of critical importance to audit quality
- The removal of the concept of significant component thereby removing the requirement to perform a full audit of the component.
- The 2 points above could lead to risks being missed particularly around related parties, fraud, going concern and non-compliance with laws and regulations
- Additional guidance as to when a full-scope audit may be warranted

ii. Responsibilities of the GET and component auditor

- Additional guidance on the responsibilities of component auditors is warranted
- There is limited guidance on when to review component auditor's documentation and when to visit component auditors which currently allows for too much flexibility
- ED-600 implies that the work effort in reviewing component auditor's workpapers is less if the auditor is from the same network with a view that the standard should be neutral.

iii. Interactions between GET and component auditor

- Expectations of communications bottom up (component to group) could be enhanced
- Clarity regarding deliverables from component auditors as well as clarity regarding conclusion statements (nature and form of reports)

c) *Task Force Proposals*

The Task Force Proposals to be discussed at the upcoming IAASB meeting include:

i. Risk based approach and Responsibilities of the GET and component auditor

- Possibly consider a framework on how to apply the risk-based approach
- Enhanced linkages to ISA 315 including emphasising the importance of standing back and evaluating whether the risk assessment procedures are sufficient
- Paragraph 18 of ISA 330 requires the auditor to design and perform substantive procedures for each material class of transaction, account balance, and disclosure, irrespective of the assessed risks of material misstatement. The Task Force will discuss how to apply this requirement to the group financial statements' significant classes of transactions, account balances and disclosures (i.e., whether substantive procedures need to be designed and performed at the group or component level for each material

class of transaction, account balance, and disclosure, irrespective of the assessed risks of material misstatement).

- Consideration of circumstances when there are numerous individual components in the group that are not significant but may be financially significant to the group in aggregate.
- While not requiring the involvement of component auditors, include clear requirements or application material that describes when to involve component auditors in the risk assessment. Also, if involved, their work should be evaluated and considered in the risk assessment for the group financial statements.
- Additional guidance to highlight that the group engagement partner needs to think about where the resources are needed and what resources are needed. The Task Force may include guidance highlighting that component auditors may be involved as they have greater experience and a more in-depth knowledge of the components and their environments (including language, culture, business practices, and local laws and regulations) than the group engagement team and therefore may be instrumental for having the appropriate competence and capabilities.

ii. *Interactions between GET and component auditor*

- The nature, timing and extent of communication between the group engagement team and component auditors depends on what the component auditors have been asked to do and also is influenced by the nature, timing and extent of involvement by the group engagement team in the component auditor's work. The Task Force will further discuss the need to emphasise this earlier in proposed ISA 600 (Revised), and to consider strengthening the linkage to ISA 220 (Revised).
- The Task Force will further consider including appropriate clarity about the expectations of communication from the component auditors to the group engagement team.
- With respect to the deliverables from component auditors, the Task Force discussed that the content of such deliverables should be based on what has been agreed with the group engagement team (i.e., the instructions from the group engagement team), in view of the requirements of paragraph 44 of ED-600. The Task Force will further discuss respondent comments and concerns about the form of conclusion from the component auditor. However, the preliminary Task Force view is that proposed ISA 600 (Revised) should provide flexibility about the form of conclusion based on the nature of the audit work the component auditor has been requested to perform. In this regard, the Task Force noted that the requirement in paragraph 44(h) of ED-600 to communicate overall findings, conclusions or an opinion provides this flexibility, recognizing that this is only part of the evidence supporting the work done by the component auditors.

9. Revised definition of engagement team/interplay with ISA 220

a) *AUASB response to ED-600*

The AUASB generally supported linkages to other ISAs and ISA 220, the AUASB had no substantive comments on this area but recommended some additional linkages in relation to ISA 220, ISA 250 and ISA 580.

b) *General Responses to ED-600*

85% of respondents supported the linkages with other ISAs and ISA 220 however 51% of these respondents still had comments and concerns. The respondents' comments were largely around:

- the definition of engagement team in ISA 220 and the operability / practical challenges of ISA 220 when applied to large or complex engagements (particularly from non-network firms or other country firms)
- clarification regarding the differences between 'engagement team', 'group engagement team' and 'component auditors'
- tightening some other linkages in the standard (like those raised by the AUASB).

c) *Task Force Proposals*

The Task Force Proposals to be discussed at the upcoming IAASB meeting include:

- Additional Adding application material in proposed ISA 600 (Revised) to better explain how the direction, supervision and review of component auditors, and the consideration of their competence and capabilities, could be addressed for component auditors generally (i.e., for component auditors from both network firms and non-network firms).
- Developing additional implementation material addressing the practical challenges related to direction, supervision and review of component auditors from non-network firms and the consideration of their competence and capabilities.
- In terms of clarification regarding the differences between 'engagement team', 'group engagement team' and 'component auditors':
 - Changing the term 'group engagement team' to the term 'group auditor.' The engagement team would be defined as comprising the group auditor and component auditors.
 - Developing implementation material that explains the difference between the terms.

Collaboration with NZAuASB and other standard setters

10. At this stage of the project - through the AUASB international influencing strategy.

Way Forward

11. The AUASB technical group will continue to monitor the progress of this project and influence the direction of the standard through the AUASB international influencing strategy.



AUASB Agenda Paper

Project:	IAASB Fraud Project	Meeting:	1 December 2020
Topic:	IAASB Fraud Issues paper	Agenda Item:	14.4
Strategic Objective:	International Influence	Decision-Making:	For Update and Discussion
ATG Staff:	Marina Michaelides	Project Status:	In Progress
AUASB Sponsor:	Justin Reid		

Action Required and Decisions to be Made

- 1 The purpose of this Agenda Item is to update the AUASB on further work done by the IAASB Fraud Working Group (WG) since August 2020 on exploring the root causes of the issues/challenges with fraud through research/literature review, roundtables, targeted and NSS outreach and Fraud WG brainstorming sessions. The Fraud WG have provided preliminary views on specific issues and challenges identified in ISA 240 by stakeholders to date for feedback.
- 2 A link to the IAASB Fraud in an Audit of Financial Statements—Issues paper is provided [\[here\]](#).

ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Q1. Does the AUASB have any comments or feedback on the preliminary views of the Fraud WG on the specific issues and challenges identified in ISA 240 to date?	Refer table A for specific issues/challenges noted with ISA 240 and possible proposed solutions by the IAASB Fraud WG.

Background

- 3 The IAASB issued the Fraud and Going Concern Discussion Paper in September 2020 for comment by 1 February 2021 (extended from 12 January 2021).
- 4 The IAASB undertook three invite only virtual outreach sessions in September/ October 2020 on fraud and going concern focusing specifically on the expectation gap, LCEs and technology. The IAASB has now published their key takeaways from these roundtables as provided [[here](#)]. The IAASB has undertaken other targeted outreach during this time please refer to issues paper for further details.

Previous Discussions on Topic

- 5 Not to date.

6 Matters for Discussion

- A The table below reflects a summary of key themes raised in outreach with the IAASB and how the Fraud WG have considered these matters coupled with possible actions:

	<i>IAASB Key Theme</i>	<i>Summary of Comments received through Outreach</i>	<i>Comments from Fraud WG</i>	<i>Possible Actions</i>
1	Rebuttal of presumed risk of material misstatement due to fraud in revenue recognition	<ul style="list-style-type: none"> The rebuttal of presumed risk of material misstatement due to fraud is often viewed as a high hurdle to meet. The work effort to support and document the rebuttal may not be well understood. Further clarification is needed around whether documentation for the rebuttal must address all assertions for all revenue streams. 	<ul style="list-style-type: none"> It would not be in the public interest to remove the presumed risk of material misstatement due to fraud in revenue recognition. While there are cases where it is appropriate to rebut the presumption, the fraud risk in revenue recognition is present in most entities. Therefore, auditors should start from the point of presumed risk and not inappropriately rebut such presumption. When rebuttal is appropriate, the rationale must be clear and adequately documented. Targeted changes to the requirements in the standard or the relevant application material may be made to enhance clarity about circumstances when rebuttal of the presumed risk of fraud in revenue recognition may be inappropriate or appropriate (including examples in this regard). 	<ul style="list-style-type: none"> Standard setting (requirements) Application material Guidance

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	IAASB Key Theme	Summary of Comments received through Outreach	Comments from Fraud WG	Possible Actions
2	Clarify the appropriate nature and extent of journal entry testing required	<ul style="list-style-type: none"> • Comments indicate there is inconsistency in practice with regard to the nature and extent of journal entry testing performed. Clarity is needed around the nature and extent of journal entry testing required, including whether a risk-based approach is appropriate. • Without proper focus on risk assessment, some teams may have large populations of journal entries that are flagged for testing. • When many of the entity's journal entries have already been tested in a substantive audit approach, it is not clear how much additional testing is required. 	<ul style="list-style-type: none"> • Targeted changes to the requirements may be needed, and additional application material could further emphasise the risk assessment process, and how the results of the risk assessment should drive the journal entry testing approach (including appropriately focusing on those journal entries where fraud risks reside). • The WG discussed that journal entry testing is one area of the audit process where many firms are utilizing automated tools and techniques. Therefore, targeted changes may be required to modernize the standard to reflect the use of technology in this area. 	<ul style="list-style-type: none"> • Standard setting (requirements) • Application material • Guidance – non-authoritative support materials may be useful in this area (for example, prepared in coordination with the IAASB Technology Working Group).
3	Other audit procedures required in response to risk of management override of controls beyond journal entry testing	<p>Some commentators noted/questioned:</p> <ul style="list-style-type: none"> • that auditors tend to design procedures over all assertions of provisions, estimates and revenue streams as opposed to targeting where the risks really are. • whether the risk of management override of controls always needs to be a significant risk. • concerns that the extent of testing required is not clear and there is inconsistency across firms in the procedures performed around accounting estimates and significant transactions. • Some firms rebut risk of management override inappropriately. 	<ul style="list-style-type: none"> • Non-authoritative guidance or other educational material may be developed to help provide clarification around the nature and extent of testing required in response to the risk of management override of controls. • There may however be a need to enhance the standard by including more on the identification of risks of material misstatement arising from management override of controls (paragraphs 26-28 of ISA 240 do not specifically address this), which should then flow better with the responses as they are currently required within the standard. 	<ul style="list-style-type: none"> • Guidance • Further outreach

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	IAASB Key Theme	Summary of Comments received through Outreach	Comments from Fraud WG	Possible Actions
4	Clarity around procedures required when fraud is suspected or identified	<ul style="list-style-type: none"> Some commentators asked for clarification with regard to the required procedures when fraud is identified or suspected, including how much needs to be done to confirm or refute that suspicion. 	<ul style="list-style-type: none"> The WG will assess responses from the DP to help inform whether changes are needed in relation to the audit requirements when fraud is identified or suspected. 	<ul style="list-style-type: none"> Further outreach
5	Unpredictability procedures	<ul style="list-style-type: none"> Some commentators stated it can be difficult to determine unpredictability procedures to perform, particularly in audits where most accounts are already selected for substantive testing One commentators stated it may be useful if regulators publish periodic reports that describe the types of unpredictability procedures that are performed in the audits they inspect. 	<ul style="list-style-type: none"> Application material may be enhanced, or non-authoritative guidance may be developed to provide further examples of the types of procedures that may be considered to incorporate unpredictability, beyond what is currently in the application material for ISA 240. The WG agrees it may be helpful for regulators to publish educational material to highlight the types of unpredictability procedures they see in practice. 	<ul style="list-style-type: none"> Application material Guidance Actions for others
6	Emphasize certain fraud risks more clearly in ISA 240	<ul style="list-style-type: none"> One commentators indicated a need to emphasize certain fraud risks more clearly in ISA 240. 	<ul style="list-style-type: none"> The list of fraud risk factors in Appendix 1 to ISA 240 may need to be revisited to ensure the factors are relevant and up-to-date, and to determine if any additional factors should be added based on academic research findings, stakeholders outreach activities and materials that may have been developed at a global or jurisdictional level. 	<ul style="list-style-type: none"> Application material

A. Other matters for noting

- 7 The IAASB has undertaken an extensive Academic Research and Other Literature Review on Fraud with the assistance of University of Dayton, School of Business Administration and Department of Accounting. The summary by themes from the 28 reports which were determined to have findings that presented new information and were relevant to standard setting and the objectives of this fraud initiative are provided in Appendix 1 of the issues paper.

Collaboration with NZAuASB and other standard setters

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- 8 The AUASB will continue to work with the NZAuASB on this important IAASB project as they progress towards a final project plan for approval at its September 2021 meeting.

Next steps/Way Forward

- 9 A further update will be provided to the AUASB in March 2021 once the IAASB has considered stakeholder responses from the DP.