



## AUASB Agenda Paper

### AUASB Action list - From previous meetings

Action	Target Meeting	Comments
The Office of the AUASB to send the following Board meeting minutes from February to August 2024 to AUASB members for comment and approval.	Out of session before 10 September 2024	Out of session
The Office of the AUASB to prepare exposure draft on the proposed sustainability assurance phasing model.	10 September 2024	Agenda item 6.1
The Office of the AUASB will continue to progress the other sustainability matters to be issued as guidance.	Ongoing	Agenda item 6.3
The Office of the AUASB to prepare a paper on whether to re-expose the final ISSA 5000 <i>General Requirements for Sustainability Assurance Engagement</i> , subject to seeing the final ISSA 5000.	19 November 2024	To be developed
The Office of the AUASB to prepare a Consultation Paper on a proposed prohibition on sustainability assurance practitioners using direct assistance by internal audit.	10 September 2024	Agenda item 6.2
The Office of the AUASB to prepare environmental scan for future full day Board meetings.	10 September 2024	Agenda item 4



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<b>Title:</b>	Environmental Scan	<b>Date:</b>	10 September 2024
<b>Office of the AUASB:</b>	Anne Waters / Rebecca Mattocks	<b>Agenda Item:</b>	4.0

## Objective of this Agenda Paper

1. This Agenda Item seeks to provide AUASB members with:
  - (a) an overview of recent domestic and international audit and assurance, regulatory and sustainability-related developments; and
  - (b) the opportunity to raise any other matters, observations, and/or developments considered relevant to the AUASB.

## Questions for AUASB members

No.	Question
1	Do AUASB members have any comments or input on the Office of the AUASB's Environmental Scan? In particular, should any changes be made to its content or form going forward?
2	Do AUASB members have any other matters or observations that they would like to raise?

## Background and Matters for Discussion

2. To stay abreast of developments that may impact the AUASB's workplan, the Office of the AUASB monitors domestic and international standard-setting bodies, audit and assurance regulators, assurance providers, and professional bodies to identify key auditing, regulatory, and sustainability-related developments. Appendix A to this Agenda Paper includes a list of the organisations reviewed.
3. For information, Appendix B to this Agenda Paper contains an overview of the current sustainability (including climate) reporting and assurance requirements in other jurisdictions, including California, Europe, New Zealand, the United Kingdom and the United States.
4. In addition, the Office of the AUASB has also been monitoring the June 2024 year-end reporting of the Top 20 ASX-listed entities to:
  - (a) assess preparer and auditor readiness for the upcoming mandatory climate reporting and assurance regime; and
  - (b) monitor whether audit reports are being prepared in accordance with the AUASB Bulletin on the **Audit Implications of the Consolidated Entity Disclosure Statement** following the introduction of the new Consolidated Entity Disclosure Statement.

5. The following includes a summary of developments and is provided for the AUASB's information.

## **Domestic Developments**

6. The Australian Accounting Standards Board (AASB) released a climate disclosures consultation **update** to explain key changes arising from its consultation on ED SR 1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*, including areas where the AASB has taken a 'back to baseline' approach.
7. CPA Australia released a **report** showcasing investor perspectives on expanding the recognition and measurement of intangible assets and climate-related risk in financial reporting.
8. Chartered Accountants Australia and New Zealand (CA ANZ) has:
- (a) issued a joint **publication** with the Governance Institute of Australia answering Frequently Asked Questions on Nature-related Financial Disclosures. The publication covers the definition of nature, its importance to business, greenwashing, and the Taskforce on Nature-related Financial Disclosures.
  - (b) called for the Australian Government to clarify its role and scope as a regulator of audits in its **submission** to the Treasury's Consultation Paper on the regulation of accounting, auditing and consulting firms in Australia. The submission proposes 11 recommendations to strengthen the regulation of audit firms and uphold audit quality in Australia.
  - (c) lodged a **submission**, jointly with CPA Australia, on the Draft Core Skills Occupation List (CSOL) with Jobs and Skills Australia, calling for eleven accounting, audit, and finance-related occupations to be added to the Final CSOL to address ongoing shortages in accounting, audit, and finance professionals in Australia. Including auditors and accountants on the final list may help organisations meet their mandatory climate legislative and regulatory audit requirements when they take effect in 2025.
9. The Australian Securities & Investment Commission (ASIC) released:
- (a) a **report** outlining its regulatory interventions made between 1 April 2023 and 30 June 2024 regarding concerns about greenwashing claims. The report summarises the high-level findings, key recommendations, and good practice examples identified from ASIC's greenwashing surveillance activities.
  - (b) an update on **new financial reporting and audit obligations for superannuation funds**. For financial years ending on or after 30 June 2024, superannuation trustees are now required to lodge audited financial reports for funds with ASIC. The Office of the AUASB is currently updating Guidance Statement GS 003 *Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities*.
10. The Parliamentary Joint Committee (PJC) on Corporations and Financial Services inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance, and Consultancy Industry is ongoing. The AUASB's submission to the PJC is available **here**. The AUASB Chair gave evidence at a public hearing on 22 February 2024. The PJC intends to report to Parliament by December 2024.
11. The Treasury issued a **Consultation Paper** seeking stakeholder views and feedback on issues for Treasury's consideration in relation to the regulation of accounting, auditing and consulting firms in Australia, which closed on 28 June 2024.

## International Developments

12. The Association of Chartered Certified Accountants (ACCA) has:
  - (a) responded to a Scottish Government consultation with a **call** for the Government to increase the threshold at which charities must complete an audit to relieve time and cost pressure on charities.
  - (b) following accreditation last year by South Africa's Independent Regulatory Board for Auditors, allowed members to **apply** to become registered auditors.
13. The International Auditing and Assurance Standards Board (IAASB) has issued **guidance** on auditor reporting for the ISA for Audits of Financial Statements of Less Complex Entities (ISA for LCE).
14. The International Accounting Standards Board (IASB) published a **consultation** document, closing on 28 November 2024, proposing eight illustrative examples to improve reporting of climate-related and other uncertainties in financial statements. The examples focus on areas such as materiality judgements, disclosures about assumptions and estimation uncertainties, and information disaggregation.
15. The International Federation of Accountants (IFAC) has:
  - (a) issued a **one-pager** highlighting what users should expect in sustainability assurance engagements, including the level of assurance and the types of modified assurance conclusions.
  - (b) issued **example assurance reports** based on draft ISSA 5000, *General Requirements for Sustainability Assurance Engagements*.

## *Canada*

16. The Canadian Auditing and Assurance Standards Board (Canadian AASB):
  - (a) has decided **not to adopt** the ISA for LCE as having two sets of auditing standards – considering the limited expected benefits – would not serve the Canadian public interest. Instead, the Canadian AASB has committed to exploring a Canadian solution to address the challenges auditors face in applying the Canadian Auditing Standards to audits of LCEs.
  - (b) is **proposing**, at this time, not to adopt the IAASB's narrow scope amendments to the International Standards on Quality Management (ISQM) and International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements* as a result of the revisions to the definitions of Listed Entity and Public Interest Entity (PIE) in the International Ethics Standards Board for Accountants (IESBA) code. The IESBA Code has not been adopted in Canada. The Canadian Codes do not define or use the term "PIE". The Independence Standing Committee plans to develop and expose, later this year, a definition of "PIE" and related guidance in Canada aligned with that in the IESBA Code. Consequently, the Canadian AASB anticipates being approximately one year behind the IAASB in finalising the narrow-scope amendments.
17. The Canadian Public Accountability Board (CPAB) **responded** to the Canadian AASB's Consultation Paper on its **2026-2029 Strategic Plan**.

## *Europe*

18. The Committee of European Auditing Oversight Bodies (CEAOB) has developed non-binding **guidelines** on limited assurance on sustainability reporting to assist practitioners until assurance standards are adopted by 1 October 2026. Public consultation on the draft guidelines closed on 22 July 2024.

## *New Zealand*

19. The New Zealand Auditing and Assurance Standards Board (NZAuASB) has:
- (a) considered feedback on its **Exposure Draft** for Review of Service Performance Information, which closed on 17 July 2024.
  - (b) issued Feedback Statements:
    - (i) on the proposed **Review Standard for service performance information**.
    - (ii) following its consultation on **adopting the definition of PIE** in the Code to auditing and assurance standards, as well as the differential requirements. Feedback indicated concerns that expanding the application of differential requirements to PIEs creates challenges.

## *Singapore*

20. The Institute of Singapore Chartered Accountants (ISCA) has:
- (a) revised **Ethics Pronouncement (EP) 100 Code of Professional Conduct and Ethics** to reflect the changes to the provisions on long association of senior personnel with an audit or assurance client, effective December 2024.
  - (b) held a **workshop** with LLB & Co. CPAs to strengthen firms' quality management in the Philippines. This collaboration comes in response to the recent adoption of ISQM 1 and ISQM 2 by the Philippines' Auditing and Assurance Standards Council.
21. The Accounting and Corporate Regulatory Authority conducted a **study** with the Sustainable and Green Finance Institute (SGFIN) at the National University, which found that larger listed companies are on track for mandatory climate reporting in FY 2025.

## *United Kingdom*

22. The UK Financial Reporting Council (UK FRC):
- (a) is inviting comments on a **market study** that will assess how well the UK NHS audit market is functioning, including the demand for audit, unique features of the regulatory framework and barriers to entry and expansion, closing on 17 October 2024.
  - (b) has published its annual Tier 1 audit firm (BDO, Deloitte, EY, Forvis Mazars, KPMG and PwC) **inspection results**.
  - (c) is **consulting** on Going Concern guidance, closing on 28 October 2024.
  - (d) has released findings from its **audit quality review**, summarising the results of the UK FRC's actions to monitor audit quality and provides an overview of the audit market.
  - (e) has issued a Discussion Paper on the **Future of Digital Reporting in the UK**, which includes considerations for mandatory assurance of digital tagging, closing on 1 November 2024.
23. The Institute of Chartered Accountants in England and Wales (ICAEW):
- (a) issued an ISQM 1 quality assurance monitoring **update** summarising how they are monitoring firms' compliance with ISQM 1.
  - (b) is consulting on a **proposal** to make changes to the UK Audit Regulations and Guidance to require audit registered firms to notify ICAEW when they are appointed auditors to certain entities, closing on 6 September 2024.

## United States

24. The Public Company Accounting Oversight Board (PCAOB) has:
- (a) **updated** Auditing Standard (AS) 1105, *Audit Evidence*, and AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, to clarify auditor responsibilities when using technology-assisted analysis of information in electronic form. The Securities Exchange Commission (SEC) subsequently **approved** these amendments.
  - (b) issued a **proposal** for public comment to replace its existing auditing standard related to an auditor's use of substantive analytical procedures with a new standard: AS 2305, *Designing and Performing Analytical Procedures*.
25. The SEC **approved** AS 1000, *Auditor Responsibilities of the Auditor in Conducting an Audit*. This standard affirms the auditor's duty to protect investors by preparing and issuing informative, accurate, and independent auditor's reports.
26. The Centre for Audit Quality (CAQ) issued a **publication** on auditing in the age of generative artificial intelligence (AI).

## Academia

27. **Pham et al. (2024)** research paper on climate risk disclosures and auditor expertise. Utilising the Australian setting, this paper finds that a new measure of audit partner expertise (expertise in climate-related issues) is positively associated with the likelihood and quality of climate risk disclosures.
28. **Simnett et al. (2024)** working paper on Australian listed companies' preparedness for mandatory reporting and assurance of climate-related disclosures. Using a sample of annual reports of ASX-listed companies between 2018 and 2022, this paper finds an overall low but significantly improving level of preparedness for the mandatory climate reporting regime, particularly from Group 1 entities.

## Next steps

29. The Office of the AUASB intends to:
- (a) continue monitoring emerging audit and assurance developments;
  - (b) inform AUASB members of key matters by presenting environmental scans at periodic meetings of the AUASB; and
  - (c) provide AUASB members with the opportunity to share any audit and assurance observations or challenges encountered in practice.

## Appendix A – List of Organisations Reviewed

### International Standard Setting Bodies

- International Auditing and Assurance Standards Board (IAASB)
- International Accounting Standards Board (IASB)
- International Ethics Board for Accountants (IESBA)
- International Sustainability Standards Board (ISSB)
- Public Interest Oversight Body (PIOB)

### International Audit and Assurance Regulator Forums

- International Forum of Independent Audit Regulators (IFIAR)
- International Organisation of Securities Commissions (IOSCO)

### International Professional Bodies

- Association of Chartered Certified Accountants (ACCA)
- International Federation of Accountants (IFAC)

### Australia

- Australian Accounting Standards Board (AASB)
- Australian Securities & Investments Commission (ASIC)
- Chartered Accountants Australia and New Zealand (CAANZ)
- Financial Reporting Council (FRC)
- The Parliamentary Joint Committee (PJC) on Corporations and Financial Services
- The Treasury

### Canada

- Canadian Auditing and Assurance Standards Board (Canadian AASB)
- Canadian Public Accountability Board (CPAB)

### Europe

- Committee of European Auditing Oversight Bodies (CEAOB)

### New Zealand

- External Reporting Board (XRB)
- New Zealand Auditing and Assurance Standards Board (NZAuASB)

### Singapore

- Accounting and Corporate Regulatory Authority (ACRA)
- Institute of Singapore Chartered Accountants (ISCA)
- Singapore Exchange (SGX)

### United Kingdom

- UK Financial Reporting Council (UK FRC)
- Institute of Chartered Accountants in England and Wales (ICAEW)

### United States

- American Institute of Certified Public Accountants (AICPA) & Chartered Institute of Management Accountants (CIMA)
- Centre for Audit Quality (CAQ)
- Public Company Accounting Oversight Board (PCAOB)
- Securities and Exchange Commission (SEC)

## Appendix B – Sustainability (including climate) Reporting and Assurance Requirements in Other Jurisdictions

	IFRS - Sustainability Disclosure Standards	NZ - Climate Statements	EU - CSRD / ESRS	US - SEC Final Rule	California - Climate Legislation	UK - Sustainability Reporting Standards
<b>First mandatory reporting (assuming calendar year-end)</b>	IFRS S1 and IFRS S2 are effective January 1, 2024, subject to jurisdictional mandate	From 1 January 2023	Starting with 2024 (due in 2025), depending on entity structure and size	Starting with 2025 (due in 2026), depending on filer status and disclosure requirement	SB-253: 2025 (due in 2026) SB-261: Due January 1, 2026	No earlier than January 2026 (consultation on draft standards due Q1 2025)
<b>Application</b>	Subject to jurisdictional regulatory adoption	Climate reporting entities	Public and private companies in (or listed in) the E.U., including subsidiaries of non-E.U. companies when certain criteria are met	Public companies registered with the SEC	U.S.-based public and private companies and non-U.S.-based companies (with a U.S. subsidiary) that do business in California, subject to revenue thresholds	UK-listed or publicly traded companies (companies subject to the TCFD framework)  Consideration will be given over whether requirements should be applied to privately held companies and small/medium-sized entities.
<b>GHG emission disclosures</b>	Scopes 1, 2, and 3, subject to materiality assessment	Scopes 1, 2 and 3	Scopes 1, 2, and 3, subject to materiality assessment	Scopes 1 and 2 are required if material for certain registrants	SB-253: Scopes 1, 2, and 3 required	TBD following the endorsement process.



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Climate-related risks and opportunities disclosure	Climate-related risks and opportunities required	Climate-related risks and opportunities required	Climate-related impacts, risks, and opportunities required	Climate-related risks required; opportunities optional	SB-261: Climate-related risks and opportunities required	
Scenario analysis	Required	Required	Required	Not required	SB-261: Required	
Assurance	Not mandated by the standards  Subject to jurisdictional authority discretion	Minimum of limited assurance for Scopes 1, 2 and 3 emissions	Limited assurance for reported sustainability information (including GHG emissions) from the first year of reporting	Limited assurance for Scopes 1 and 2 GHG emissions, followed by reasonable assurance for certain registrants	SB-253: Limited assurance, followed by reasonable assurance for Scopes 1 and 2  Scope 3 assurance to be determined	TBD  The UK FRC is conducting a <b>market study</b> to determine how well the UK sustainability assurance market is functioning, whether this market is delivering desirable outcomes including high quality assurance with minimal burdens and costs on business, and how the market may develop in the future.
Timing of assurance	N/A	Reporting periods ending on or after 27 October 2024	Limited assurance from commencement of reporting	<u>Large accelerated filers</u> LA by 31 December 2029 RA by 31 December 2031	There is a proposed 2-year delay on assurance for SB-253 (from 2026 to 2028)	TBD

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			Reasonable assurance to be decided, but no later than 1 October 2028	<u>Accelerated filers</u> (excluding SDCs and EGCs) LA by 31 December 2031 RA not required  <u>Nonaccelerated filers, SRCs and EGCs</u> Not required	No assurance requirement for SB-261	
<b>Assurance standard</b>	N/A	NZ CS 1 <i>Climate-related Disclosures</i>  In the interim, practitioners can choose between ISO 14064-3 or ISAE 3410  Undecided on whether they will adopt NZ equivalent to ISSA 5000 <i>General Requirements for Sustainability Assurance Engagements</i>	Limited assurance standards to be adopted by the European Commission by 1 October 2026  Committee of European Auditing Oversight Bodies (CEAOB) has consulted on non-binding <b>guidelines</b> on limited assurance on sustainability reporting (June)	Not prescribed	Not prescribed	TBD
<b>Assurance provider</b>	N/A	Practitioner neutral	Practitioner neutral (statutory auditors)	GHG emission assurance provider must:	Independent third party with significant	TBD

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			or other assurance service providers)	<p>a) possess appropriate competence and capabilities to perform the engagement in accordance with the professional standards and applicable legal and regulatory requirements</p> <p>b) be independent from the registrant</p>	<p>experience in measuring, analysing, reporting, or attesting to the emission of GHG and sufficient competence and capabilities necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements</p>	<p>The UK FRC's market study will consider whether UK companies have sufficient choice of sustainability assurance provider, what drives their choices, and if they have the information needed to make informed choices and receive high-quality assurance.</p>
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# AUASB Agenda Paper

<b>Title:</b>	ISSA 5000 Sustainability Assurance	<b>Date:</b>	10 September 2024
<b>Office of AUASB Staff:</b>	Rene Herman	<b>Agenda Item:</b>	5.1

## Objectives of Agenda Item

1. The objective of this Agenda Item is to seek views from AUASB members on decisions proposed by the ISSA 5000 Taskforce on substantive matters for consideration at the September 2024 IAASB meeting and to seek any other fatal flaw comments on the latest draft of the Proposed ISSA 5000.
2. Member views may inform Bill Edge in providing his views to the IAASB as a member. Significant issues (if any) may also be communicated to the IAASB by the AUASB's IAASB Technical Advisor and/or the AUASB Chair.

## Questions for AUASB members

No.	Questions for AUASB members
1	Do AUASB members agree that the possible disconnect in reporting materiality between the proposed ISSA 500 and The ISSB's standards should be raised with the IAASB for consideration before finalising ISSA 5000 (see paragraph 12 below)?
2	Do AUASB members have any other fatal flaw comments on ED-5000?

## Background and Previous Discussions on Topic

3. The IAASB Sustainability Taskforce identified the areas that generated the most significant feedback in comments from stakeholders on ED ISSA 5000, survey responses and the IAASB's extensive global outreach.
4. Significant topic areas discussed at the March and June 2024 IAASB meeting are not covered again in this Agenda Paper unless the IAASB made substantive changes since those meetings previously considered by AUASB members as outlined in the table below:

Topic	Paragraph references in the respective June and March AUASB Agenda Papers
<b>Topics discussed at the June 2024 IAASB meeting</b>	
Preconditions	9-12
Estimates and Forward Looking	13-15
Fraud	16-18
Communications management and TCWG	19-21
Reporting	22-25
<b>Topics discussed at the March 2024 IAASB meeting</b>	
Materiality	27-30
Engagement Team, Using the work of Others	31-34
Quality Management and Ethics	35-37

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5. ISSA 5000 is expected to be issued by the IAASB following the September 2024 meeting. AUASB members have been taken through all substantive changes since the Exposure Draft, and are not expected review in full, the revised draft ISSA 5000 marked up from the June 2024 version that has been provided to IAASB members, which can be found at [\[requirements here\]](#)[\[application material here\]](#).
6. The topics outlined in paragraph 4 above are largely finalised, unless there are any fatal flaw comments on any of these areas, it is unlikely that the IAASB will make any more substantive changes on those areas.
7. The September 2024 IAASB meeting will discuss the last significant proposed changes to ED-5000 before it is issued. It is important that the AUASB highlight any significant issues for consideration by the IAASB at its September meeting.

## IAASB September 2024 meeting

8. **The Office of the AUASB has no concerns or comments on any of the amendments proposed to be discussed at the IAASB's September meeting:**

Topic	Paragraph references in this Agenda Paper
<b><i>Topics to be discussed at the September 2024 IAASB meeting</i></b>	
Understanding the Entity's Reporting Policies	14
Communications	15-16
Fraud	17
Information to be used as evidence	18
Sustainability report – inherent limitations of forward looking information	19-20
Other Information	21

9. Appendix 1 to this Paper includes a mapping of substantive comments on ED-5000 to the September 2024 draft of ISSA 5000 (extracted from IAASB September meeting papers). The Office of the AUASB considers that the amendments to ED-5000 highlighted in Appendix 1, largely addresses the concerns raised in the AUASB's submission to the IAASB on ED-5000, except for:
  - a. *Materiality*: There may be a benefit in more guidance and examples on the auditor's materiality and evaluation of errors.
  - b. *Quality management and Ethics*: The AUASB submission raised concern that some national standard setters may not be able to set requirements to comply with quality management or ethical standards.
  - c. *Competency and Expertise*: While some matters raised by the AUASB have been addressed, there are a number that have not been addressed (see paragraph 31 Agenda Item 4.1 from the June AUASB meeting).
10. It is not reasonable to expect that all matters that could be identified for improving or enhancing the draft ISSA 5000 can be addressed by the IAASB in the standard by September. The IAASB's work on assurance over sustainability information will continue in future years, including the development of implementation materials.

## Possible materiality disconnect

11. One matter that has been identified since the AUASB submission is an apparent disconnect in reporting materiality under the proposed ISSA 5000 and the ISSB standards. This matter has been

raised with IAASB staff and we will update you on their views at the AUASB meeting on 10 September 2024.

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|-----|---|
| 12. | Subject to a response from IAASB staff, do AUASB members agree that this matter should be raised with the IAASB to ensure that ISSA 5000 can be amended, if necessary, to allow national jurisdictions to align reporting materiality with the reporting framework? |
|-----|---|

## Most significant proposed amendments to ED 5000 for IAASB September meeting:

13. **The matters below are highlighted for AUASB member information only** as to the major changes proposed to ED-5000. There are minimal amendments to the requirements. **The Office of the AUASB is supportive of these amendments and raises no concerns**, but AUASB members may wish to read the referred to paragraphs in the links to the [requirements](#) and [application material](#) provided and highlight any issues.

### *Understanding the entity's reporting policies*

14. The IAASB indicated the need for clarification regarding how the entity's reporting policies relate to the criteria. In response, the Task Force added new application material (A342A) to explain that the entity's reporting policies are not criteria but assist the entity in complying with the applicable criteria, including matters to consider in obtaining an understanding of the entity's criteria. Paragraph A342B has also been added with an example illustrating how the entity's reporting policies are used to apply the criteria.

### *Communications*

15. At the June IAASB meeting, the IAASB confirmed the position to have an explicit requirement for the practitioner to communicate with the financial statement auditor if the practitioner identifies that a material inconsistency appears to exist or becomes aware that the financial statements appear to be materially misstated.
16. In its submission and at its June meeting, the AUASB supported ED-5000 including requirements/application material for communications between the financial statement auditor and the sustainability practitioner at various stages throughout the sustainability engagement. The IAASB has now included within paragraph A281, encouragement for communication between the sustainability assurance practitioner and the financial statement auditor on matters that may be of mutual interest between the two engagements. If not prohibited by law or regulation, such communication may be useful for planning the assurance engagement and may take place at appropriate times throughout the engagement.

### *Fraud*

17. The Board requested that the application material relating to reporting fraud or non-compliance with laws and regulations to an appropriate authority be elevated to a requirement. In response, the Task force added requirement 66A, adapted from both ISA 240 paragraph 69 and ISA 250 paragraph 29.

### *Information to be used as audit evidence*

18. Application material has been added (A255) in response to comments that limitations on management's ability to obtain information from the value chain may lead the practitioner to focus more on whether management has complied with the applicable criteria, including understanding management's process for obtaining such information. Additionally, paragraph A256 has been revised to indicate that a scope limitation may exist if management is unable to obtain material value chain information and has not otherwise estimated such information through other means (e.g., through the reliefs that may be provided in the applicable criteria in these circumstances).

### *Sustainability report – inherent limitations of forward looking information*

19. The Taskforce has included a new reporting requirement (187(h)(v)A) (and supporting application material A553A) to address Board comments on the need to include the limitations of forward-

looking information in the assurance report, if applicable, including clarification that the practitioner is not issuing a conclusion on the outcome of the forward-looking information.

20. The Office of the AUASB has observed that many Australian assurance reports contain an inherent limitations paragraph on forward looking information.

### *Other Information*

21. The IAASB recognised that it may be inaccurate to state that a conclusion is not provided on the other information if the practitioner or their firm has audited the financial statements that are part of the other information, and it is proposed to add new application material (A578A).

### **Recommendation by the Office of the AUASB**

22. The Office of the AUASB has no fatal flaw comments to raise on ISSA 5000 (other than possibly on the potential materiality disconnect) and considers that the other substantive matters raised by the AUASB have been appropriately considered by the IAASB.

### **Next steps/Way Forward**

23. The AUASB will deliberate the adoption of ISSA 5000 in Australia at an upcoming AUASB meeting, including whether or not to re-expose ISSA 5000 in Australia.
24. The AUASB will monitor the IAASB's implementation support materials on ISSA 5000 and issue them in Australia as appropriate.

## Appendix 1

### MAPPING OF SIGNIFICANT MATTERS RAISED BY RESPONDENTS TO ED-5000 TO IAASB RESPONSE (extracted from IAASB September 2024 meeting papers)

Significant Matters Raised by Respondents to ED-5000	IAASB Response
<b>Scope and Applicability</b>	
<ul style="list-style-type: none"> <li>Additional clarity is needed about the scope and applicability of ED-5000, including its interoperability with ISAE 3410.<sup>1</sup></li> <li>ISAE 3410 should be integrated into the ISSA suite of standards or relevant requirements from ISAE 3410 should be incorporated into proposed ISSA 5000, along with additional guidance as necessary.</li> </ul>	<ul style="list-style-type: none"> <li>Agreed that ISSA 5000 would apply to all assurance engagements on sustainability information.</li> <li>Concluded that there are no significant gaps in the requirements between ISSA 5000 and ISAE 3410. Accordingly, the IAASB has proposed that ISAE 3410 be withdrawn once ISSA 5000 becomes effective. The Office of the AUASB understands that further information gathering on unintended consequences was still to be done.</li> </ul>
<b>Relevant Ethical Requirements and Quality Management Standards</b>	
<ul style="list-style-type: none"> <li>ISSA 5000 should require compliance with ISQM 1<sup>2</sup> and the IESBA Code, establish minimum baseline requirements, or endorse alternative requirements as being at least as demanding.</li> <li>Further guidance is needed on how an evaluation of “at least as demanding” can be performed and by whom.</li> </ul>	<ul style="list-style-type: none"> <li>The requirements for firm-level quality management and relevant ethical requirements have been restructured to establish a hierarchy and clarify that a practitioner is a member of a firm that applies ISQM 1 and the IESBA Code, respectively, or professional requirements or requirements in law or regulation that an appropriate authority has determined to be at least as demanding.</li> </ul>
<b>Limited and Reasonable Assurance</b>	
<i>Overall Differentiation between Limited and Reasonable Assurance Engagements</i>	
<ul style="list-style-type: none"> <li>Support for the structure of the standard, including the columnar presentation of related requirements for limited and reasonable assurance side-by-side.</li> <li>Further clarity needed on the differentiation between limited assurance and reasonable assurance, and more specificity as to the minimum requirements, especially for limited assurance engagements.</li> </ul>	<ul style="list-style-type: none"> <li>Retained the columnar presentation and paragraph designations for limited or reasonable assurance.</li> <li>Further review was done for requirements and application material applicable to one or both levels of assurance. Risk assessment to apply to limited assurance engagements.</li> <li>Emphasized the difference between the “deep dive” in a limited assurance engagement and the need to obtain evidence to enable the expression of a</li> </ul>

<sup>1</sup> International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

<sup>2</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*



Significant Matters Raised by Respondents to ED-5000	IAASB Response
	reasonable assurance conclusion in a reasonable assurance engagement.
<i>Differentiation in the Approach to Understanding the System of Internal Control</i>	
<ul style="list-style-type: none"> <li>Highlighted the need for further guidance or examples to differentiate the approach to understanding the system of internal control, and the extent of the work effort required to obtain the understanding for limited or reasonable assurance.</li> </ul>	<ul style="list-style-type: none"> <li>Presented the requirements to understand the components of internal control for limited and reasonable assurance side-by-side in the columnar format, with separate requirements for each component to clarify the differences between the understanding required and the work effort necessary to obtain the understanding.</li> </ul>
<i>Approach to Risk Procedures for Limited Assurance Engagements</i>	
<ul style="list-style-type: none"> <li>Supported a requirement for a risk assessment for limited assurance engagements.</li> </ul>	<ul style="list-style-type: none"> <li>Aligned the risk-based approach with ISAE 3410 and added requirements and application material for the practitioner, in a limited assurance engagement, to identify and assess the risks of material misstatement at the disclosure level as a basis for designing and performing further procedures.</li> </ul>
<b>Materiality</b>	
<i>The Entity's "Materiality Process"</i>	
<ul style="list-style-type: none"> <li>Further clarity needed to address the entity's materiality process or specify the practitioner's work effort with respect to that process.</li> <li>Further clarity needed to address how the practitioner should build on the preliminary knowledge of the entity's materiality process during the engagement or respond to misstatements identified.</li> </ul>	<ul style="list-style-type: none"> <li>Clarified in the introduction to proposed ISSA 5000 that "the entity's process to identify sustainability information to be reported" refers to the process applied by the entity to determine the sustainability matters to be reported in the sustainability information and the reporting boundary.</li> <li>Added requirements for the practitioner to consider whether the entity has a process to identify sustainability information to be reported and to understand that process as part of the risk assessment procedures.</li> <li>Developed the diagram in Appendix 2 to illustrate the various points throughout the engagement when the practitioner considers the entity's process to identify sustainability information to be reported.</li> </ul>
<i>The Notion of "Double Materiality"</i>	
<ul style="list-style-type: none"> <li>Broad support for addressing double materiality in ED-5000.</li> </ul>	<ul style="list-style-type: none"> <li>Added a conditional requirement and related application material for the practitioner to consider "double materiality" if the applicable criteria</li> </ul>

Significant Matters Raised by Respondents to ED-5000	IAASB Response
<ul style="list-style-type: none"> <li>• Calls for a conditional requirement to address the practitioner's consideration of double materiality.</li> </ul>	<p>require the entity to apply both financial materiality and impact materiality in preparing the sustainability information.</p>
<i>Practitioner's Approach to Materiality</i>	
<ul style="list-style-type: none"> <li>• Support for the "bifurcated approach" to consider or determine materiality.</li> <li>• Requests for further clarity with respect to performance materiality.</li> <li>• Calls for guidance on a number of matters, including how to consider/determine materiality and the accumulation or aggregation of misstatements.</li> </ul>	<ul style="list-style-type: none"> <li>• Retained the bifurcated approach for the practitioner to consider materiality for qualitative disclosures and determine materiality for quantitative disclosures.</li> <li>• Added application material on determining performance materiality, based on application material in ISA 600 (Revised).<sup>3</sup></li> <li>• See Part E below on actions taken by the IAASB regarding implementation guidance.</li> </ul>
<b>Engagement Team and Using the Work of Others</b>	
<ul style="list-style-type: none"> <li>• Need to define "another practitioner."</li> <li>• Further clarity needed on the concept of "sufficient involvement" in the work of firms or individuals that are not part of the engagement team.</li> <li>• Further clarity needed on obtaining evidence about information for value chain entities outside of the entity's operational control.</li> </ul>	<ul style="list-style-type: none"> <li>• Added a definition of "another practitioner."</li> <li>• Clarified that the work of another practitioner is performed in the context of a separate engagement, and that individuals from another practitioner who perform the work are neither members of the engagement team nor practitioner's experts.</li> <li>• Revised the application material to further clarify the concept of sufficiency of involvement, drawing on ISA 220 (Revised).<sup>4</sup></li> <li>• Introduced a conditional requirement related to obtaining evidence from "one-to-many" reports of another practitioner.</li> </ul>
<i>Group Engagements</i>	
<ul style="list-style-type: none"> <li>• The IAASB should consider the extent to which certain concepts from ISA 600 (Revised) should be added to the principles-based requirements in ISSA 5000.</li> <li>• Noted the importance of consistency between proposed ISSA 5000 and IESBA's proposed revisions to the Code for group engagements.</li> </ul>	<ul style="list-style-type: none"> <li>• Added definitions for various group engagement-specific terms.</li> <li>• Clarified in the definition of "component" that, for purposes of the ISSAs, a "group component" relates to a component within the reporting entity's operational control, and a "value chain component" relates to a component</li> </ul>

<sup>3</sup> International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>4</sup> ISA 220 (Revised), *Quality Management for An Audit of Financial Statements*

Significant Matters Raised by Respondents to ED-5000	IAASB Response
	<p>outside the reporting entity's operational control.</p> <ul style="list-style-type: none"> <li>Added a conditional requirement to address the overall strategy and engagement plan for a group sustainability assurance engagement.</li> <li>Added a requirement and application material for the engagement leader to take responsibility for determining that communications take place at appropriate times throughout the engagement among the engagement team and, as applicable, practitioner's external experts and the internal audit function.</li> </ul>
<b>Other Significant Matters</b>	
<i>Connectivity with the audited financial statements</i>	
<ul style="list-style-type: none"> <li>Highlighted the connectivity between the sustainability information being reported and the audited financial statements, and the importance of communication between the sustainability assurance practitioner and the auditor of the financial statements, unless prohibited by law or regulations.</li> </ul>	<ul style="list-style-type: none"> <li>Clarified that ISSA 5000 does not address sustainability information that is required to be included in the entity's financial statements in accordance with the applicable financial reporting framework.</li> <li>Added a requirement and application material for the practitioner to communicate, unless prohibited by law or regulation, with the financial statement auditor, when the practitioner identifies that a material inconsistency appears to exist between the audited financial statements and the sustainability information, or the audited financial statements appear to be materially misstated.</li> <li>Added application material clarifying that communication with the financial statement auditor, unless prohibited by law and regulation, may be useful if the sustainability matters relate to matters disclosed in the financial statements. This communication may take place at appropriate times throughout the assurance engagement.</li> </ul>
<i>Fraud and Non-Compliance with Laws and Regulations</i>	
<ul style="list-style-type: none"> <li>General agreement that ED-5000 appropriately addresses the topic of fraud (including "greenwashing").</li> </ul>	<ul style="list-style-type: none"> <li>Added requirements for reasonable assurance engagements for the practitioner to treat risks of management override of controls as</li> </ul>

Significant Matters Raised by Respondents to ED-5000	IAASB Response
<ul style="list-style-type: none"> <li>• Suggestions to include a presumed fraud risk for the risk of management override of controls, similar to ISA 240.<sup>5</sup></li> <li>• The need to communicate with relevant parties instances of fraud and non-compliance with laws and regulations (NOCLAR).</li> </ul>	<p>risks of material misstatement due to fraud, and for the practitioner to design and perform procedures in response to the risk of management override of controls.</p> <ul style="list-style-type: none"> <li>• Added a requirement for the practitioner to discuss suspected instances of fraud or NOCLAR with management and those charged with governance, and application material on considerations for determining the level of management or those charged with governance with whom to communicate.</li> <li>• Added a requirement for the practitioner to determine whether they are required or have responsibilities to report identified or suspected fraud or NOCLAR to an appropriate authority outside the entity.</li> <li>• Added application material that some relevant ethical requirements may require the practitioner to consider communicating instances of suspected NOCLAR with the financial statement auditor.</li> </ul>
<i>Estimates and Forward-Looking Information</i>	
<ul style="list-style-type: none"> <li>• Calls for more distinct requirements and guidance for estimates and forward-looking information, and greater clarity in differentiating the work effort for estimates and forward-looking information.</li> </ul>	<ul style="list-style-type: none"> <li>• Kept the requirements and application material for estimates and forward-looking information together as separating them could result in unnecessary duplication. However, added application material leveraged from ISA 540 (Revised)<sup>6</sup> and the EER<sup>7</sup> guidance to provide additional clarity and differentiation in the work effort.</li> </ul>

<sup>5</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>6</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>7</sup> Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements



# AUASB Agenda Paper

<b>Title:</b>	ISA 240 - Fraud	<b>Date:</b>	10 September 2024
<b>Office of AUASB Staff:</b>	Rene Herman	<b>Agenda Item:</b>	5.2

## Objectives of Agenda Item

1. The objective of this Agenda Item is to seek views from AUASB members on decisions proposed by the IAASB's Fraud Taskforce on substantive matters (particularly as they relate to matters raised by the AUASB) being considered at the September 2024 IAASB meeting:
  - Auditor's responsibilities relating to fraud in an audit of financial statements (paragraph 9 of this Agenda Paper)
  - Risk identification and assessment (paragraph 12 of this Agenda Paper)
  - Requirements for fraud or suspected fraud (paragraph 17 of this Agenda Paper)
  - Transparency in the auditor's report (paragraph 20 of this Agenda Paper);
2. Member views may inform Bill Edge in providing his views to the IAASB as a member. Significant issues (if any) may also be communicated to the IAASB by the AUASB's IAASB Technical Advisor and/or the AUASB Chair.

## Questions for AUASB members

3. Questions for AUASB members are contained in boxes at the end of each section of this Agenda Paper.
4. For ease of reference, the matters we are seeking AUASB input on have been highlighted in yellow in the tables / paragraphs below.

## Background and Previous Discussions on Topic

5. In February 2024, the Board published ED-240 for public consultation for an exposure period of 120 days closing 5 June 2024.
6. After consultation with Australian stakeholders, the AUASB made a submission to the IAASB on ED-240 [\[here\]](#).
7. The IAASB received 89 comment letters from a broad range of stakeholders. A heat-map of responses to the 12 questions in ED-240 is presented below. Green denotes a high level of support for the concept or topic. Yellow denotes qualified support for the concept or topic with enhancements proposed by respondents. Orange denotes mixed views for the concept or topic, ranging from strong agreement to strong disagreement. Questions with a tick mark are being considered as part of the September 2024 IAASB meeting.

Auditor's responsibilities relating to fraud in an audit of financial statements [Q1] ✓	Professional Skepticism [Q2]	Risk Identification and Assessment [Q3] ✓	Requirements for fraud or suspected fraud [Q4] ✓
Transparency on Fraud-Related Responsibilities and Procedures in the Auditor's Report [Q5] ✓	Disclosure requirements about fraud extended to entities other than listed entities [Q6]	Lack of a Separate Stand-back Requirement in ED-240 [Q7]	Scalability [Q8]
Linkages to Other ISAs [Q9]	Other Matters [Q10]	Translations [Q11]	Effective Date [Q12]

## Comparison of AUASB comments on ED-240 and proposed amendments to ED-240

8. The tables below map the AUASB's comments on Q1, Q3, Q4 and Q5 of ED-240 to proposed amendments being discussed by the IAASB at the September 2024 meeting. While AUASB members are not expected to read the September version of ED-240, a link has been provided [here](#).

### *Auditor's responsibilities relating to fraud in an audit of financial statements:*

9. The AUASB submission to the IAASB was overall supportive of the proposals, but noted several matters raised by Australian practitioners in connection with the expectation gap.

<b>Comments raised by the AUASB on ED-240</b>	<b>Proposed amendments to ED-240</b>
a) There is a need for appropriate communication and education in national jurisdictions on the responsibilities of management and TCWG. Greater transparency by the auditor should be complemented in due course by jurisdictional requirements for statements by TCWG as to how the risks of material fraud have been identified and addressed.	None. This is not in the IAASB's remit.
b) ED-240 does not adequately convey in all instances that auditors are only responsible for financial statement fraud that could result in a material misstatement. For example, paragraph 2 on the auditor's responsibilities refers to the risk of material misstatement, whereas subparagraph 2(b) on reporting does not refer to the risk of material misstatement.	This has not been addressed by the IAASB. <i>The Office of the AUASB considers that materiality is implicit in paragraph 2(b) and does not suggest that this matter be further raised with the IAASB.</i>

<b>Comments raised by the AUASB on ED-240</b>	<b>Proposed amendments to ED-240</b>
c) The auditor is not responsible for conducting an in-depth assessment of third-party fraud risk and that a more specific targeted engagement would be required to address those risks.	The Fraud Taskforce acknowledged concerns about a lack of clarity around the auditor's responsibilities relating to third-party fraud and has introduced application material that describes the third parties that may be considered by the auditor in applying proposed ISA 240 for example related parties, third parties with which the entity has a business relationship and external parties unknown to the entity.
d) Reversing the order of the introductory paragraphs on the auditor's responsibilities and management's responsibilities	The descriptions of each party's responsibilities have not changed from the extant standard including the statement in paragraph 3 of ED-240 that the "primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity." The Taskforce is recommending that the IAASB retain the new ordering as proposed in ED-240.
e) The factors that may make it more difficult to detect fraud compared to error (e.g. collusion) should be reinstated into the introductory paragraphs (i.e. inherent limitations).	The Taskforce is not proposing any amendments on the basis of why the IAASB proposed changes in ED-240 in the first place. The IAASB proposed to decouple descriptions of inherent limitations and the responsibilities of the auditor relating to fraud as stakeholders had expressed concerns that the emphasis in extant ISA 240 on what auditors cannot do led to a lack of clarity about their actual responsibilities related to fraud in an audit.

10. The Office of the AUASB considers that the Taskforce has appropriately addressed or not addressed the AUASB's comments on Auditor's responsibilities relating to fraud in an audit of financial statements.

11. **Question for AUASB members: Do AUASB members support the Office of AUASB's view that there are no matters to raise with the IAASB?**

*Risk identification and assessment:*

12. The AUASB submission was overall strongly supportive of the proposals, with several recommendations being made for the IAASB to consider.

<b>Recommendations raised by the AUASB</b>	<b>Proposed amendments to ED-240</b>
a) The rebuttal of the presumption of the significant risk of fraud in revenue recognition should be at the assertion level rather than the account level.	This has not been included in proposed amendments. The Office of the AUASB suggests this matter be raised by the Australian IAASB member.
b) Consider including examples specific to public sector entities.	Additional public sector examples have been included in the application material.
c) Clarity and consistency across ED-240 paragraphs 42 and 48. ED-240 paragraph 42 requires that management override is always	Paragraph 48 is not open for discussion at the September IAASB meeting. The Office of the

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treated as a significant risk, while paragraph 48 seems to indicate that this is not always the case 'irrespective of the auditor's assessment of the risks of management override...'.	AUASB will monitor this recommendation going forward.
d) No concerns raised.	Enhance requirements on Engagement Team discussions to include: <ul style="list-style-type: none"> <li>• which types of revenue, revenue transactions or relevant assertions give rise to risks of material misstatements due to fraud in revenue recognition; and</li> <li>• how management may be able to override controls.</li> </ul>
e) No concerns raised.	ED-240 proposed new application material on whistleblower such programs. The Taskforce is now also proposing: <ul style="list-style-type: none"> <li>• a conditional requirement to obtain an understanding of the control environment for the whistleblower program, if such program exists, and a more robust risk identification and assessment; and</li> <li>• inquiring of TCWG whether they have received any tips or complaints of alleged fraud and how they have responded.</li> </ul>

13. Other than (a) above, the Office of the AUASB considers that the Taskforce has appropriately addressed the AUASB's comments. The Office of the AUASB suggests that 12(a) is raised with the IAASB through the IAASB Australian member.

14. **Question for AUASB: Do AUASB members support the Office of AUASB's recommendation to raise matter (a) with the IAASB?**

15. As it pertains to the Taskforces enhancements on engagement team discussions to include which types of revenue, revenue transactions or relevant assertions give rise to the risks of material misstatements due to fraud in revenue recognition, the Office of the AUASB is concerned that this may be an undue focus on revenue while the risk of material misstatement due to fraud may well reside in different classes of transactions, account balances and disclosures .

16. **Question for AUASB members: Do AUASB members support the enhancements outlined above, including on understanding whistle-blower programs?**

*Requirements for fraud or suspected fraud:*

17. The AUASB was concerned with the practicality of the requirements in paragraph 55 applying to all instances of identified or suspected fraud. The absence of a materiality criterion (e.g. 'clearly trivial') in paragraph 55 makes the requirements too onerous.



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<b><i>Substantive Comments raised by the AUASB</i></b>	<b><i>Proposed amendments to ED-240</i></b>
a) Only require 55(a) and 55(b) for <u>all</u> instances of identified fraud or suspected fraud. Paragraphs 55(c) and 55(d) would only be required where instances of fraud or suspected fraud are 'clearly trivial'.	<p>The Taskforce does not consider that inquiry alone would provide a sufficient basis for the auditor to determine that a fraud or suspected fraud is clearly inconsequential. However, the AUASB's recommendation has been partly addressed by moving paragraph 55(d) from paragraph 55.</p> <p><i>The Office of the AUASB still considers that 55(c), [if the entity has implemented remediation actions to respond to the matters, and evaluate whether they are appropriate in the circumstances], is too onerous for all instances of identified or suspected fraud and would support 55(c) being moved out of this requirement.</i></p> <p>The remaining requirements in paragraphs 56–59 apply only to those instances of fraud or suspected fraud that are determined not to be clearly inconsequential based on the understanding obtained by performing procedures in accordance with paragraph 55.</p>
b) Adding application material supporting paragraph 55 to explain that the tolerance for fraud in the public sector may be such that it would be rare for an instance of fraud or suspected fraud to be considered trivial.	This has not been addressed by the IAASB. <i>The Office of the AUASB suggests this matter be raised with the IAASB.</i>
c) Making the requirement in paragraph 55(a) to inquire about the matter with a level of management that is at least one level above those involved, subject to any legislation that may prevent the auditor from making a direct enquiry to management, such as where the auditor is notified of a fraud or suspected fraud by an anti-corruption regulator. Indirect enquiry may be possible.	The Taskforce has addressed this and considers that the determination of which level of management is appropriate is a matter of professional judgement. The requirement of one level above those involved has been amended with application material included.
d) The assessment in paragraph 56 should be imposed on the auditor rather than the engagement partner. In practice it may be made by the engagement partner but that may not be practical in some scenarios, such as large groups with component audits.	The Taskforce continues to believe that these determinations should be made by the engagement partner due to the importance of appropriately assessing the impact of fraud or suspected fraud on the audit. The Taskforce considers that this requirement is scalable and proportional and that it is appropriate for the engagement partner to use information obtained by other members of the engagement team, including component auditors in the case of a group audit, to make these determinations.
e) Paragraph 66 should not require the auditor to communicate frauds or suspected frauds already known to management. This would avoid the possibility of undermining the impact of communicating matters not known to management.	This has not been addressed by the Taskforce given the importance of the impact of fraud or suspected fraud on the audit. The Office of the AUASB does not suggest re-raising this point with the IAASB.

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<b><i>Substantive Comments raised by the AUASB</i></b>	<b><i>Proposed amendments to ED-240</i></b>
f) Introducing a stand-back requirement at the conclusion of the audit to address the possibility of an accumulation of matters that alone might be considered clearly trivial. This would complement the overarching requirement in paragraph 21 for the auditor to remain alert throughout the audit for information that is indicative of fraud or suspected fraud	The Stand-back requirement is not being considered at this IAASB meeting and the Office of the AUASB suggests the Australian IAASB notes this matter in discussions about the threshold of 'clearly trivial.'

18. Other than 17(a) (b) (f) above, the Office of the AUASB considers that the Taskforce has appropriately addressed or not addressed the AUASB's comments. The Office of the AUASB suggests that the matters in 17(a) (b) (f) are raised with the IAASB.

19. ***Question for AUASB members: Do AUASB members support the Office of AUASB's recommendations and comments above?***

## *Requirements for transparency in reporting:*

20. While the AUASB was supportive of enhanced transparency through KAM style reporting, it did not support ED-240 in its current form.

<b><i>Substantive Comments raised by the AUASB</i></b>	<b><i>Proposed amendments to ED-240</i></b>
a) Replacing the heading 'Key Audit Matters Including Matters Related to Fraud' in the audit report with 'Key Audit Matters (Including Matters Related to Fraud and Error)' for consistency with the text that appears immediately after the heading. This will avoid over-emphasising the importance of fraud risk compared to risk of error.	The Taskforce acknowledges concerns raised by respondents and proposed to remove the words "Including Matters Related to Fraud" in the section heading, which may be misleading when no KAMs related to fraud are communicated. The requirement in paragraph 63 to use an appropriate subheading for each KAM that clearly describes that the matter relates to fraud sufficiently emphasises the KAMs related to fraud.
b) Including appropriate examples in the application material demonstrating that fraud related KAMs are often interlinked with KAMs related to error (e.g. a KAM related to an estimate). Otherwise, KAM related fraud risks may always be treated as stand-alone KAMs, which may drive boilerplate statements.	The Taskforce proposes examples in first time guidance and not in the standard.
c) Some practitioners were concerned with possible litigation where a material fraud is later discovered but there was no KAM in the auditor's report. Additionally, a fraud matter may still be under investigation at the time of the audit report and communicating the matter in a KAM could create legal risk for both the company and the auditor.	The Taskforce acknowledged respondents' comments and that the concern with respect to suspected fraud, on-going investigations and uncertain outcomes, as well as disclosing original information, and believes it is covered by ISA 701 paragraph 14 and related application material.  Also paragraph A178 addresses cases where a matter determined to be a KAM is not communicated in the auditor's report and includes a reference to paragraphs A53–A54 in ISA 701. The Taskforce

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<b><i>Substantive Comments raised by the AUASB</i></b>	<b><i>Proposed amendments to ED-240</i></b>
	proposes application material highlighting that ISA 701 includes considerations and guidance on original information that may be particularly relevant in the context of communicating KAMs related to fraud.
<p>d) Australian practitioners expressed concern that some auditors could include boilerplate fraud related KAMs (e.g. on management override of controls) to avoid stating that there are no KAMs related to fraud to communicate.</p> <p>The AUASB suggested that where there are no KAMs related to fraud, highlighting in the auditor's report that the auditor's objective is to obtain reasonable assurance that the financial report as a whole is free of material misstatement, whether due to fraud or error.</p>	<p>The Taskforce proposes to delete the requirement to disclose when there are no KAMs related to fraud given:</p> <ul style="list-style-type: none"> <li>• The risk of widening the expectation gap.</li> <li>• The inconsistency in stating there are no fraud related KAMs when a fraud related KAM can't be communicated in the auditor's report.</li> <li>• The risk of having standardized boilerplate KAMs to avoid adding the statement</li> <li>• No statement is required when there are no KAMs on other specific topics</li> </ul>

21. The Office of the AUASB considers that the Taskforce has appropriately addressed the AUASB's comments.

22. The IAASB staff have prepared an illustrative auditor's report that reflects the combined changes proposed to the auditor's report as a result of the proposals for going concern and fraud. The Office of the AUASB strongly encourages AUASB members to review this draft report (see Appendix 1 to Agenda Paper 5.2.1) and provide any feedback.

23. ***Question for AUASB members: Do AUASB members support the Office of AUASB's recommendations and comments in paragraph 21 above?***

24. ***Question for AUASB members: Do AUASB members have any comments or concerns on the combined illustrative audit report as included at Appendix 1 to Agenda Paper 5.2.1?***

## Next steps/Way Forward specifically related to ED-240

25. The Office of the AUASB will continue to monitor the developments on ED-240 particularly as they relate to matters raised in the AUASB submission on ED-240 and feed comments into the Australian IAASB member. ED-240 is expected to be voted to issue in March 2025.



# AUASB Agenda Paper

<b>Title:</b>	ISA 570 <i>Going Concern</i>	<b>Date:</b>	10 September 2024
<b>Office of AUASB Staff:</b>	Rebecca Mattocks / Rene Herman	<b>Agenda Item:</b>	5.2.1

## Objectives of Agenda Item:

- The objective of this Agenda Item is to:
  - update AUASB members on proposed changes to the draft revised ISA 570, *Going Concern* (ED-570) (see going concern revised Exposure Draft from the IAASB September 2024 meeting [here](#));
  - obtain AUASB member views on whether to raise a suggestion on the proposed changes on scalability and management's assessment of going concern; and
  - obtain members views on key aspects of the revised illustrative auditor's report as a result of the proposals for going concern and fraud (Appendix 2).
- Member views may inform Bill Edge in providing his views to the IAASB as a member. Significant issues (if any) may also be communicated to the IAASB by the AUASB's IAASB Technical Advisor and/or the AUASB Chair.

## Questions for AUASB members

No.	Question
1	Do AUASB members agree that the matter highlighted in paragraph 21 of this paper on scalability and management's assessment of going concern should be raised with the IAASB?
2	Do AUASB members have any significant comments, suggestions or concerns in relation to any other aspect of the proposed ISA 570?
3	Do AUASB members have any comments or concerns on the cumulative changes proposed to the auditor's report as a result of the proposals for going concern and fraud – Appendix 2?

## Background and Previous Discussions on Topic

- In May 2023, the AUASB issued its **Consultation Paper** on the IAASB's Proposed ISA 570 (Revised), *Going Concern* (ED-570), as a 'wrap-around' of the IAASB ED.
- The AUASB's **submission** to the IAASB on ED-570, compiled after extensive consultation with Australian stakeholders:
  - supported the IAASB's efforts to strengthen the auditor's evaluation of management's assessment of going concern and improve transparency in the auditor's report;
  - emphasised the importance of the IAASB continuing to encourage the IASB to enhance the financial reporting requirements on going concern;

- c. proposed several changes for consideration by the IAASB, including:
  - i. providing further clarity on the work effort required by the auditor in circumstances where no events or conditions may cast significant doubt on the entity's ability to continue as a going concern and where management has not performed a detailed assessment.
  - ii. integrating the auditor's evaluation of management's plans and future actions in the definition of Material Uncertainty (Related to Going Concern).
  - iii. ensuring that the proposed explicit statement on going concern is not misinterpreted as a separate opinion on going concern and as guaranteeing the future viability of the entity.
  - iv. extending the additional transparency requirements for the auditor's report beyond listed entities.
- 5. At its June 2024 meeting, the IAASB considered a first round of changes to the draft revised ISA 570 in response to feedback on ED-570 (see Agenda Item 4.2 of AUASB Meeting 145).
- 6. Appendix 1 to this Agenda Paper provides a summary of the AUASB's feedback to the IAASB and how the matters raised have been at least partially addressed or considered in the revisions to the proposed ISA 570.
- 7. With significant progress made on the proposed ISA 570, it is now time for the AUASB to provide feedback on any significant residual concerns to influence the final pronouncement, which is expected to be voted to be issued by the IAASB in December 2024. AUASB members are encouraged to review the requirements of the proposed standard in detail.

### **Key Changes Since the June 2024 IAASB Meeting [for AUASB Member's Information only – no input required on paragraphs 8-17]**

#### *Definition of Material Uncertainty (Related to Going Concern)*

- 8. At the June 2024 AUASB meeting, one AUASB member expressed concern with the Going Concern Task Force (GC TF) proposal to remove reference to "auditor's professional judgment" from the definition of Material Uncertainty (Related to Going Concern) and elevate the phrase "may cast significant doubt" to the definition. The Office of the AUASB considers that the reliance on the auditor's professional judgment is explicit in paragraph 30 of proposed ISA 570.
- 9. The GC TF is proposing to better align the definition of Material Uncertainty (Related to Going Concern) (MURGC) with paragraph 32(b) of proposed ISA 570:
  - '10. An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. "May cast significant doubt" is used to refer to circumstances where the magnitude of the potential impact and likelihood of occurrence of the identified events or conditions are such that, unless management's plans for future actions mitigate their effects, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business ~~meet its obligations~~ and continue its operations for the foreseeable future. (Ref: Para. A4–A5A)'
- 10. The Office of the AUASB considers that the matters raised by the AUASB in relation to the definition of MURGC have been adequately addressed by the IAASB.

## Transparency about Going Concern in the Auditor's Report

11. A MURGC is, by nature, a Key Audit Matter (KAM). However, given its importance to users, the IAASB decided that material uncertainties should be reported in a separate section of the auditor's report.
12. The GC TF determined that the same rationale should apply when reporting a "close call" situation, given that it signposts to users. The GC TF is proposing to clarify this association in paragraph A1 of proposed ISA 570 as follows:

'A1. In addition to the matters addressed by this ISA, ISA 701 deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That ISA acknowledges that, when ISA 701 applies, the following are, by their nature key audit matters:

- ~~a~~ A material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- When significant judgments were made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

~~is, by its nature, a key audit matter.~~ However, in such circumstances, the implications for the auditor's report are in accordance with this ISA.'

13. Alignment changes are also proposed to the illustrations in the Appendix of proposed ISA 570:
  - a. Adding a subtitle to illustrations 1-2 to clearly signpost where no material uncertainty exists.
  - b. Amending illustration 2, which depicts a "close call" situation, to cross-reference from the KAM section to the Going Concern section by including under the heading "Key Audit Matters":

'In addition to the matter described in the Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.'

*NB: Conforming amendments would be made to ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report.*

14. The AUASB's submission supported the proposal to report "close calls" in a separate section of the auditor's report. However, the Accounting Standards do not specifically require disclosure of events or conditions that cast significant doubt on the entity's ability to continue as a going concern unless management's conclusions involve significant judgment. The Office of the AUASB considers that:
  - a. the Going Concern section is an appropriate location to disclose "close call" situations in the auditor's report, enabling users of financial statements to locate all going concern commentary in a single section of the auditor's report; and
  - b. the threshold for reporting "close call" situations is clarified through a GC TF proposal to include a reference to 'significant management judgments'.
15. An illustrative auditor's report reflecting the cumulative changes proposed to the auditor's report as a result of the proposals for going concern and fraud appears in the IAASB papers and is reproduced in Appendix 2 to this Agenda Item.

## *Other Proposed Amendments*

16. The GC TF has proposed amendments to paragraphs A18A, A31A and A42C of proposed ISA 570 to acknowledge the unique circumstances for certain entities operating in the public sector.
17. Another proposed change is in paragraph 40A to require documentation where significant professional judgments are made. This would clarify how ISA 230, *Audit Documentation*, applies when there are events or conditions that may cast significant doubt:

'40A. In applying ISA 230, the auditor shall include in the audit documentation significant professional judgments made relating to the auditor's:

  - (a) Conclusion on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether or not a material uncertainty exists; and
  - (b) Determination of the adequacy of management's disclosures in the financial statements related to going concern.'

## **Matter for the AUASB's Consideration**

### *Evaluating Management's Assessment*

18. The AUASB submission on ED-570 cautioned that the proposal to require the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances may be seen as inconsistent with the extent of work performed being commensurate to the assessed risk of material misstatement. The AUASB recommended that the IAASB:
  - a. Amend the requirements in paragraphs 17 to 19 to enable the auditor to use professional judgment based on the results of their risk assessment procedures to determine the extent of work to be performed.
  - b. Provide an example of the work effort required by the auditor when there are clearly no events or conditions that may cast doubt on an entity's ability to continue as a going concern and management has not prepared a detailed assessment.
  - c. Consider outlining the consequences where management has not prepared a detailed assessment, including where there may be a limitation on scope.
19. The GC TF considers that it is appropriate to retain the approach in ED-570 to require the auditor to evaluate management's assessment of going concern in all instances, and irrespective whether events or conditions have been identified, because:
  - a. Management's assessment is fundamental to support management's assertion that the going concern basis of accounting is appropriate.
  - b. A strengthened audit work effort is necessary in all circumstances.
20. The GC TF has proposed the following amendments to the proposed ISA 570:
  - a. Expanding the requirement in paragraph 17 to emphasise that evaluating management's assessment includes the "significant judgments on which management's assessment is based".
  - b. Clarifying the requirement in paragraph 19 that the auditor's procedures to evaluate the method, assumptions and data "shall be responsive to the assessed risks in relation to the entity's ability to continue as a going concern".
  - c. Restricting the scope of the requirement in paragraph 19(b) to "significant" assumptions.

### *Matter for consideration by the IAASB*

21. Despite the inclusion of the phrase “shall be responsive...” in paragraph 19, the Office of the AUASB considers that further guidance and examples are necessary to illustrate that the extent of the auditor’s procedures to evaluate management’s assessment may not always be extensive, particularly when no (or limited) events or conditions exist that may cast significant doubt.

### **Next steps/Way forward**

22. Following the September 2024 IAASB meeting, the GC TF will continue to discuss the significant issues raised by respondents to align further and refine the proposed ISA 570 (Revised), *Going Concern*.
23. In December 2024, the IAASB will consider the effective date for the revised standard and the conforming and consequential amendments to other ISAs with regard to GC TF recommendations.
24. The Office of the AUASB will prepare a paper on any remaining matters for the AUASB’s December meeting.
25. The IAASB is expected to vote to issue a revised ISA 570 at the December 2024 IAASB meeting.



## APPENDIX 1 – AUASB FEEDBACK ON IAASB ED-570 MAPPED TO IAASB'S PROPOSED ISA 570

Point No.	Key matters raised in AUASB Submission to the IAASB	How these matters have been Addressed in Proposed ISA 570 (Revised)
<i>Evaluation of Management's Assessment of Going Concern</i>		
1	<p>Clarify the work effort required when management has not prepared a detailed assessment and where there may be a limitation on scope.</p> <p>Relatedly, the requirement for the auditor to design and perform audit procedures in all circumstances may be seen as inconsistent with ISA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i>.</p> <p>In circumstances where the auditor (and TCWG) has not identified any events or conditions that may cast significant doubt, the auditor should be able to use their professional judgment to determine the extent of work required.</p>	<p>Some amendments have been made to partially address scalability concerns. For example, paragraph A30 now refers to "the nature and circumstances of the entity" to support scalable application when considering whether a lack of detailed assessment indicates a deficiency in internal control.</p> <p>Paragraph 19 has been amended to clarify that the nature and extent of the auditors procedures should be proportionate to the level of risk. However, further guidance and/or examples are necessary.</p> <p>Refer to paragraphs 18 to 21 of this Agenda Paper for further detail.</p>
<i>Definition of Material Uncertainty (Related to Going Concern)</i>		
2	<p>Recommended revising the definition of 'Material Uncertainty (Related to Going Concern)' (MURGC) by:</p> <ul style="list-style-type: none"> <li>- Removing reference to 'disclosures'</li> <li>- Include reference to the auditor's evaluation of management's plans for future actions</li> </ul> <p>Including material from paragraph A5 in a definition of the phrase "may cast significant doubt" or another requirement paragraph</p>	<p>This point has been addressed.</p> <p>The revised definition of Material Uncertainty (Related to Going Concern) no longer refers to 'disclosures'. It now includes a reference to management's plans for future actions (emphasised in grey below).</p> <p>'10. For purposes of the ISAs, the following term has the meaning attributed below: Material Uncertainty (Related to Going Concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. "May cast significant doubt" is used to refer to circumstances where the magnitude of the potential impact and likelihood of occurrence of the identified events or conditions are such that, unless management's plans for future actions mitigate their effects, the entity may be unable to realize its assets and discharge its liabilities in the normal course of</p>

		business and continue its operations for the foreseeable future. (Ref: Para. A4–A5)
<i>Evaluating Management's Plans for Future Actions</i>		
<b>3</b>	<p>Further application material is encouraged to assist auditors on:</p> <ul style="list-style-type: none"> <li>- Gathering audit evidence on management's intent and ability where there is insufficient documentation and detailed plans</li> <li>- The nature of work and the resulting impact when written confirmations from third parties cannot be obtained</li> <li>- Procedures that may be performed when information provided by third parties is for periods shorter than the auditor's going concern assessment period</li> </ul>	<p>This point has been addressed.</p> <p>Paragraph A48 has been expanded to recognise that the nature and extent of the audit evidence to be obtained about management's ability and intent is a matter of professional judgment based on the nature and the circumstances of the entity and the engagement.</p>
<i>Enhanced Transparency in the Auditor's Report</i>		
<b>4</b>	The heading of the section of the auditor's report on going concern should clearly indicate where there are issues in relation to going concern to assist users of the financial statements.	<p>This point has been addressed. A subtitle has been added to illustrations 1-2 to clearly signpost that no material uncertainty exists.</p> <p>Refer to paragraph 13a of this Agenda Paper.</p>
<b>5</b>	Ensure that the proposed explicit statement is not misinterpreted as a separate opinion on going concern and as guaranteeing the future viability of the entity.	<p>This point has been addressed in amendments to paragraph 33 (emphasised in grey below).</p> <p>'33. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and: (Ref: Para. A67–A68)</p> <p>(a) State that: (Ref: Para. A69–A70)</p> <p style="padding-left: 40px;">(i) In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the</p>

		<p>preparation of the financial statements is appropriate;</p> <p>(ii) Based on the audit evidence obtained, the auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and</p> <p>(iii) The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern...'</p>
6	The Accounting Standards do not include a specific requirement to disclose events or conditions that cast significant doubt on the entity's ability to continue as a going concern unless management's conclusions involve significant judgment.	<p>This point has been addressed in paragraph A1.</p> <p>Refer to paragraph 12 of this Agenda Paper.</p>
7	Paragraph 33 should apply to all audits of financial statements, given the importance of alerting users to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. If this requirement is not extended beyond listed entities, then the standard should explicitly encourage voluntary application	<p>This point has not yet been addressed.</p> <p>Extending the differential requirements beyond listed entities to PIEs will be considered after the Listed Entity and PIE Task Force have sufficiently progressed their analysis of respondents' feedback on the Exposure Draft for PIE Track 2.</p> <p>In the interests of scalability and as supported generally by stakeholders, the IAASB has no intention to extend this requirement to all entities.</p>
8	Paragraph A1 of ED-570 and changes to ISA 700 will clarify that for listed entities, the going concern section of the auditor's report, and not a key audit matter, should cover instances where events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but the auditor concludes that no material uncertainty exists. Paragraph 15 of ISA 701 should also be revised to clarify that communicating a key audit matter in the auditor's report is not a substitute for reporting in accordance with ED-570.	<p>This point has been partially addressed through proposed changes to illustration 2 in the Appendix of the standard. Refer to paragraph 13b of this Agenda Paper.</p> <p>This matter will be further considered post-September 2024 when the GC TF addresses the conforming and consequential amendments to other ISAs, including ISA 701.</p>

## APPENDIX 2

### ILLUSTRATIVE AUDITOR'S REPORT

#### **Illustration – Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**

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

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.<sup>1</sup>
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements relating to the audit in the jurisdiction, and the auditor refers to both. The IESBA Code and the ethical requirements relating to the audit in the jurisdiction include independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the independence requirements applicable to audits of financial statements of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist in accordance with ISA 570 (Revised 202X).
- Management has disclosed information about significant judgments made in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and the disclosures are adequate in view of the applicable financial reporting framework.
- Key audit matters have been communicated in accordance with ISA 701.<sup>2</sup>
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.

<sup>1</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

<sup>2</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements<sup>3</sup>

#### Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

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

#### Going Concern

##### *No Material Uncertainty Related to Going Concern*

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

We draw attention to Note X in the financial statements, which describes the uncertainties faced by the Company, the significant judgments made by management in assessing the entity's ability to continue as a going concern and the range of mitigating actions that have been deployed to address the effects on the Company's business activities.

In undertaking their assessment of going concern for the Company, management reviewed the forecast future performance and anticipated cash flows. In doing so they considered the financing available to the Company and associated debt covenants, including the covenant relaxation that the Company has obtained in relation

<sup>3</sup> The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

to its financing facility, and cost saving actions that the Company have taken, including certain Government support schemes. Management have also determined appropriate sensitivities to these forecasts and considered the results in forming their conclusion.

In responding to the identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, we completed the following audit procedures:

- Obtained an understanding of relevant controls relating to the assessment of going concern models, including the review of the data and significant assumptions used in those models;
- Obtained management's board approved three-year cash flow forecasts and covenant compliance forecasts, including the sensitivity analyses;
- Assessed the appropriateness of forecast assumptions by:
  - Reading analyst reports, industry data and other external information and comparing these with management's estimates to determine if they provided corroborative or contradictory evidence in relation to management's assumptions;
  - Comparing forecast sales with recent historical financial information to consider accuracy of forecasting;
  - Enquiring of management regarding the mitigating actions to reduce costs and manage cash flows and challenging the quantum of those actions with reference to supporting evidence and assessing whether the mitigating actions were within the Company's control;
  - Testing the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the significant assumptions underlying the forecast;
  - Reviewing correspondence confirming Government support;
  - Reviewing correspondence relating to the availability of the Company's financing arrangements, including the covenant relaxation obtained by the Company in relation to its financing facility;
  - Understanding and challenging the level of further mitigations available to the Company beyond those included within the forecast; and
  - Considering the results of the sensitivity analyses performed; and
- Evaluated the Company's disclosures on going concern against the requirements of IAS 1.

Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate

opinion on these matters. In addition to the matter described in the *Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### *Fraud Risk: Revenue Recognition (Refer to note XX of the financial statements)*

As part of our risk assessment and based on a presumption that there are risks of fraud in revenue recognition, we evaluated which types of revenue transactions and assertions give rise to the risk of fraud in revenue recognition. The Company enters into contracts that are considered complex from a revenue recognition perspective. We focused on those contracts which include a fixed price element. The nature of those contracts require management to estimate the cost to complete, that impacts the revenue recognized.

Estimates are inherently uncertain and might be subject to management bias. There might be incentives for management to use estimates in order to satisfy stakeholders, reach key performance indicators (KPIs) outlined in compensation plans and-/or to meet debt covenants.

Where relevant to our audit, we assessed the design of the internal control measures related to revenue recognition and in the processes for generating and processing journal entries related to the revenue. We used a primarily substantive testing-based approach with respect to the cost to complete. The audit procedures included obtaining evidence to support applied hourly rates, challenging the number of expected hours to complete the project and reconciling changes in budgets to supporting evidence such as contract modifications. We also discussed the progress of the projects with the respective project managers and management of the operating companies. When performing these audit procedures, we remained alert to the inherent risk of management bias.

### *Project Revenue Recognition and Valuation of Contract Assets (Refer to notes XY and YY of the financial statements)*

Management applies judgement to determine the cost to complete for contracts, which is the basis for revenue recognition and contract asset valuation, as well as for assessing provisions for onerous contracts. In addition, the valuation of contract assets requires significant management judgement in determining recoverability, especially in the XYZ region, considering the above average ageing and the magnitude of the contract assets.

We assessed the nature of the Company's revenue contracts. We performed substantive audit procedures on individually significant projects as well as high-risk projects. In addition, we took a sample over the remaining population to ensure sufficient coverage over all projects. These substantive procedures focused on the key assumptions applied by the Company to determine the cost to complete. The procedures included obtaining evidence to support applied hourly rates, challenging the number of expected hours to complete the project and reconciling changes in budgets to supporting evidence such as contract modifications. We also discussed the progress of the projects with the respective project managers and management of the operating companies. In these audit procedures, we were alert to management bias.

With regards to the above average ageing, magnitude of the contract assets in the XYZ region, and the announced decision to reduce the Company's footprint in the XYZ region, specific attention has been given to the collection of trade receivables and valuation of several contracts with significant contract assets. We have discussed management's position papers for these projects with the responsible project managers, the contract solutions team and the regional CFO and CEO. We have obtained supporting documentation, which included support for contract modifications, correspondence with the client and minutes confirming the status of negotiations with the client. We assessed the adequacy of the disclosures relating to revenue recognition, in accordance with the requirements of IFRS15.

### *Valuation of Goodwill and Intangible Assets (Refer to note ZZ of the financial statements)*



We focused on this area given the magnitude of the goodwill balance and because the executive board's assessment of the 'value in use' of the Company's eight Cash Generating Units (CGUs) is subject to significant estimation uncertainty. This involves significant judgement about the future revenue growth, operating earnings before interest tax and amortization (EBITA) margin, working capital developments and the discount rates applied to discount cash flow forecasts.

We especially focused our audit efforts on those CGUs that had limited headroom, specifically the AA CGU. Our audit procedures mainly included, an assessment of assumptions applied in the model, testing of the inputs to the model, assessing the disclosure note on goodwill, testing mathematical accuracy of the model and a reconciliation of the model to the five-year forecasts and long-term strategic plans that were approved by senior management. Our valuation experts supported us in the evaluation of the model in accordance with IAS 36, evaluation of the discount rate as well as other assumptions and methodologies used.

We have challenged the assumptions applied by management. This was done by, amongst others, testing the expected margin increase, by comparing the margin and revenue growth to the historic performance of the Company, assessing the expected revenue growth by reviewing available market data for the industry outlook and development of the book-to-bill ratio. Discussions were held with local management of AA CGU, emphasizing the measures taken within the organization to reduce costs and improve margins. Further, we gained an understanding of local management strategic plans to improve the CGU's performance in the future and the inclusion thereof in the forecast used for impairment testing. We also have analyzed the sensitivity of the 'value in use' to changes in the respective assumptions. We assessed the adequacy of the disclosures relating to goodwill in accordance with the requirements of IAS 36.

### *Fraud Risk: Risk of Management Override of Controls*

The risks of fraud and management's ability to override the system of internal control are present in every entity. We therefore paid attention to the risk of management override of controls, including identifying fraud risks based on an analysis of potential interests of management such as the incentive by management to meet certain targets. Considering this analysis, we paid specific attention to the estimate of the cost to complete on revenue contracts.

We evaluated the design of the internal control environment that reduces the risk of a breach of internal controls. Also, we paid specific attention to user access management in the IT system and performed compensating procedures when necessary. We selected journal entries based on risk criteria and performed audit procedures to validate these entries. We also performed specific audit procedures regarding important estimates made by management, including the cost to complete revenue contracts for clients. In our assessment of estimates, we remained alert to the inherent risk of bias from management with regards to estimates.

### **Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

Management<sup>4</sup> is responsible for the other information. The other information comprises the [information included in the X report,<sup>5</sup> but does not include the financial statements and our auditor's report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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<sup>4</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>5</sup> A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.



In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>6</sup>**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,<sup>7</sup> and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.<sup>8</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we

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<sup>6</sup> Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>7</sup> Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

<sup>8</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any:

- Significant deficiencies in internal control that we identify during our audit,
- Identified fraud or suspected fraud; and
- Other matters related to fraud that are, in our auditor's judgment, relevant to the responsibilities of those charged with governance.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters, which includes matters related to fraud. We describe these key audit matters, including matters related to fraud in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements**

*[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.]*

The engagement partner on the audit resulting in this independent auditor's report is [name].

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*



# AUASB Agenda Paper

<b>Title:</b>	Listed Entity and PIE (Track 2) – Alignment of Definitions and Key Concepts with Code of Ethics	<b>Date:</b>	10 September 2024
<b>Office of the AUASB Staff:</b>	See Wen Ewe / Rene Herman	<b>Agenda Item:</b>	5.3

## Objective of this Agenda Paper

- The objectives of this Agenda Item are to:
  - Provide a high-level overview of the main themes from the feedback received by the IAASB on the PIE Track 2 Exposure Draft; and
  - Seek input from the AUASB on the options proposed by the PIE Track 2 Taskforce.
- Member views may inform Bill Edge in providing his views to the IAASB as a member. Significant issues (if any) may also be communicated to the IAASB by the AUASB Director (Technical) and/or the AUASB Chair.

## Questions for the AUASB members

Question No.	Question for the AUASB members
<b>Question 1</b>	Do AUASB members agree with encouraging the IAASB not to adopt PIE for differential requirements in ISQM 1 and the ISAs (see paragraph 14)?
<b>Question 2</b>	Do AUASB members have any other comments?

## Background and Previous Discussions on Topic

- At the December 2023 AUASB meeting, the Office of the AUASB updated the AUASB on the status of the IAASB's Listed Entity and Public Interest Entity (PIE) Track 2 project (see Agenda Item 15 of the [December 2023 Papers which commences at page 140](#)). AUASB members expressed support for the IAASB's proposals but raised some concerns about expanding Key Audit Matters (KAMs) from listed entities to public interest entities (PIEs).
- The [IAASB PIE Track 2 ED<sup>1</sup>](#) was issued in early January 2024 for 90-day comment period. The IAASB proposed two key revisions:
  - align definitions and requirements in IAASB standards with new definitions for publicly traded entity and PIEs in the IESBA Code; and
  - extend the applicability of existing differential requirements for listed entities to meet heightened stakeholder expectations regarding audits of PIEs.
- The AUASB issued an [AUASB Consultation Paper](#) 'wrap-around' of the IAASB PIE Track 2 ED in February 2024 for a 50-day comment period. The AUASB [submission](#) to the IAASB reflected the key themes from the feedback received:
  - Support for new definitions.

<sup>1</sup> The IAASB's Proposed Narrow Scope Amendments to International Standards on Quality Management; International Standards on Auditing; and International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

- (b) Support for objectives and guidelines with regard to differential reporting.
- (c) With regard to expanding differential requirements to PIEs:
  - (i) Not to expand KAMs beyond listed entities but use the new term “Publicly Traded Entity”.
  - (ii) Mixed views on engagement quality reviews, where some smaller firms may struggle with resourcing.
- (d) Not strong support on revising ISRE 2400<sup>2</sup> to provide transparency in the practitioner’s review report about the relevant ethical requirements for independence. Rather, any revisions should be considered as part of a holistic revision of ISRE 2400 and ISRE 2410.

## Feedback received by the IAASB (for information only – no input is sought from AUASB members)

6. Feedback from respondents was consistent with the Australian submission to the IAASB as follows.
- (a) Overall support for the overarching objective and purpose for establishing differential requirements for PIEs.
  - (b) General support for the adoption of the definitions of PIE and PTE.
  - (c) General support to extend differential requirements applicable to audits of listed entities to PIEs for:
    - (i) engagement quality reviews,
    - (ii) communication with those charged with governance (TCWG) about the firm’s system of quality management; and
    - (iii) disclosing the name of the engagement partner in the auditor’s report.
  - (d) Mixed views on differential requirements for PIEs for communication with TCWG about auditor independence matters and communicating KAMs in the auditor’s report.
  - (e) Overall support for the proposed revisions to ISRE 2400 to provide transparency in the practitioner’s review report about the relevant ethical requirements for independence applied for certain entities.
  - (f) Encouragement to consider holistic revisions to ISRE 2400 and ISRE 2410<sup>3</sup>.

## Matters for Consideration

### A. Possible divergence between the IAASB proposals and the IESBA revisions in determining PIEs

- 7. There is a risk of divergence between the IAASB proposed definition of PIE and the IESBA PIE revisions, which can affect the path forward on this project.
- 8. Paragraph R400.18 of the IESBA’s [\*Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code\*](#) requires firms to take into account more explicit definitions of PIEs established by law, regulation or professional standards in determining which entities to treat as PIEs.
- 9. The IESBA reaffirmed at its March 2024 meeting that the responsible local bodies are best placed to decide which entities or classes of entities should be scoped in as PIEs given their local knowledge and understanding of the broader issues that impact public expectations. Firms should always comply with the local definition of PIE in their respective jurisdictions regardless of whether such local definition addresses all of the mandatory PIE categories in the IESBA’s revisions. This position

<sup>2</sup> ISRE 2400 *Engagements to Review Historical Financial Statements*

<sup>3</sup> ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

has been reaffirmed by the IESBA in a Staff Questions and Answers released on 3 September 2024 (refer Appendix 1 to this Agenda Paper)

10. However, under the IAASB's proposed requirements in paragraph 18A of ISQM 1 and paragraph 23A of ISA 200, the auditor must treat an entity as a PIE in accordance with PIE definition, and in addition consider more explicit definitions established by law, regulation or professional requirements. That is, the mandatory PIE categories would always apply, whether or not the local PIE definition is aligned with the IAASB PIE definition.
11. Given this divergence, stakeholders consider it would be inappropriate at this time for the IAASB to extend the differential requirements in the ISQMs and ISAs that apply to listed entities, to apply to PIEs. Firms appear to have significantly more responsibility under the IAASB proposals compared to the IESBA PIE revisions, and certain entities treated as PIEs under the IAASB proposals may not be PIEs for applying the Code of ethics in the same jurisdiction. This means that certain entities will be treated as PIE under the IAASB proposals, but not for purposes of the IESBA Code.

## B. Options considered by Task Force

12. A key driver for the IAASB PIE track 2 project was to achieve a global baseline definition of PIE that could be consistently applied across jurisdictions. The Task Force proposes the following two options for advancing the IAASB proposals:

- (a) Option 1: Adopt of the definition of "PTE" solely to replace "listed entity" but encourage firms to consider applying differential requirements to entities other than PTEs, such as PIEs.

### *Advantages of Option 1:*

- Maintain globally consistent application of the requirements in the ISQMs and ISAs.
- Simple.

- (b) Option 2: Adopting the definitions of "PIE" and "PTE" from the IESBA PIE revisions only to the extent that relevant local bodies have (i) further refined those categories; or (ii) determined that they are appropriate as is.

### *Advantages of Option 2:*

- Meet the project objective of achieving greatest possible convergence between the definitions and key concepts underlying the definitions used in the IESBA PIE revisions and maintain their interoperability.
- Meet the heightened expectations of stakeholders regarding audit engagement of PIEs.

13. It should be noted that:
  - (a) The definition of PIE in the APESB Code of Ethics is essentially the same as the PIE definition proposed by the IAASB.
  - (b) The [AUASB's submission](#) to the IAASB raised concerns on extending KAMs from listed entities to PIEs (see also [AUASB Feedback Statement on Expanding Key Audit Matters Beyond Listed Entities](#) for the key issues raised by Australian stakeholders). If the IAASB decides to go with Option 2, the differential requirements to communicate KAMs for listed entities may extend to the entities defined as PIEs by the APESB.
14. The Office of the AUASB recommends that the IAASB be encouraged to adopt Option 1 for the following reasons:

- (a) The overall objective of the PIE track 2 project will not have been achieved under Option 2 which does not result in a global baseline.
- (b) Option 2 is more complicated which may confuse stakeholders/users of financial statements and make comparison difficult.
- (c) Australian stakeholders were not strongly supportive of the entire PIE Track 2 project, particularly in extending KAMs to apply to PIEs.

### **C. Timing**

- 15. Summary of responses for Questions 3A – 8 of the [IAASB PIE Track 2 ED](#) will be presented to the IAASB at its December 2024 meeting, together with a full draft of proposed narrow scope amendments to the ISQMs, ISAs and ISRE 2400.

### **Next steps/Way Forward**

- 16. The Office of the AUASB will continue to monitor the progress of this project and provide feedback to AUASB members and the Australian IAASB member as appropriate.

## **APPENDIX 1**

EXTRACTED FROM IESBA STAFF QUESTIONS AND ANSWERS – UPDATED 3 SEPTEMBER 2024

### **What is required of a firm if a jurisdiction has no PIE definition or the relevant local body has excluded one or more of the mandatory categories set out in paragraph R400.22(a)-(c)?**

Paragraphs R400.22 and R400.23 are to be read in conjunction with each other and require firms to treat an entity as a PIE based on the more explicit definition established in local law, regulation or professional standards.

If a jurisdiction does not have a PIE definition, the Code does not require firms to treat any entity in that jurisdiction as a PIE. Also, if a jurisdiction has not included one or more of the mandatory categories in paragraph R400.22(a)-(c) in its PIE definition, the Code does not require firms to treat any entity in that jurisdiction that falls in those categories as a PIE. However, as noted in the explanatory guidance to the definition of PTE in the Glossary to the Code, a listed entity as defined by the relevant securities law or regulation is an example of a PIE under the PTE category. Therefore, in the absence of a PIE definition and where there are such listed entities in a jurisdiction, firms in that jurisdiction should treat these entities as PTEs and PIEs. See also Q4.

Notwithstanding that the Code does not impose the above mentioned requirements on firms, firms are not precluded from treating an entity in the particular jurisdiction as a PIE pursuant to the encouragement and guidance in paragraph 400.24 A1



# AUASB Agenda Paper

<b>Title:</b>	Proposed ASSA 5010 <i>Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001</i>	<b>Date:</b>	10 September 2024
<b>Office of the AUASB:</b>	Anne Waters / Rebecca Mattocks	<b>Agenda Item:</b>	6.1

## Objectives of this Agenda Paper

1. This Agenda Item seeks:
  - (a) AUASB member feedback on a revised draft Exposure Draft of a Proposed Australian Standard on Sustainability Assurance ASSA 5010 *Timeline for Audits or Reviews of Information in Sustainability Reports Under the Corporations Act 2001* (ED 02/24); and
  - (b) AUASB approval to issue ED 02/24 for a 75-day comment period.

## Questions for AUASB members

No.	Question
1	Do AUASB members have any comments on ED 02/24 (see agenda paper 6.1.1)?
2	Do AUASB members approve issuing ED 02/24 for a 75-day comment period, subject to review of final changes by the Chair?

## Background and previous discussions on the topic

2. Schedule 4 of the [\*Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Bill 2024 \(Cth\)\*](#) (the Bill) proposes a new mandatory climate disclosure framework for larger entities that prepare financial reports under Chapter 2M of the *Corporations Act 2001* (the Act). The Bill passed the Senate with amendments on 22 August 2024 and is expected to be passed by the House and given Royal Assent.
3. Under the draft Bill, the AUASB would be responsible for specifying the extent to which sustainability reports under the Act for financial years commencing on or before 30 June 2030 must be audited and/or reviewed (assurance phasing).
4. The draft ED 02/24 may need updating following the:
  - (a) Passing of the Bill;
  - (b) Finalisation of the AASB's Sustainability Reporting Standards; and
  - (c) Finalisation of the IAASB's ISSA 5000 *General Requirements for Sustainability Assurance Engagements* (ISSA 5000).



## *Previous AUASB Discussions*

5. At its meeting on 23 May 2024, the AUASB tentatively agreed on a proposed assurance phasing model for inclusion in an exposure draft, considering feedback received on its [Consultation Paper Assurance over Climate and Other Sustainability Information](#) (Consultation Paper).
6. At its meeting on 17 July 2024, the AUASB considered the first draft of ED 02/24 and decided that the proposed assurance phasing model should be exposed separately from any other matters the AUASB may decide to include in a standard. This was in the interest of issuing a proposed model as quickly as possible to provide clarity on the possible timing and extent of assurance, and to allow preparers and auditors sufficient time to prepare and build capacity.
7. At its meeting on 6 August 2024, the AUASB considered a revised Draft ED 02/24, and discussed the following:
  - (a) The Explanatory Material should contain more explanation on the basis for the proposed phasing model. Also more context should be given to the question of whether to require limited assurance on 'Governance' and 'Strategy (risks and opportunities)' in the first year of reporting.
  - (b) Views were split on whether ED 02/24 should use the terminology 'audit' and 'review' consistent with the proposed legislation or the terminology 'reasonable assurance' and 'limited assurance' consistent with draft ISSA 5000 *General Requirements for Sustainability Assurance Engagements*?
  - (c) Whether the option for reasonable assurance where only limited assurance is required should be presented separately from the minimum requirement?
  - (d) Further information should be provided in the Explanatory Memorandum on the basis for requiring entities that enter a Group after the first reporting year for that Group to be subject to the same assurance requirements as other entities in the Group.

## *Update to AASB's Sustainability Reporting Standards*

8. The Australian Accounting Standards Board (AASB) has continued to consider feedback on its exposure draft of proposed sustainability reporting standards ([ED SR1](#)). [In response to](#) feedback, the AASB has decided to align to the ISSB's IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* as far as possible, which the main exception of industry-based metrics. The equivalent AASB standards will be AASB S1 and AASB S2. AASB S1 will be voluntary and AASB S2 will be mandatory. Certain disclosure requirements in AASB S1 that are needed to support the climate disclosures in AASB S2 will be included in a mandatory Appendix D to AASB S2.
9. The AASB considered a draft of AASB S2 *Climate-related Disclosures* at its meeting on 26 August 2024. No further major changes are anticipated and the Office of the AUASB has updated paragraph references in the draft ED 02/24 to align with the working draft.

## *Revised draft ED 02/24*

10. The revised draft ED 02/24 (see agenda paper 6.1.1) has been updated as follows:
  - (a) references to disclosure paragraphs have been updated to the latest publicly available draft of AASB S2 (see paragraph of the proposed standard). The references in the final standard may need to be updated to reflect any subsequent amendments to the AASB's final AASB S2.
  - (b) including additional explanatory material explaining the basis for the proposed assurance phasing (see paragraph 14 of the Explanatory Material).
  - (c) Including additional explanation on the options for the first year of reporting (i.e. whether limited assurance should be required on governance and risk/opportunity disclosures) (see subparagraph 14(b) and paragraph 15 of the Explanatory Material).
  - (d) discussing the approach to entities moving into a reporting Group after the first year of reporting (see paragraph 14(g) of the Explanatory Material)

- (e) placing the option for reasonable assurance where limited assurance is otherwise required in a separate paragraph (see subparagraph 12(d)(i) of the proposed standard).
11. It is yet to be decided whether ED 02/24 will be issued as a standalone Australian Sustainability Assurance Standard or whether it will be incorporated into the Australian equivalent of ISSA 5000 (proposed ASSA 5000). While there may be reasons to incorporate the text of the proposed standard into the proposed ASSA 5000 as application and operative date paragraphs, a separate standard would facilitate updating references to any amended AASB S2 or making any refinements of the phasing,
12. The terminology of 'audit' and 'review' is currently considered appropriate given that it is consistent with the proposed legislation. However, should the assurance phasing be incorporated into the proposed ASSA 5000, the terminology of reasonable and limited assurance may be more appropriate.

## Next Steps

13. Update Revised ED 02/24 for any AUASB member feedback.
14. Subject to approval from the AUASB, release Revised ED 02/24 in the week beginning 16 September 2024 for a 75 day exposure period ending approximately Friday 29 November 2024. The AUASB will be provided a high-level analysis of feedback at its meeting on 2 December 2024.
15. The final standard will be provided to AUASB member for approval in mid-December 2024 or January 2025 depending upon the passage of the legislation, issuing of the AASB standards and the timing of an Australian equivalent to ISSA 5000.

## Other Materials

Agenda paper no.	Description
6.1.1	Draft Exposure Draft – ED 02/24 <i>Timeline for Audits or Reviews of Information in Sustainability Reports under the Corporations Act 2001</i>

EXPOSURE DRAFT

**ED 02/24**  
(September 2024)

# **Proposed Australian Standard on Sustainability Assurance ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001***

**Comments Due:** **XX 2024 (75-day comment period)**

Issued for Comment by the Auditing and Assurance Standards Board

## **NOTE:**

This document may take the form of a standalone standard (as currently presented) or be incorporated into the proposed ASSA 5000 *General Requirements for Sustainability Assurance Engagements* which would be based on an equivalent international standard.



**Australian Government**  
**Auditing and Assurance Standards Board**

## Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than **XX** 2024.

Comments should be addressed to:

The Chair  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## Formal Submissions

Submissions should be lodged online via the “Projects-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([auasb.gov.au/projects/Open-for-comment](https://www.auasb.gov.au/projects/Open-for-comment)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](https://www.auasb.gov.au)

## Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](https://www.auasb.gov.au)

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ISSN 1030-603X

## PREFACE

### Reasons for Issuing ED 02/24

The AUASB issues exposure draft ED 02/24 of proposed Australian Standard on Sustainability Assurance ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* as required by s1707E(2) of the *Corporations Act 2001* (the Act).

The AUASB is an independent non-corporate Commonwealth entity of the Australian Government, established under section 227A of the *Australian Securities and Investments Commission Act 2001*.

### Proposal

This Australian Standard on Sustainability Assurance (ASSA) specifies the timeline for information in a sustainability report for a financial year prepared in accordance with Chapter 2M of the Act to be subject to audit and/or review.

### Proposed Operative Date

It is intended that this proposed standard be operative for annual financial reporting periods commencing from 1 January 2025 to 30 June 2030.

### New Standard on Assurance over Sustainability Information

This proposed standard is a new pronouncement of the AUASB and does not supersede a pre-existing standard.

### Request for Comments

Comments are invited on this Exposure Draft by no later than **XX** 2024.

#### *Important Note and Disclaimer*

This Exposure Draft, in itself, does not establish or extend the requirements under existing AUASB Standards and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors are required to comply when conducting an audit. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

## **EXPLANATORY MEMORANUM**

### **Introduction**

1. Schedule 4 of the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (Cth)* (the Bill) proposes a new mandatory climate disclosure framework for larger entities that prepare financial reports under Chapter 2M of the *Corporations Act 2001* (the Act).
2. Among other matters, the draft Bill proposes to require that:
  - (a) certain entities that prepare annual financial reports under Chapter 2M of the Act must prepare an annual sustainability report to accompany the financial report; and
  - (b) the AUASB must specify the extent to which sustainability reports prepared in accordance with the Act for financial years commencing on or before 30 June 2030 must be audited and/or reviewed (assurance phasing).

### **Legislation and other standards**

3. This exposure draft was issued on XX September 2024 with reference to the Bill before parliament and certain draft standards. ASSA 5010 is subject to the final legislation and standards, and will be updated as necessary for any changes in the final versions of the following:
  - (a) The legislation. The Bill was passed by the Senate with amendments on 22 August 2024 and was to be returned to the House of Representatives for review and passage before receiving Royal Assent;
  - (b) The Australian Accounting Standards Board's (AASB's) Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures*. This exposure draft refers to a working draft of AASB S2 which was discussed at a AASB meeting on 26 August 2024<sup>1</sup>; and
  - (c) International Standard on Sustainability Assurance ISSA 5000 *General Requirements for Sustainability Assurance Engagements* (ISSA 5000) which is expected to be issued by the International Auditing and Assurance Standards Board in September 2024, subject to consideration by the Public Interest Oversight Board in December 2024.
4. ASSA 5010 will determine how and when the Australian equivalent to ISSA 5000 will be applied in the audit and/or review of information in sustainability reports.

### **Background**

#### **Australia's Mandatory Climate Disclosure Regime**

5. Under the Bill:
  - (a) Entities that that prepare financial reports under Chapter 2M of the Act and meet certain minimum size thresholds and/or have emissions reporting obligations under the National Greenhouse and Energy Reporting (NGER) Scheme, will be required to prepare annual sustainability reports containing climate-related disclosures.
  - (b) Reporting will be phased in over time, beginning with the largest entities:
    - (i) For Group 1 entities – the first financial year commencing on or after 1 January 2025 (1 July 2025 if the legislation commences between 3 December

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<sup>1</sup> See *Working draft of AASB S2 Climate-related Disclosures* (Agenda paper 3.2.4 M207).

- 2024 and 1 June 2025; the first 1 January or 1 July to occur 29 days or more after commencement if the legislation commences on or after 2 June 2025);
- (ii) For Group 2 entities – the first financial year commencing on or after 1 July 2026;
  - (iii) For Group 3 entities – the first financial year commencing on or after 1 July 2027.

### **Assurance over Sustainability Information**

6. Under the Bill:
- (a) Sustainability reports for reporting periods ending on or after 30 June 2030 must be audited.<sup>2</sup>
  - (b) For financial years commencing before 30 June 2030, the AUASB is to make auditing standards that specify:
    - (i) The extent to which the sustainability report must be audited, or
    - (ii) The extent to which the sustainability report must be reviewed.<sup>3</sup>

### **Information Gathering and Consultation Process**

7. In developing the proposed timeline for an audit or review of sustainability reports, the AUASB endeavoured to obtain an understanding of the likely future demand for assurance and the expected ability of auditors and their experts to meet that demand. This involved:
- (a) Obtaining information informally from larger auditing firms on the likely future demand for assurance for Group 1 and Group 2 entities and the expected ability to meet that demand;
  - (b) Obtaining data from several external sources on the population of entities in Groups 1, 2 and 3;
  - (c) Reviewing submissions to Treasury's First and Second Consultation Papers on climate-related financial disclosures; and
  - (d) Considering academic research on the current level of assurance over climate-related financial disclosures in Australia.<sup>4</sup>
8. The AUASB issued Consultation Paper *Assurance over Climate and Other Sustainability Information* (Consultation Paper) on 20 March 2024 which sought feedback from auditors, experts, directors, preparers and users on the following:<sup>5</sup>
- (a) The likely demand from users and directors for assurance over climate-related financial information in annual reports of entities in each of Groups 1, 2 and 3;
  - (b) The likely maturity of entity systems, processes and information sources, including the availability of any necessary assurance over information from value chains; and
  - (c) The likely ability of auditors and their experts to meet that demand.
9. The Office of the AUASB held roundtables in Sydney, Melbourne, and Perth, as well as online, to facilitate discussion on the Consultation Paper. Twenty-nine written submissions (including two confidential submissions) were received from various stakeholders representing audit firms, non-accounting assurance practitioners, preparers, professional accounting bodies, investors, users, regulators and academics.
10. The overall feedback was:
- (a) Assurance should begin with limited assurance for a period of time before progressing to reasonable assurance.

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<sup>2</sup> section 301A of the Act

<sup>3</sup> section 1707E of the Act

<sup>4</sup> See [AUASB Research Report 10: Deakin-AUASB Sustainability Assurance Research Workshop](#)

<sup>5</sup> The Consultation Paper was updated on 4 April 2024 following the announcement on 27 March 2024 of a revised proposed first year for mandatory climate reporting by Group 1 entities, to 1 January 2025 (previously 1 July 2024).



- (b) Some considered the possible model in the Consultation Paper too ambitious.
- 11. The AUASB considered the feedback received and has developed an assurance phasing model for public exposure with the objective of balancing the demand for assurance over climate disclosures with the capacity and capabilities of auditors and their experts during the initial years of reporting, as well as the maturity of entity systems and processes.

## **Key Proposals**

- 12. The proposed ASSA 5010<sup>6</sup> specifies the extent to which the information in sustainability reports for financial years commencing between 1 January 2025 and 30 June 2030 must be audited and / or reviewed.
- 13. ED 02/24 proposes the following levels of assurance (see also diagrammatic representation in the Appendix to ED 02/24):
  - (a) Limited assurance over Scope 1 and 2 emissions from the first year of reporting, progressing to reasonable assurance in the second year of reporting;
  - (b) Limited assurance over governance and strategy (risks and opportunities) from the first year of reporting, progressing to reasonable assurance in the fourth year of reporting; and
  - (c) Limited assurance over all other disclosures from the second year of reporting, progressing to reasonable assurance in the fourth year of reporting.
- 14. Considerations in developing the proposed model in this exposure draft include:
  - (a) Commencing with limited assurance only over scope 1 and scope 2 emissions in the first reporting year would reflect the existing experience in assurance over such emissions under the National Greenhouse and Energy Reporting Scheme and would be consistent with policy outlined in the Government's Policy Position Statement<sup>7</sup>; or
  - (b) Subject to paragraph 15 below, requiring limited assurance over disclosures on governance and climate-related risks and opportunities would have regard to feedback from some stakeholders that:
    - (i) Assurance over governance disclosures would encourage entities to establish robust governance processes to support the matters covered by other disclosures; and
    - (ii) Identifying climate-related risks and opportunities is fundamental to an entity's strategy and other disclosures;
  - (c) A statement that there are no material risks or opportunities would be subject to the same level of assurance as identified climate-related risks and opportunities;
  - (d) Having consistent levels of assurance over disclosures would recognise the interconnectivity of disclosures, and simplify the audit report for users;
  - (e) Commencing limited assurance over other disclosures from the second year of reporting would give entities and auditors more time to prepare;
  - (f) It would seem appropriate to adopt a consistent phasing in of assurance for Groups 1, 2 and 3;
  - (g) Commencing reasonable assurance over all disclosures from the fourth reporting year, noting that the fourth reporting year for Group 3 entities is the first year commencing on or after 1 July 2030 when the Act would mandate reasonable assurance over all disclosures; and

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<sup>6</sup> ASSA 5010, *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*

<sup>7</sup> See [Mandatory climate-related financial disclosures - Policy position statement \(treasury.gov.au\)](#)



- (h) Where an entity joins a Group part way through the assurance phasing timeline, it would be subject to the same assurance requirements as other entities in the Group for the relevant reporting year. This would be analogous to the situation in which a proprietary company becomes a large proprietary company and is subject to the financial reporting requirements of the Act without any transition relief.
- 15. Most AUASB members supported the approach in subparagraph 14(b) above. Other members were of the view that there should only be assurance in the first year for scope 1 and scope 2 emission information having regard to the cost of assurance and the preparedness of entities for assurance.
- 16. The AUASB anticipates that the final standard will be approved in December 2024. This timeline is subject to the passage of legislation and the finalisation of both the AASB's mandatory climate reporting standards and the IAASB's ISSA 5000.<sup>8</sup>

## **Request for Comments**

- 17. The AUASB requests comments on all matters covered in ED 02/24, but specifically on the questions in the 'Exposure Draft Questions' section below. In this regard:
  - (a) Comments should be sufficiently detailed and include whether or not stakeholders agree with the proposed amendments.
  - (b) Stakeholders may address only specific questions relevant to them or raise matters not specifically addressed by a question.
  - (c) The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Standard.
  - (d) Comments will be most helpful when they refer to specific paragraphs, include the reasons for the comments and, when appropriate, make specific suggestions for any proposed changes to wording.

## **Exposure Draft Questions**

- 18. The AUASB is seeking comments from stakeholders on the following questions:

- 1. Do you agree that the audit and review requirements in ED 02/24 are appropriate, taking into account:
    - a. The relative importance and interconnectivity of each type of disclosure included in the sustainability report, and the cost of assurance over that information;
    - b. If you are an auditor, whether your audit firm could adequately resource the proposals for entities whose financial reports are audited by your firm; and
    - c. The readiness of Group 1, 2 and 3 entities' systems and processes for audit or review.
  - 2. Do you consider that governance disclosures and risks and opportunities should be subject to review in year 1?
  - 3. Do you agree that any statements that there are no material risks or opportunities should be subject to the same level of assurance as identified risks and opportunities?

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<sup>8</sup> ISSA 5000, General Requirements for Sustainability Assurance Engagements

4. Do you agree that assurance phasing requirements for Group 1, 2 and 3 entities should commence with the same settings and progress at the same pace?
5. Do you agree that entities that enter a Group after the first reporting year for that Group (e.g. due to an increase in their size) should be subject to the same assurance requirements as other entities in the Group for the relevant reporting year (i.e. they would not be subject to the assurance levels for the first reporting year)?
6. Do you agree with the approach to assurance over comparative information?
7. Have applicable laws and regulations been appropriately addressed in the proposed Standard?
8. What are the costs and benefits of the proposals, whether quantitative or qualitative and whether financial or non-financial? The AUASB is particularly seeking information on the nature and, where possible, estimated amount of any expected incremental costs of the proposals.
9. Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft?

Draft

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### **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Standard on Sustainability Assurance ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* as an auditing standard pursuant to section 227B(1)(a) of the *Australian Securities and Investments Commission Act 2001* and subsection 1707E(2) of the *Corporations Act 2001* (the Act) for the purposes of s336 of the Act.

Draft

## **Conformity with International Standards**

This standard has been made to specify the timing of audits and reviews of information in sustainability reports as required by Australian legislation. There is no equivalent International Auditing and Assurance Standards Board (IAASB) standard.

*Draft*

## **AUSTRALIAN STANDARD ON SUSTAINABILITY ASSURANCE ASSA 5010**

### ***Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001***

#### **Application**

1. This standard applies where an entity prepares a sustainability report for a financial year under Chapter 2M of the *Corporations Act 2001* (the Act).

#### **Operative Dates**

2. This standard is operative for annual financial reporting periods commencing from 1 January 2025 to 30 June 2030.

#### **Introduction**

##### **Contents of Sustainability Report**

3. The Act<sup>9</sup> requires certain entities that prepare annual financial reports under Chapter 2M of the Act to also prepare an annual sustainability report to accompany the financial report.
4. The sustainability report for a financial year consists of:
  - (a) the climate statement for the year required by the Sustainability Standards;
  - (b) any notes to the climate statements required by the Sustainability Standards or a legislative instrument made by the Minister under subsection 296A(4);
  - (c) any statements and notes relating to other financial matters concerning environmental sustainability required by a legislative instrument made by the Minister under subsection 296A(5); and
  - (d) the directors' declaration about the statements and the notes.<sup>10</sup>
5. Paragraph C3 in Appendix C of the Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures* (AASB S2)<sup>11</sup> provides that an entity is not required to provide comparative information in the first annual reporting period that it applies that standard.

##### **Audit/review of information in Sustainability Report**

6. The Act requires:
  - (a) Sustainability reports for financial years ending on or after 30 June 2030 to be audited.<sup>12</sup>
  - (b) The Auditing and Assurance Standards Board (AUASB) to make auditing standard for financial years commencing before 1 July 2030 that specify the extent to which information in the sustainability report must be audited and/or reviewed.<sup>13</sup>

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<sup>9</sup> Based on Schedule 4 of the *Treasury's Laws Amendment (Financial Market Infrastructure & Other Measures) Bill 2024*, which is yet to be passed.

<sup>10</sup> subsection 296A(1) of the Act

<sup>11</sup> AASB S2 had not been issued at the time that this exposure draft was issued. References in this exposure draft are to a working draft of AASB S2 which was discussed at a AASB meeting on 26 August 2024.

<sup>12</sup> section 301A of the Act

<sup>13</sup> section 1707E of the Act

7. Section 307AB requires the audit or review of the sustainability report to be conducted in accordance with the auditing standards made by the AUASB. These auditing standards are ASSA 5000 *General Requirements for Sustainability Assurance Engagements* (ASSA 5000)<sup>14</sup>.
8. This standard uses the terms auditor, audit and review which are consistent with the Act. For the avoidance of doubt, the following terms used in ASSA 5000 are to be read as having the same meaning as the terms used in the Act shown in the table below when conducting an audit or review of information in a sustainability report:

Term in ASSA 5000	Term in the Act
Engagement leader	Lead auditor (for the sustainability report)
Firm	Auditor
Limited assurance engagement	Review (noun)
Practitioner	Usually the lead auditor (for the sustainability report) or other professional members of the audit team conducting the audit or review, or, as applicable, the auditor.
Reasonable assurance engagement	Audit (noun)
Sustainability assurance engagement	Audit (noun) or review (noun), as applicable.

9. For the purposes of paragraph 15 of ASSA 5000, an audit involves obtaining reasonable assurance and a review involves obtaining limited assurance about whether the relevant sustainability information is free from material misstatement.

## Objective

10. The objective of the auditor is to conduct an audit and/or review of information in the sustainability report as specified in this standard.

## Definitions

11. Unless otherwise stated, terms used in this standard have the same meaning as those terms have for the purposes of Chapter 2M of the Act. The following terms have the meanings attributed below:
- (a) AASB S2 - Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures*.
  - (b) ASSA 5000 – Australian Standard on Sustainability Assurance 5000 *General Requirements for Sustainability Assurance Engagements*.
  - (c) Auditor – the audit firm, audit company or individual auditor of the entity for the purposes of Chapter 2M of the Act.
  - (d) Group 1 entities – entities to which paragraph 1707B(1)(a) of the Act applies.
  - (e) Group 2 entities - entities to which paragraph 1707B(1)(b) of the Act applies.
  - (f) Group 3 entities - entities to which paragraph 1707B(1)(c) of the Act applies.
  - (g) First year of reporting –the first financial year commencing:
    - (i) For Group 1 entities – from 1 January 2025 to 30 June 2026;<sup>15</sup>

<sup>14</sup> ISSA 5000 *General Requirements for Sustainability Assurance Engagements* upon which ASSA 5000 would be based is yet to be approved by the IAASB and considered by the PIOB.

<sup>15</sup> 1 July 2025 if the legislation commences between 3 December 2024 and 1 June 2025; the first 1 January or 1 July to occur 29 days or more after commencement if the legislation commences on or after 2 June 2025. There would also be changes to the definitions of ‘Second year of reporting’, ‘Third year of reporting’ and ‘Fourth year of reporting’.

- (ii) For Group 2 entities – 1 July 2026 to 30 June 2027;
  - (iii) For Group 3 entities – 1 July 2027 to 30 June 2028.
- (h) Second year of reporting –the first financial year commencing:
  - (i) For Group 1 entities – 1 July 2026 to 30 June 2027;
  - (ii) For Group 2 entities – 1 July 2027 to 30 June 2028;
  - (iii) For Group 3 entities – 1 July 2028 to 30 June 2029.
- (i) Third year of reporting –the first financial year commencing:
  - (i) For Group 1 entities – 1 July 2027 to 30 June 2028;
  - (ii) For Group 2 entities – 1 July 2028 to 30 June 2029;
  - (iii) For Group 3 entities – 1 July 2029 to 30 June 2030.
- (j) Fourth year of reporting – the first financial year commencing on or after:
  - (i) For Group 1 entities – 1 July 2028;
  - (ii) For Group 2 entities – 1 July 2029;
  - (iii) For Group 3 entities – 1 July 2030.
- (k) Sustainability Report – A sustainability report required under section 292A of the Act (see section 9 of the Act).
- (l) Sustainability Standards – those standards made for the purposes of the Act pursuant to section 336A of the Act.

## **Requirements**

12. Subject to paragraph 13, information in the sustainability report shall be subject to audit and / or review as follows:
- (a) For the First Year of Reporting the auditor shall conduct a review over the disclosures (including related general disclosures in Appendix D to AASB S2) relating to:<sup>16</sup>
    - (i) Governance in accordance with paragraph 6 of Draft AASB S2;
    - (ii) Strategy (risks and opportunities) in accordance with subparagraphs 9(a) to (d) and paragraphs 10 to 21 of AASB S2;
    - (iii) Scope 1 and Scope 2 greenhouse gas emissions in accordance with subparagraphs 29(a)(i)(1) to (2) and 29(a)(ii) to (v) of AASB S2; and
    - (iv) Any statement that there are no material risks or opportunities relating to climate and how that applies to the entity under s296B(1)(c) and (d) of the Act or any similar statement otherwise made in the sustainability report.
  - (b) For the Second and Third Year of Reporting, the auditor shall conduct an audit of Scope 1 and Scope 2 greenhouse gas emission disclosures in accordance with subparagraphs 29(a)(i)(1) to (2) and 29(a)(ii) to (v) (including related general disclosures in Appendix D to AASB S2), and review all other disclosures in the sustainability report.
  - (c) From the Fourth year of reporting onwards the auditor shall conduct an audit over all disclosures in the sustainability report.
  - (d) The auditor is not prevented by (a) and (b) from:

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<sup>16</sup> References to provisions of AASB S2 are to a working draft discussed by the Australian Accounting Standards Board on 22 August 2024 and will be updated to the final AASB S2, if necessary.



- (i) conducting an audit of any information in the sustainability report for a financial year in which a review of that information is otherwise required; and/or
  - (ii) conducting an audit or review of any information in the sustainability report for a financial year in which an audit or review of that information is not required.
- 13. Where the sustainability report is required to, or does, include comparative information and, subject to the provisions of ASSA 5000 on comparative information:
  - (a) That information was not required to be, and was not, subject to assurance for the purposes of a publicly available report for the previous financial year, that comparative information is not required to be subject to assurance in the current year; and
  - (b) That information was required to be, or was, subject to limited assurance for the purposes of a publicly available report for the previous financial year, that comparative information is not required to be subject to reasonable assurance in the current year.

\* \* \*

*Draft*

## Appendix

(Ref: Para. 12)

### Diagrammatic Representation of Assurance Phasing

Reporting Year ->	1st*	2nd	3rd	4 <sup>th</sup>	5th	6th**
Governance	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Strategy – Risks and Opportunities ***	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate Resilience Assessments / Scenario Analysis	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Transition Plans	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Risk Management	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Scope 1 and 2 Emissions	Limited	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable
Scope 3 Emissions	N/A	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate-related Metrics and Targets	None	Limited	Limited	Reasonable	Reasonable	Reasonable

\* Group 1 – Years commencing 1 January 2025. Group 2 – Years commencing 1 July 2026. Group 3 – Years commencing 1 July 2027.

\*\* Group 3 is to be subject to reasonable assurance across all disclosures by years commencing 1 July 2030.

\*\*\* The phasing for assurance on Statements where there are no material climate-related financial risks and opportunities is the same as for ‘Strategy – Risks and Opportunities’.



# AUASB Agenda Paper

<b>Title:</b>	Sustainability assurance - Direct Assistance by Internal Audit	<b>Date:</b>	10 September 2024
<b>Office of AUASB Staff:</b>	Rene Herman / See Wen Ewe	<b>Agenda Item:</b>	6.2

## Objective of Agenda Item

1. The objective of this Agenda Item is to seek approval from AUASB members to issue a Consultation Paper on a proposed prohibition on the auditor/assurance practitioner for sustainability information from using direct assistance by an internal auditor.

## Question for AUASB members

Question No.	Question for AUASB members
<b>Question 1</b>	Do AUASB members approve the issue of the Consultation Paper <i>Proposed ASSA 5000 General Requirements for Sustainability Assurance Engagements – Prohibition of Direct Assistance by Internal Auditors</i> for a 75-day comment period closing XX November 2024 (see <b>Agenda Paper 6.2.1</b> )?

## Background and Matters for Consideration

2. At the 6 August 2024 AUASB meeting, the AUASB discussed whether to consult on an amendment to an Australian equivalent of ISSA 5000 *General Requirements for Sustainability Assurance Engagements* to prohibit sustainability assurance practitioners from using of internal audit to provide direct assistance, consistent with ASA 610 *Using the Work of Internal Auditors* in the context of audits of financial reports.
3. The AUASB agreed to consult on a possible prohibition. The consultation document should:
  - (a) explicitly state that the prohibition would apply to internal auditors who are employees and external providers; and
  - (b) include a question on whether or not to prohibit direct assistance for both climate assurance and financial reporting audit.
4. The Office of the AUASB has drafted a Consultation Paper on the proposed prohibition of direct assistance by internal auditors (see **Agenda Paper 6.2.1**) for the AUASB's review and approval.
5. In addition it is proposed to consult on whether:
  - (a) the Australian Standards on Sustainability Assurance should be considered separately from ASA 610 and allow the use of internal auditors to provide direct assistance in a sustainability assurance engagement; and
  - (b) to reconsider the prohibition on the use of internal auditors to provide direct assistance in ASA 610.
6. As the ISSA 5000 is expected to be approved by the IAASB at its September 2024 meeting, the Office of the AUASB recommend that the Consultation Paper to be issued for a 75-day comment

period, closing in late November 2024 to allow sufficient time to present stakeholders' feedback at the December 2024 AUASB meeting.

## **Next steps**

7. Upon AUASB's approval, the Office of the AUASB will incorporate AUASB's suggestions to the Consultation Paper and publicise it on the AUASB website and social media channels for 75 days. The Office of the AUASB will conduct outreach activities to obtain stakeholder feedback on this Consultation Paper in October/November 2024.

September 2024

# Consultation Paper

## *Proposed amendment to ASSA 5000 General Requirements for Sustainability Assurance Engagements – Prohibition of Direct Assistance by Internal Auditors*

**Comments Due:** **XX 2024 (75-day comment period)**

Issued for comment by the Auditing and Assurance Standards Board



**Australian Government**

**Auditing and Assurance Standards Board**

## Obtaining a Copy of this Consultation Paper

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

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*Important Note and Disclaimer*

This Consultation Paper is issued by the AUASB to provide information to auditors, assurance practitioners and other stakeholders about *Proposed Amendment to ASSA 5000 General Requirements for Sustainability Assurance Engagements – Prohibition of Direct Assistance by Internal Auditors*.

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

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## CONSULTATION PAPER

### ***Proposed Amendment to ASSA 5000 General Requirements for Sustainability Assurance Engagements – Prohibition of Direct Assistance by Internal Auditors***

#### **Introduction**

1. In August 2023, the Australian Auditing and Assurance Standards Board (AUASB) exposed the International Auditing and Assurance Standards Board's (IAASB) [\*Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards\*](#) (proposed ISSA 5000) in Australia for a 75-day comment period.
2. The proposed ISSA 5000 has since been updated by the IAASB and includes references to the use of internal auditors to provide direct assistance by an assurance practitioner. In Australia ASA 610<sup>1</sup> prohibits auditors from using internal auditors to provide direct assistance in an independent audit or review conducted in accordance with the Australian Auditing Standards.
3. The AUASB has identified prohibiting the use of internal auditors to provide direct assistance as a potential compelling reason<sup>2</sup> to modify proposed ISSA 5000 for application in Australia and is seeking feedback from stakeholders on this matter.

#### **Legislation and other standards**

4. This consultation paper was issued on XX September 2024. The proposed amendments are subject to the finalisation of legislation and other standards, and will be updated as necessary for any changes in the final versions of the following:
  - (a) The [\*Treasury Laws Amendment \(Financial Market Infrastructure and Other IAASB Measures\) Bill 2024\*](#);
  - (b) The Australian Accounting Standards Board's Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures*; and
  - (c) ISSA 5000 which is expected to be issued by the IAASB in September 2024, subject to consideration by the Public Interest Oversight Board.

#### **Overview**

##### **Purpose**

5. The purpose of this Consultation Paper is to:
  - (a) provide stakeholders with information on the approach to the use of internal audit by sustainability assurance practitioners in the latest publicly available draft of ISSA 5000<sup>3</sup>;

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<sup>1</sup> ASA 610 *Using the Work of Internal Auditors*.

<sup>2</sup> Refer to paragraph 21 of this Consultation Paper for an explanation of compelling reasons.

<sup>3</sup> See [20240916 - Agenda Item 2-B.3 Sustainability Assurance - Proposed ISSA 5000 - Requirements \(clean\).pdf \(iaasb.org\)](#) and [20240916 - Agenda Item 2-B.4 Sustainability Assurance - Proposed ISSA 5000 - Application Material \(clean\).pdf \(iaasb.org\)](#).

- (b) provide stakeholders with information as to why the AUASB identified the use of direct assistance by internal auditors as a potential compelling reason to modify ISSA 5000; and
- (c) seek stakeholder feedback.

## **Request for Comments**

- 6. The AUASB requests stakeholders to provide responses to the questions contained in this Consultation Paper and include the rationale for the responses provided where appropriate. It is not necessary to respond to all questions.
- 7. Comments are requested by **XX** November 2024. Respondents are asked to submit their comments electronically through the AUASB website ([www.auasb.gov.au/projects/open-for-comment/](http://www.auasb.gov.au/projects/open-for-comment/)). Please submit comments in both PDF and Word formats.

## **Background**

- 8. In August 2023, the AUASB exposed the IAASB's [Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards](#) without modification in Australia for a 90-day comment period.
- 9. In April 2024, the AUASB issued its [Consultation Paper Assurance over Climate and Other Sustainability Information](#) seeking feedback on several matters including a proposal to adopt the standard on assurance over sustainability information being developed by the IAASB, ISSA 5000 *General Requirements for Sustainability Assurance Engagements*. All respondents agreed that ISSA 5000 should apply to:
  - (a) assurance over climate disclosures mandated under the Australian reporting framework and early voluntary assurance; and
  - (b) voluntary assurance over any other sustainability information.
- 10. The draft of ISSA 5000<sup>4</sup> to be considered by the IAASB at its September 2024 meeting includes the following paragraphs on the use of internal auditors to provide direct assistance by an assurance practitioner.
  - (a) Paragraph 42 states that:

“The engagement leader shall determine that members of the engagement team, and any practitioner’s external experts and internal auditors who provide direct assistance, collectively have the appropriate sustainability competence, competence and capabilities in assurance skills and techniques, and sufficient time, to perform the engagement.”
  - (b) Application material paragraph A30 states that:

“Internal auditors who provide direct assistance refers to the use of internal auditors to perform procedures under the direction, supervision and review of the practitioner. Although they may perform procedures similar to those performed by the practitioner, such internal auditors are not independent of the entity as is required of the practitioner. They are therefore not members of the engagement team. In some jurisdictions, the practitioners may be prohibited, or restricted to some extent, by law

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<sup>4</sup> See [20240916 - Agenda Item 2-B.3 Sustainability Assurance - Proposed ISSA 5000 - Requirements \(clean\).pdf \(iaasb.org\)](#) and [20240916 - Agenda Item 2-B.4 Sustainability Assurance - Proposed ISSA 5000 - Application Material \(clean\).pdf \(iaasb.org\)](#).

or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance.”

11. In Australia, Auditing Standard ASA 610 *Using the Work of Internal Auditors* conforms with the equivalent International Standard on Auditing (ISA 610) except that ASA 610 prohibits the auditor from using internal auditors to provide direct assistance in an independent audit or review conducted in accordance with the Australian Auditing Standards.
12. Internal audit is not prohibited in Australia. Only the use of internal audit to provide direct assistance. Direct assistance is defined in ISA 610 as “The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor”. The AUASB’s prohibition does not differentiate as to whether direct assistance is provided by internal auditors internal to the entity (employed by the entity) or external to the entity (outsourced).
13. The AUASB’s justification for the prohibition as per paragraph 4 of the [Basis for Conclusions](#) to ASA 610 was:

“... In considering whether or not to prohibit direct assistance, the AUASB considered the views of all stakeholders and concluded that a prohibition on direct assistance is justified as it reinforces the principle of auditor independence, which is critical to overall audit quality and the integrity of the external audit process. The AUASB is of the view that internal auditors are not independent of the audit client and are not subject to the same independence requirements as external auditors. A prohibition on the use of internal auditors to provide direct assistance creates a clearer division of responsibility between internal and external audit teams to safeguard against conflicts of interest and supports stakeholders’ expectations that external auditors should be free from threats to their independence.

This prohibition on direct assistance does not represent a divergence from ISA 610, as the IAASB makes it clear that its requirements and guidance in this area will not be applicable in jurisdictions where the use of internal auditors to provide direct assistance is prohibited.”
14. There are similar prohibitions in auditing standards in other jurisdictions including the UK and Germany. The New Zealand Auditing and Assurance Standards Board (NZAuASB) did not identify any compelling reasons to amend ISA 610 and accordingly did not prohibit the auditor from using internal auditors to provide direct assistance.

### **The AUASB’s Approach in Seeking Stakeholder Feedback**

15. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing and Assurance Standards.

### **Proposed modification of ISSA 5000**

16. Amend the definition of ‘engagement team’ in the table in paragraph 18 in the proposed ISSA 5000 as follows:

“The engagement leader and other personnel performing the engagement, and any other individuals who perform procedures on the engagement, excluding a practitioner’s external expert ~~and internal auditors who provide direct assistance on the engagement.~~ (Ref: Para. A29-A30)”
17. Amend paragraph 42 of proposed ISSA 5000 and add a new paragraph Aus 42.1 as follows:

“42. The engagement leader shall determine that members of the engagement team, and any practitioner’s external experts ~~and internal auditors,~~ collectively have the

appropriate sustainability competence, competence and capabilities in assurance skills and techniques, and sufficient time, to perform the engagement.

Aus 42.1 The practitioner shall not use internal auditors to provided direct assistance on the sustainability assurance engagement. This extends to the use of internal auditors for direct assistance for components in the context of a group sustainability assurance engagement.”

18. Application material paragraph A30 of proposed ISSA 5000 would be deleted:

~~“A30. Internal auditors who provide direct assistance refers to the use of internal auditors to perform procedures under the direction, supervision and review of the practitioner. Although they may perform procedures similar to those performed by the practitioner, such internal auditors are not independent of the entity as is required of the practitioner. They are therefore not members of the engagement team. In some jurisdictions, the practitioners may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance.”~~

### Criteria for modifying international standards

19. Under subsections 227B(3) and (4) of the *Australian Securities and Investments Commission Act 2001*, the AUASB “may make or formulate an auditing standard by issuing the text of an international auditing standard” and “the text of an international auditing standard may be modified to the extent necessary to take account of the Australian legal or institutional environment”.
20. Under paragraph (d) of the Financial Reporting Council’s AUASB *Strategic Direction*, “where appropriate and considered to be in the public interest and necessary to producing standards of the highest quality, the AUASB should incorporate additional requirements in Australian Auditing Standards”.
21. Sub-paragraph 8(c) of the *AUASB Policy and Process for International Conformance and Harmonisation of Standards (the Policy)* says that international standards should only be modified if there are compelling reasons to do so. Under paragraph 12, the Compelling Reason Test<sup>5</sup> for modification of an international standard is triggered when the international standard does not reflect, or is not consistent with:
  - (a) Australian legal and regulatory arrangements; or
  - (b) principles and practices that are considered appropriate in maintaining or improving audit or assurance quality in Australia.
22. Under paragraph 13 of the Policy, where (a) above applies, a new or modification requirement will:
  - (a) ensure effective and efficient compliance with the legal and/or regulatory framework in Australia; and
  - (b) not result in a requirement that is lesser than or in conflict with the requirements of the equivalent international standard.
23. Under paragraph 14 of the Policy, where paragraph (b) above applies, “any modification to the standard must:

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<sup>5</sup> Refer to *AUASB Policy and Process for International Conformance and Harmonisation of Standards*, for an explanation of the compelling reasons for modification of international standards and application of the Compelling Reasons Test.

- (a) ensure compliance with principles and practices that the AUASB considers appropriate and in the public interest in Australia;
  - (b) be clear and promote consistent application by all practitioners in Australia;
  - (c) promote significant improvement in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the Australian environment;
  - (d) not result in a standard that conflicts with, or results in lesser requirements than the international standard;
  - (e) not be overly complex and confusing; and
  - (f) not change the meaning or intent of the international standard by imposing more onerous requirements on practitioners in Australia than are necessary.”
24. Under paragraph 15 of the Policy, the AUASB will consider, and be satisfied that, whether any modification under (a) or (b) the benefits of modifying the standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).
25. Any addition or modification from the international standard will be clearly marked as an Australian paragraph (“Aus” prefix). However, minor wording and spelling changes (as opposed to significant terminology changes) need not be reflected in the Australian standard as a modification to the international standard where the intent remains unchanged.

#### **Application of ‘Compelling Reasons’ test**

26. APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board (APESB) requires auditors and audit firms to be independent when undertaking audit and review engagements. Audit engagement teams in Australia specifically exclude individuals within the client’s internal audit function, as direct assistance by the internal audit function to the external auditor is prohibited.
27. The approach in draft ISSA 5000 would not be consistent with current audit principles and practices in Australia. This is underscored by the approach taken in ASA 610 and APES 110 for audits of financial reports and the standard of auditor independence that is considered appropriate within Australia.
28. On the same basis as described in paragraph 13 of this Consultation Paper, the AUASB is considering prohibiting the use of direct assistance of internal auditors in the Australian equivalent of ISSA 5000. In reference to the compelling reasons criteria in paragraph 21 above, it is suggested that the proposed prohibition would:
- (a) be clear and promote consistent application by all practitioners in Australia;
  - (b) promote significant improvement in audit/assurance quality in the Australian environment;
  - (c) not result in a standard that conflicts with, or results in lesser requirements than the international standard;
  - (d) not be overly complex and confusing; and
  - (e) not change the meaning or intent of the international standard by imposing more onerous requirements on practitioners in Australia than are necessary.
29. A prohibition may also be necessary for consistency with the auditor independence requirements of the *Corporations Act 2001* in the context of engagement for the audit or

review of information in a sustainability report, as well as given possible interconnectivity with information in the financial report which is subject to ASA 610.

30. Consistent with the prohibition for financial report audits, current practice, the proposed prohibition would include direct assistance provided by internal auditors who are directly employed by the entity and those who are external providers.
31. As with the prohibition for financial report audit, the proposed prohibition would be intended to ensure that confidence in the quality of the sustainability information is supported by the quality of the independent audit.
32. The Australian equivalent of ISSA 5000 would still be compliant with the international standard. The applicable material to ISSA 5000 specifically acknowledges that in some jurisdictions, direct assistance may be prohibited.
33. The AUASB changes would apply for the same reporting periods as ISSA 5000. The AUASB amendments would be effective from the application date of ISSA 5000.

#### **Proposed Application Date**

34. The application date of the proposed prohibition would coincide with the application date of an Australian equivalent to ISSA 5000.
35. The IAASB proposes that the final ISSA 5000 will be applicable for periods beginning on or after approximately 18 months after the approval of the final ISSA 5000. However, the possible application of the Australian equivalent to ISSA 5000 for mandatory audits of sustainability reports under the *Corporations Act 2001* is covered in AUASB Exposure Draft ED 02/24 *Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*.

#### **Next Steps**

36. The International Ethics Standards Board for Accountants (IESBA) has recently consulted on the Proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting. The APESB has yet to consider the use of direct assistance by internal auditors by sustainability assurance practitioners. The AUASB will continue to monitor developments at the APESB on this matter.
37. This Consultation Paper will be open for 75-day comment period closing on XX November 2024. The AUASB is also conducting roundtables, the details of which are available on the AUASB website ([www.auasb.gov.au](http://www.auasb.gov.au)).

## Questions

1. Do you agree with the proposal to prohibit assurance practitioners from using internal auditors to provide direct assistance in a sustainability assurance engagement conducted in accordance with the Australian Standards on Sustainability Assurance consistent with ASA 610? If not, what do you propose and why?
2. Do you think the AUASB should consider the Australian Standards on Sustainability Assurance separately from ASA 610 and allow the use of internal auditors to provide direct assistance in a sustainability assurance engagement? If so, why?
3. Would you like to see the AUASB reconsider the prohibition on the use of internal auditors to provide direct assistance in ASA 610? If so, what are your reasons?

*For questions 4 to 8, stakeholders are asked to comment on the AUASB's proposed prohibition on the use of internal auditors to provide direct assistance in a sustainability assurance engagement conducted in accordance with the Australian Standards on Sustainability Assurance (the proposal).*

4. Have applicable laws and regulations been appropriately addressed in the proposal?
5. Are there any laws or regulations that may, or do, prevent or impede the application of the proposal, or may conflict with the proposal?
6. Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposal, or may conflict with the proposal?
7. What, if any, are the additional significant costs to/benefits for auditors and assurance practitioners and the business community arising from compliance with the requirements of this proposal? If significant costs are expected, the AUASB would like to understand:
  - (i) Where those costs are likely to occur;
  - (ii) The estimated extent of costs, in percentage terms (relative to audit fees); and
  - (iii) Whether expected costs outweigh the benefits to the users of sustainability assurance services?
8. Are there any other significant public interest matters that stakeholders wish to raise?





# AUASB Agenda Paper

<b>Title:</b>	Sustainability Staff FAQs – Local Matters	<b>Date:</b>	10 September 2024
<b>Office of the AUASB:</b>	Marina Michaelides	<b>Agenda Item:</b>	6.3

## Objective of this Agenda Paper

1. This Agenda Item seeks to inform AUASB members on the approach to addressing current local matters to assist and support practitioners with assurance engagements on climate-related financial disclosures under the local reporting framework.

## Questions for AUASB members

No.	Question
1	Do AUASB members have any comments on the approach to other sustainability assurance matters under the local reporting framework?

## Background and previous discussions on the topic

2. At its 6 August 2024 meeting, a majority of AUASB members indicated in a ‘straw poll’ that standards should not be prepared on local sustainability assurance matters under the local reporting framework as a matter of principle because such standards could create a compliance burden beyond the international standard ISSA 5000.
3. Consistent with feedback in three of the 29 submissions stakeholders in response to AUASB *Consultation Paper Assurance over Climate and Other Sustainability Information* (April 2024), developing FAQs would allow more flexibility and timely publication of materials on assurance under the local reporting framework. Subject to member feedback, it is proposed to proceed on that basis.
4. Other than the items identified for education materials in the table presented to the 6 August 2024 meeting, the intention is to present the items in that table as FAQs (see pages 26 to 30 in the [6 August 2024 board papers](#)).
5. The aim is to issue the FAQs in January 2025 after any Australian equivalent of ISSA 5000 *General Requirements on Sustainability Assurance Engagements*. Further matter may be added to the FAQs, education materials and implementation guidance.
6. While paragraphs 271 to 273 of the AUASB’s *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications* do not require consultation or AUASB member input on FAQs, informal consultation with stakeholders and AUASB members will be sought possibly by email or other stakeholder interactions as appropriate to ensure the quality of the FAQs. This may include advisory ‘group’ members, firms of different sizes, non-accountable experts, professional accounting bodies, the Large National Networks group, the APPC ESG Working Group, ASIC, APRA, Treasury and others.





# AUASB Agenda Paper

<b>Title:</b>	Guidance Statements Revision	<b>Date:</b>	10 September 2024
<b>Office of the AUASB Staff:</b>	See Wen Ewe / Rajen Pillay	<b>Agenda Item:</b>	7

## Objective of this Agenda Paper

1. The objective of this Agenda Paper is to inform and to seek feedback from the AUASB members on the planned approach to review the suite of AUASB Guidance Statements.

## Question for the AUASB members

Question No.	Questions for AUASB members
<b>Question 1</b>	Do AUASB members have any feedback on the status of the Guidance Statements (see Attachment)?
<b>Question 2</b>	Do the AUASB members support the development of a Discussion Paper to seek feedback from stakeholders on the currency and relevance of the suite of Guidance Statements for consideration at the November 2024 Board meeting?

## Background

2. Guidance Statements are authoritative (formally approved by the AUASB) and are intended to assist auditors and assurance practitioners in applying existing AUASB standards to particular circumstances or specialised industries/sectors.
3. Under the AUASB Due Process framework, AUASB Guidance Statements should be assessed for currency and relevance, and to ensure they remain consistent with other AUASB pronouncements and fit for purpose, at least once every three years (see subparagraph 265(a) of the [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#) (AUASB Due Process Framework)).
4. The suite of Guidance Statements was reviewed in 2019/2020 at which time the AUASB issued a [Guidance Statement Revision Discussion Paper](#) seeking feedback from stakeholders. At its September 2020 Meeting (see [Agenda Item 5 of the September 2020 AUASB Agenda Papers](#)) the AUASB discussed the feedback received and agreed to prioritise the following for update or withdrawal:
  - GS 003 *Assurance Relating to Australian Financial Services Licences issued under the Corporations Act* (subsequently updated in September 2022)
  - GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* (has not been reviewed)
  - GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001* (update commenced but not completed)
  - GS 010 *Responding to Questions at an Annual General Meeting* (subsequently updated in September 2021)
  - GS 016 *Bank Confirmation Requests* (subsequently updated in June 2022)
  - GS 020 *Special Considerations in Auditing Financial Instruments* (has not been reviewed)

- GS 022 *Grant Acquittals and Multi-Scope Engagement* (has not been reviewed)
- 5. The withdrawal of two Guidance Statements (GS 014 *Auditing Mortgage Schemes* and GS 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes*) was supported in-principle, however board members requested more information should be obtained from potentially impacted stakeholders.
- 6. Due to COVID-19 the AUASB agreed to amend its Workplan and remove some projects which were not a high priority including the update or removal of the above Guidance Statements.

## Matters for Considerations

7. The Office of AUASB has now recommenced a fresh review of the Guidance Statements to identify those which require updating or removal.
8. The AUASB Due Process Framework sets out a list of factors the AUASB considers in determining whether it is appropriate to update or withdraw an existing Guidance Statement (see paragraph 257 of the [AUASB Due Process Framework](#) for more information). Relevant factors include whether there has been a change in the underlying legislation / regulation or relevant standard, or the guidance was required at a point in time only.
9. The Office of AUASB has recently undertaken a preliminary analysis of the suite of Guidance Statements, identifying whether relevant legislation / regulation or relevant standards have changed and therefore which Guidance Statements may be required to be updated or withdrawn (see Attachment to this Paper). Based on this, the Office of the AUASB has identified the following as priority and is in the process of addressing:
  - Update of GS 002 *Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities*. The legislation has changed, registered superannuation entities are now regulated by both ASIC and APRA. Further details will be provided at the November AUASB meeting.
  - Update or withdrawal of GS 021 which was identified in 2019/20. Majority of the National Greenhouse and Energy Reporting schemes in the Guidance Statement no longer exist and the underlying AUASB standards referenced in the Guidance Statement have been updated. Further details will be provided at a future AUASB meeting after discussion with the Clean Energy Regulator. However, subject to further outreach, there may be benefit in developing guidance on assurance over Scope 1, 2 and 3 emissions for sustainability reports under the proposed legislation and AASB sustainability reporting standards.
10. When withdrawing Guidance Statements, under the AUASB Due Process Framework paragraph 265(b), a formal process to withdraw or repeal Guidance Statement is not required; however, before the withdrawal of a Guidance Statement the AUASB should seek feedback from affected stakeholders and will publicise the intention to withdraw the Guidance Statement on the AUASB website and through standard AUASB communication channels. A preliminary analysis is presented in a table format in the Attachment to this paper.

## Collaboration with NZAuASB

11. Guidance Statements are Australian-specific.

## Next steps/Way forward

12. The Office of the AUASB recommends that a Discussion Paper be developed in accordance with the Due Process Framework to seek feedback from stakeholders on any revisions to Guidance Statements. A draft will be presented for consideration by the AUASB at its November 2024 Board meeting.

### Other materials

Agenda paper no.	Description
7.1	Guidance Statements analysis



## 7.1 ATTACHMENT: GUIDANCE STATEMENTS ANALYSIS

No.	Title	Issue / Operative Date	Comments
<b>Planned updates required:</b>			
<a href="#">GS 001</a>	<i>Concise Financial Reports Under the Corporations Act 2001</i>	May-17	Recommendation is to retain since the <i>Corporations Act 2001</i> requirements still apply and therefore no change is required, even though concise financial reports are rarely produced (if at all).
<a href="#">GS 002</a>	<i>Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities</i>	Jan-14	Currently being updated for APRA guidance issued in July 2024 and for audit report format.
<a href="#">GS 004</a>	<i>Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups</i>	May-13	Stakeholder feedback required.
<a href="#">GS 017</a>	<i>Audit Implications for Prudential Reporting Requirements of a Life Company</i>	Dec-14	Stakeholder feedback required.
<a href="#">GS 005</a>	<i>Evaluating the Appropriateness of a Management's Expert's Work</i>	Mar-20	To be considered when ISA 500 is finalised.
<a href="#">GS 006</a>	<i>Electronic Publication of the Auditor's Report</i>	Jan-10	Test relevance with users and consider possible withdrawal based on Board members' decision in 2020.

No.	Title	Issue / Operative Date	Comments
<a href="#">GS 007</a>	<i>Audit Implications of the Use of Service Organisations for Investment Management Services</i>	Jan-12	Scheduled for update.
<a href="#">GS 008</a>	<i>The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001</i>	Mar-10	Reconsider the need for legal advice in relation to wording of auditor's report and materiality.
<a href="#">GS 010</a>	<i>Responding to Questions at an Annual General Meeting</i>	Sep-21	Delay any revision until sustainability reporting matters are finalised in 2026. Also consider issuing as a FAQ's.
<a href="#">GS 011</a>	<i>Third Party Access to Audit Working Papers</i>	Apr-09	Stakeholder feedback required on aspects not covered by ASA 600.
<a href="#">GS 013</a>	<i>Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes</i>	Aug-09	Stakeholder feedback required.
<a href="#">GS 014</a>	<i>Auditing Mortgage Schemes</i>	Aug-09	Stakeholder feedback required. Prior feedback in 2019 suggested merging with GS 013.
<a href="#">GS 015</a>	<i>Audit Implications of Accounting for Investments in Associates</i>	Nov-09	Recommend withdrawal since superseded by ASA 600.
<a href="#">GS 018</a>	<i>Franchising Code of Conduct – Auditor's Reports</i>	Jun-15	Stakeholder feedback required. Substantial changes were made to the Franchising Code of Conduct following a PJC inquiry in 2020.

No.	Title	Issue / Operative Date	Comments
<a href="#">GS 020</a>	<i>Special Considerations in Auditing Financial Instruments</i>	Mar-12	Based upon the IAASB Practice Note IPN 1000. Further updates dependent on international developments.
<a href="#">GS 021</a>	<i>Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes</i>	Nov-12	Stakeholder feedback required.
<a href="#">GS 022</a>	<i>Grant Acquittals and Multi-Scope Engagements</i>	Jun-15	Stakeholder feedback required.
	<b><i>New or recently updated / replaced:</i></b>		
<a href="#">GS 003</a>	<i>Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001</i>	Sep-22	No revisions required.
<a href="#">GS 009</a>	<i>Auditing Self-Managed Superannuation Funds</i>	Jun-20	No revisions required.
<a href="#">GS 012</a>	<i>Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions and ADI Groups</i>	Sep-20	No revisions required.
<a href="#">GS 016*</a>	<i>Bank Confirmation Requests</i>	Jun-22	No revisions required.

No.	Title	Issue / Operative Date	Comments
GS 019	<i>Auditing Fundraising Revenue of Not-for-Profit Entities</i>	Apr-11	<b>Withdrawn and replaced by a Bulletin.</b>
<a href="#">GS 023</a>	<i>Special Considerations - Public Sector Engagements</i>	Mar-23	<b>New Guidance Statement issued in Mar 2023.</b>



# AUASB Agenda Paper

<b>Title:</b>	AUASB Workplan and Corporate Plan	<b>Date:</b>	10 September 2024
<b>Office of the AUASB:</b>	Anne Waters	<b>Agenda Item:</b>	8.1

## Objective of this Agenda Paper

1. This agenda paper seeks feedback from AUASB members on the AUASB's Workplan.

## Question for AUASB members

No.	Question
1	Do AUASB members have any feedback on the AUASB Workplan for 2024/25 (see Agenda Paper 8.1.1)?

## Matters for Discussion

### *2024-2025 AUASB Workplan*

2. The Office of the AUASB has updated the 2024-2025 Workplan to show projects that the AUASB plans to work on during the next 12 months. The actions, timing, and outcomes identified in the Workplan are tentative and subject to change as projects progress and to respond to priorities as they arise.
3. A high-level snapshot of the 2024-2025 Workplan is available in Agenda Paper 8.1 (AUASB Work Program) and will be made available on the AUASB website in due course. This document is supported by a more detailed internal spreadsheet maintained by the Office of the AUASB to track progress on key deliverables for each work stream.

### *Corporate Plan, Emissions Reduction Plan and Annual Report*

4. For information, the following have been finalised and are available on the AUASB website:
  - (a) The [Corporate Plan 2024-2025](#); and
  - (b) The [Emissions Reduction Plan August 2024](#).
5. Also for information, the 2023-2024 Annual Report must be finalised by the end of September 2024 and tabled in the Federal Parliament in October 2024. The final report will appear on the AUASB website.



# AUASB WORK PROGRAM

## 2024-25



Australian Government

Auditing and Assurance Standards Board

# AUASB PROJECTS

PROJECT		KEY DELIVERABLES		
	DETAIL		STATUS	ESTIMATED TIMING
SUSTAINABILITY ASSURANCE	Stream 1 – Assurance Phasing Model	Exposure Draft to be issued in September 2024 with the final standard estimated for December 2024	In progress	Current to December 2024
	Stream 2 – ISSA 5000	Final standard to be approved by the IAASB in September 2024 AUASB to issue Australian equivalent standard approx. December 2024 Consultation on potential compelling reason amendment for direct assistance by internal auditors	In progress	Current to December 2024
	Stream 3 – Local Guidance / Key issues	Frequently Asked Questions to be drafted to address key issues identified Consider GS 21 and guidance on assurance over emissions	In progress	Current to December 2025
	Stream 4 – Research	Identify research priorities and opportunities and engage with academic community (refer below)	In progress	Ongoing
	Stream 5 – Guidance / Education	Implementation guidance Work with stakeholders on initiatives to educate auditors	In progress	December 2024 to December 2025
IAASB	Going Concern	Final standard to be approved by the IAASB and issued in Australia	Monitoring developments	Q1 2025
	Fraud	Final standard to be approved by the IAASB and issued in Australia	Monitoring developments	Q2 2025
	PIE & Listed Entity (Track 1)	Impact on ASAs	In progress	To be determined
	PIE & Listed Entity Definition (Track 2)	IAASB to finalise its next steps and impact on ASAs to be determined	Monitoring developments	Q1 2025
	Audit Evidence	Final standard to be approved by the IAASB and issued in Australia	In progress	To be determined
	Risk Response	Currently being considered by the IAASB. Developments will be monitored	In progress	To be determined
	Technology Position	Currently being considered by the IAASB. Developments will be monitored	In progress	To be determined
DOMESTIC MATTERS, PRONOUNCEMENTS, AND OTHER PUBLICATIONS	ASAE 3500 Narrow Scope Update	Final standard to be approved at future AUASB meeting	In progress	Q4 2024
	Review AUASB Guidance Statements (GS)	Identify which guidance statements are outdated and whether they should be updated or withdrawn	In progress	Ongoing
	GS 002 (prudential reporting)	Amend to reflect updates to APRA prudential requirements	In progress	November 2024
	GS 021 (NGERS)	Consider whether to update or withdraw	In progress	Current to December 2024
	AASB related projects	Impact of IFRS name change to ASAs to be determined Impact of NFP Tier 3 on auditors	Yet to commence Monitoring developments	Late 2025 Q1 2025
RESEARCH	AUASB Research Program	Collaborate with academics on research relevant to the AUASB’s Work Plan Publish AUASB Research Reports AUASB and Sydney University Sustainability Assurance Research Workshop scheduled for February 2025	In progress	Ongoing





# AUASB Agenda Paper

<b>Title:</b>	AUASB Sustainability Assurance Workplan	<b>Date:</b>	10 September 2024
<b>Office of the AUASB:</b>	Anne Waters / Rebecca Mattocks	<b>Agenda Item:</b>	8.2

## Objective of this Agenda Paper

- This Agenda Item seeks to:
  - inform AUASB members of the current status and timing of proposed actions related to the AUASB's project on *Assurance over Sustainability Information*; and
  - present AUASB members with an updated Sustainability Assurance Workplan since its meeting in February 2024.

## Questions for AUASB members

No.	Question
1	Do AUASB members have any comments on the updated Sustainability Assurance Workplan (see Agenda Paper 8.2.1)?

## Background and previous discussions on the topic

- At its 19 February meeting, the AUASB was supportive of the Project Plan ([Agenda item 6.3](#)), which reflects its roles and responsibilities in relation to assurance over climate-related financial disclosures and other sustainability information. The Project Plan is a high-level summary of the key activities and deliverables to be undertaken by the AUASB within indicative timeframes. The Office of the AUASB has now developed a Workplan which will be continually updated as this project progresses.
- Actions to date include:
  - Consulting on the IAASB's proposed ISSA 5000 *General Requirements for Sustainability Assurance Engagements* and monitoring developments. The IAASB intend to approve the final ISSA 5000 at its meeting in the week commencing 16 September 2014 (see Agenda Paper 5.1);
  - On 20 March 2024, the AUASB issued the Consultation Paper *Assurance over Climate and Other Sustainability Information* with the objectives of:
    - Gathering information on the demand for assurance, the ability of auditors and their experts to meet that demand, and the preparedness of companies, to inform the developments of a proposed model for phasing in assurance over information in sustainability reports for exposure;

- ii. Seeking feedback on a proposal to adopt ISSA 5000, subject to seeing the final standard for both mandatory and voluntary assurance over climate-related information and other sustainability information; and
- iii. The possible development of an Australian assurance pronouncement to supplement ISSA 5000 on matters specific to the Australian reporting framework;
- (c) Roundtables were held in Sydney, Melbourne, and Perth, as well as online, to facilitate discussion on both Consultation Papers;
- (d) Monitoring developments on legislative amendments to the *Corporations Act 2001* (the Act) for mandatory climate reporting;
- (e) Developing a proposed standard for exposure on the extent to which sustainability reports prepared under the Act for financial years commencing on or before 30 June 2030 should be audited and/or reviewed (see Agenda Item 6.1);
- (f) At its 6 August 2024 meeting the AUASB considered a potential amendment to ISSA 5000 to prohibit direct assistance from internal auditors, and agreed this should be exposed for feedback from stakeholders (see Agenda Item 6.2).
- (g) Work on matters for a local pronouncement (see Agenda Item 6.3); and
- (h) Ongoing engagement with stakeholders.

## Next steps

- 4. The Workplan will continue to be updated as this project progresses. The Office of the AUASB will continue to monitor developments through information gathering, consultation, research and education activities.

## Other materials

Agenda paper no.	Description
8.2.1	AUASB Sustainability Workplan



# SUSTAINABILITY – WORKPLAN

(Updated early September 2024)

## 1. Overall co-ordination

Indicative Date	Description
<b>Overall planning and co-ordination of the Sustainability Project.</b>	
August - September 2024	<ul style="list-style-type: none"><li>Review final AASB reporting standard, ISSA 5000 and the final Australian climate legislation to consider if any impact on assurance phasing model and guidance.</li></ul>
Ongoing	<ul style="list-style-type: none"><li>Engagement with audit firms, non-audit practitioners, AASB, professional accounting bodies, APPC ESG Working Group, ASIC, APRA, Clean Energy Regulator, Treasury and others to identify issues and co-ordinate appropriate and consistent responses.</li><li>Develop a communication and stakeholder plan to ensure stakeholders are informed on AUASB's activities.</li><li>Ongoing environmental scan (both Australian and International) to keep abreast of assurance practices and issues which the AUASB should address.</li><li>Consider opportunities to collaborate with other National Standard Setters, academics and others.</li></ul>

## 2. Assurance phasing standard

Indicative Date	Description
<b>Objective to issue a standard with an assurance phasing model which appropriately balances the demand for assurance with the capacity and capability of the audit profession.</b>	
September 2024	<ul style="list-style-type: none"><li>AUASB to consider a draft Exposure Draft for approval at its 10 September meeting for 75-day comment period.</li></ul>
October - November 2024	<ul style="list-style-type: none"><li>Roundtables and other outreach activities events to gather feedback.</li></ul>
November - December 2024	<ul style="list-style-type: none"><li>Analyse feedback for consideration at the December AUASB meetin</li><li>AUASB approve standard in December 2024 or January 2025.</li><li>Issue communications to inform market.</li></ul>
2025/26/27	<ul style="list-style-type: none"><li>Monitor assurance practices through monitoring developments, stakeholder engagement, research, etc</li></ul>
2027/28	<ul style="list-style-type: none"><li>Conduct PIR to identify if assurance phasing standard needs amendment</li></ul>



### 3. Australian equivalent of ISSA 5000

Indicative Date	Description
<b>Objective to issue an Australian equivalent of ISSA 5000</b>	
September 2024 and ongoing	<ul style="list-style-type: none"><li>• Provide input into the IAASB deliberations on developing the final IAASB standard and provide update to AUASB.</li></ul>
December 2024 to January 2025	<ul style="list-style-type: none"><li>• Consider the “at least as demanding” test for QMS and ethics for voluntary assurance.</li><li>• AUASB approve Australian equivalent ISSA 5000 standard in December 2024 or January 2025.</li><li>• Issue communications on scope of ISSA5000 vs ASAE 3000 and 3410.</li></ul>

### 4. Internal Audit

Indicative Date	Description
<b>Objective to consider amendment to any Australian equivalent of ISSA 5000 to prohibit sustainability assurance practitioners from using direct assistance by internal audit.</b>	
September 2024	<ul style="list-style-type: none"><li>• AUASB to consider a draft Consultation Paper for approval at its 10 September meeting for 75-day comment period.</li></ul>
October - November 2024	<ul style="list-style-type: none"><li>• Roundtables and other outreach activities events to gather feedback.</li></ul>
December 2024	<ul style="list-style-type: none"><li>• Analyse feedback for consideration at the December AUASB meeting.</li></ul>
Marh 2025	<ul style="list-style-type: none"><li>• APESB may consider direct assistance by internal audit.</li></ul>

### 5. Australian-specific pronouncement

Indicative Date	Description
<b>Objective to identify any gaps or challenges on Australian specific matters where Australian-specific standards and / or guidance is required to support high quality sustainability assurance engagements</b>	
September – January 2025	<ul style="list-style-type: none"><li>• Review final AASB reporting standard, ISSA 5000 and the final Australian climate legislation.</li><li>• Draft pronouncement on previously identified gaps and challenges.</li><li>• Seek feedback from advisory ‘group’ and other stakeholders on draft pronouncement and any other challenges and gaps in practice.</li><li>• Consult AUASB.</li><li>• Consider matters for possible discussion in outreach on phasing and internal audit.</li></ul>



## 6. Education and implementation guidance

Indicative Date	Description
<b>Objective to define the AUASB's role in education and guidance for practitioners to support the implementation of high-quality assurance engagements over climate and other sustainability information.</b>	
January 2025 onwards	<ul style="list-style-type: none"><li>• Determine how big the market/audience will be for education on sustainability standards and guidance</li><li>• Work with other relevant parties such as the AASB, ASIC, professional accounting bodies, etc.</li><li>• Determine the most effective mechanisms to reach that market/audience, including through collaboration with CPAA and CA ANZ.</li></ul>

## 7. Impact on AUASB framework and other standards

Indicative Date	Description
August 2024 ongoing	<ul style="list-style-type: none"><li>• Framework Pronouncements to be reviewed to assess the impact of the legislation change.</li><li>• GS 011 Responding to Questions at an Annual General Meetings.</li><li>• Consider the impact on other assurance standards (if any).</li><li>• Clean Energy Regulator (e.g. ASAE 3410 and GS 021)</li></ul>

## 8. Stakeholder and communications plan

Indicative Date	Description
<b>Objective to develop stakeholder plan to ensure AUASB keeps abreast of assurance practices, emerging issues, etc.</b>	
September 2024 onwards	<ul style="list-style-type: none"><li>• Plan to include audit firms of all sizes, non-audit experts, professional bodies, preparers, ASIC, APRA,.</li></ul>



## 9. Research

Indicative Date	Description
<b>Objective to assist in obtaining evidence on assurance practices and challenges</b>	
Ongoing	<ul style="list-style-type: none"><li>• Monitor climate/sustainability assurance practices of entities, such as:<ul style="list-style-type: none"><li>○ whether assurance requirements are being met and/or exceeded and in what way</li><li>○ use of experts</li><li>○ modified reports and matters giving rise to the modification</li><li>○ instances and content of reports under more than one reporting framework and whether alternative assurance standards are being used</li></ul></li><li>• Consider benchmarking global assurance practices</li></ul>