



Subject: Agenda for the 91st meeting of the AUASB
Venue: CPA Australia, Level 3, 111 Harrington Street, Sydney
Time: Wednesday 26 April 2017, 8.30am – 5.00pm

*Agenda item 8 will be a closed session

Time	Agenda Item No.
8.30am.	1. Preliminary Session
9.00am	2. ASAE 3500
	(a) ED for approval
9.30am	3. ISA 540 ED
10.15am	Break
10.30am	4. Auditor Reporting
11.30am	5. ASA 250 Approval
12.30pm	6. Audit Committee Guide
12.45pm	Lunch
1.45pm	7. For noting only
2.45pm	Break
3.00pm	8. Strategy*
5:00p.m.	Close



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **2**

Meeting Date: 26 April 2017

Subject: Final revised ED XX ASAE 3500 Performance Engagements

Date Prepared: 10 April 2017

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

To provide the AUASB with a final revised draft ED XX ASAE 3500 *Performance Engagements* for consideration and approval to expose for a 60 day period.

Background

1. ASAE 3500 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified a number of matters to be addressed in any future revisions to ASAE 3500.
2. The AUASB approved a project plan to revise ASAE 3500 at the AUASB meeting 24 February 2015 and an updated timetable at the 9 June 2015 meeting. Following approval of the project, the AUASB Technical Group met with the Australasian Council of Auditors-General (ACAG) Heads of Performance Audit at their annual meeting in late March, in order to bring the project to the attention of the auditors-general and to obtain initial feedback on the scope of the revised standard and issues to be addressed in the redrafting.
3. A Project Advisory Group was formed in April, with representatives from each of the audit offices which conduct performance engagements and an academic. PAG discussions were held in mid-May, to discuss the proposed approach to addressing issues identified and to recommend the scope of the revised standard; mid-June, to discuss an initial draft standard; late July and late August to discuss further drafts.
4. The revised draft ASAE 3500 was discussed at the September 2015 meeting and since this time no further work has progressed on the project due to resource constraints at the AUASB.
5. A PAG Meeting was held on 15 September 2016 to discuss the outstanding comments on the revised draft ED XX ASAE 3500 that went to the September 2015 meeting. At this meeting it was decided by the PAG that the terminology – inputs, outputs and outcomes would not be used in the revised standard because the PAG members felt that ASAE 3500 should reflect the current practice of a performance engagement which deals with the concepts of Economy, Efficiency and Effectiveness (EEE). The terminology of inputs, outputs and outcomes is more closely aligned with that used in Service Performance Reporting and Assurance however please note the comments under NZAuASB point 2 re: NAZB Service Performance Reporting Standard.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

6. A second PAG Meeting was held on 6 February 2017 to discuss the revised draft standard and incorporate any further suggested changes from the PAG. Minor changes from the 1 March 2017 AUASB meeting have also been incorporated in the revised draft.
7. A third PAG Meeting was held on 5 April 2017 to discuss the revised draft, comments from the Board and the questions to ask on exposure and for the PAG to provide detailed comments on the content of the revision to date. All changes from this meeting have been reflected in the marked up draft for the Board's consideration.

Matters to Consider

Part A – General

1. Drafting of the ED XX 3500 has continued post the 5 April 2017 PAG Meeting and all suggested changes have been incorporated in the revised draft ASAE 3500 as attached.
2. The key area that the PAG (and ACAG) have raised that needs to be considered by the Board is that of the Assurance Report Content para 45. The PAG's view is that some of the base element requirements under ASAE 3500 which are required by ASAE 3000, are not relevant to a performance engagement undertaken by an Auditor General as these areas are based in jurisdictional legislation and are currently not always explicitly reported in the Performance Audit Reports. These paragraphs include:

Paragraph 45:

- (a) a title, indicating that it is an independent assurance report;
- (d) a statement that the responsible party is responsible for the activity covered by the assurance practitioner's report;
- (e) a statement that:
 - (i) the office or firm of which the assurance practitioner is a member applies ASQC 1; and
 - (ii) the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;
- (k) signature of the assurance practitioner, the Audit Office or location in the jurisdiction where the assurance practitioner practices and the date of the assurance report.

The requirement for these base elements in the Assurance report are contained in ASAE 3000, which the assurance practitioner is required to comply with in conducting a performance engagement in addition to the requirements in ASAE 3500. ASAE 3500 adapts the requirements specifically for a direct performance audit engagement.

The current suite of subject matter specific ASAE 3000 standards which includes: ASAE 3100 *Compliance Engagements*, ASAE 3150 *Controls*, ASAE 3402 *Service Organisations* and ASAE 3410 *Greenhouse Gas Statements* all require these base elements to be included in the assurance report. As such the revised ED XX ASAE 3500 is drafted consistently with this approach which maintains the minimum standard set by ASAE 3000 to be reported in the assurance report.

The AUASB Technical Group recommends these elements of the assurance report are retained in the ED to be exposed.

To be completed

1. OBPR Regulatory Impact Assessment and OBPR clearance; and
2. Internal quality control and sign off process

Part B – NZAuASB

1. This is not a joint project with NZAuASB, as currently NZAuASB does not plan to issue an equivalent of ASAE 3500, as this topic is not within its mandate.
2. The AUASB Technical Group is participating in the NZAuASB Working Group to support the NZ project to develop a standard on assurance of *Service Performance Information* and monitoring the joint AASB and NZ XRB project to develop an accounting standard on *Reporting Service Performance Information*. It was noted from the minutes of the December NZASB meeting that the NZ Accounting Standard on Service Performance Reporting has replaced the term “outcomes” with other words and phrases etc. The NZAuASB’s draft Assurance Standard on Performance Reporting will also follow the lead of the NZASB. Engagements under ASAE 3500 are distinct from engagements on Service Performance Information. Consequently ASAE 3500 does not include those engagements.

AUASB Technical Group Recommendation

The AUASB Technical Group recommends the revised ED XX ASAE 3500 be approved for a 60 day exposure period subject to OBPR clearance and internal quality control processes being completed and finalised.

Material Presented

Agenda Item 2	AUASB Board Meeting Summary Paper
Agenda Item 2.1	Revised Draft ED XX ASAE 3500 <i>Performance Engagements</i> (marked up)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	AUASB to provide feedback on final revised ASAE 3500.	Detailed comments on revised draft ASAE 3500.	AUASB	26 April 2017	

EXPOSURE DRAFT

ED XX/17
(April 2017)

Proposed Standard on Assurance Engagements ASAE 3500 *Performance Engagements*

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

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



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 14 July 2017. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au

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PREFACE

Reasons for Issuing ED

The AUASB issues exposure draft of proposed Standard on Assurance Engagements ASAE 3500 *Performance Engagements* pursuant to the requirements of the legislative provisions explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate assurance standards for other purposes.

Main Proposals

This proposed Standard on Assurance Engagements establishes requirements and provides application and other explanatory material regarding the conduct of and reporting on assurance engagements on performance. The standard replaces Standard on Assurance Engagements ASAE 3500 *Performance Engagements*, issued by the AUASB in July 2008 and last revised in October 2008. This Standard on Assurance Engagements facilitates conformity with current AUASB Standards. The standard reflects current practice in performance assurance engagements and clarifies how to scope, conduct and report on an assurance engagement on performance, to assist with assurance engagement quality being maintained and where necessary improved.

Proposed Operative Date

It is intended that this proposed Standard on Assurance Engagements will be operative for assurance engagements commencing on or after **1 January 2018** with early adoption permitted.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of ASAE 3500 *Performance Engagements* by no later than 14 July 2017. The AUASB is seeking comments from respondents on the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of performance engagements?
5. Will there be any difficulties in implementing the requirements?
6. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Standard on Assurance Engagements, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Standard on Assurance Engagements.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements ASAE 3500 *Performance Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Assurance Engagements is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied.

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Conformity with International Standards on Assurance Engagements

This Standard on Assurance Engagements has been made for Australian public interest purposes and accordingly there is no equivalent International Standard on Assurance Engagements (ISAE) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

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STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3500

Performance Engagements

Application

1. This Standard on Assurance Engagements applies to direct engagements to provide a reasonable assurance report on performance of an activity.

Operative Date

2. This Standard on Assurance Engagements is operative for assurance engagements commencing on or after **1 January 2018**, with early adoption permitted prior to this date.

Introduction

Scope of this Standard on Assurance Engagements

3. This Standard on Assurance Engagements (ASAE) deals with direct engagements undertaken by an assurance practitioner to provide a reasonable assurance report on an activity's performance evaluated against identified criteria. This ASAE may be applied to attestation performance engagements, adapted and supplemented as necessary in the engagement circumstances.
4. This ASAE addresses assurance engagements on performance:
 - (a) of any activity, whether within an entity or across multiple entities;
 - (b) evaluated against criteria selected or developed by the assurance practitioner or the engaging party;
 - (c) providing a reasonable assurance conclusion; and
 - (d) for either restricted use, by the engaging party or specified third parties, or to be publicly available, through tabling in Parliament or other means of distribution.
5. This ASAE is written for reasonable assurance direct engagements but may be applied to limited assurance direct engagements, adapted as necessary to reflect the lower level of assurance obtained by the assurance practitioner.
6. Agreed-upon procedures engagements, where procedures are conducted and factual findings are reported but no conclusion is provided, and consulting engagements, for the purpose of providing advice, on performance are not assurance engagements and are not dealt with in this ASAE. Agreed-upon procedures engagements are addressed under Standard on Related Services, ASRS 4400.¹

Nature of a Performance Engagement (Ref: Appendix 2)

7. The essential elements of performance engagements are:
 - (a) a three party relationship involving:
 - (i) an assurance practitioner, often a State, Territory or National Auditor General;

¹ See ASRS 4400 *Agreed upon Procedures Engagements to Report Factual Findings*.

- (ii) a responsible party or a number of responsible parties involved in the activities which are the subject matter of the engagement; and
 - (iii) intended users, which are often the responsible party, Parliament and the general public;
 - (b) an appropriate activity (the subject matter);
 - (c) suitable criteria;
 - (d) sufficient appropriate evidence; and
 - (e) a written assurance report.
8. Performance engagements are most commonly conducted on an activity delivered or controlled by the Government. The purpose of a performance engagement is to evaluate the performance of an activity, with respect to economy, efficiency and/or effectiveness against the identified criteria. The scope of a performance engagement is either determined by an Auditor General based on the assessed information needs of Parliament or the general public or by the engaging party based on the information needs of the engaging party and other identified users.
9. Performance engagements are usually initiated by a State, Territory or the National Auditor General and will not involve an engaging party, but may also be accepted by an assurance practitioner from an engaging party in the private sector. The authority of an Auditor General to conduct a performance engagement derives from their legislative mandate, consequently the party responsible for the activity does not initiate the performance engagement and their agreement to the terms of engagement is not usually required. The roles and responsibilities of the parties to a performance engagement initiated by an Auditor General are illustrated in Appendix 1.

Relationship with ASAE 3000, Other Pronouncements and Other Requirements

10. This ASAE adapts the requirements in ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which is written for attestation engagements, as necessary, to direct engagements on performance and identifies the requirements of ASAE 3000 which the assurance practitioner is required to comply with in conducting a performance engagement in addition to the requirements of this ASAE. The Framework for Assurance Engagements, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ASAE and ASAE 3000.
11. This ASAE requires the assurance practitioner to apply the ASAE 3000 requirement to comply with relevant ethical requirements related to assurance engagements. It also requires the Audit Office of the Auditor General to apply ASQC 1 or the lead assurance practitioner to be a member of a firm that applies ASQC 1.
12. An assurance engagement performed under this ASAE may be part of a larger engagement. If multiple standards are applicable to the assurance engagement, the assurance practitioner applies, either:
- (a) if the engagement can be separated into sections, the standard relevant to each section of the engagement, including this ASAE for the section on performance; or
 - (b) if the engagement cannot be separated into sections, the standard which is most directly relevant to the subject matter.
13. In circumstances when an assurance engagement includes a compliance section, the assurance practitioner applies both ASAE 3100 *Compliance Engagements* and ASAE 3500 as applicable, in conducting the assurance engagement.

14. Assurance conclusions on performance may be required by Parliament, legislation, industry bodies or other users in conjunction with assurance conclusions on Historical Financial ~~Statements~~~~Information~~, other historical financial information, compliance, controls and/or other subject matters. In these engagements the subject matter, criteria against which that subject matter is evaluated and the level of assurance sought may vary, in which case different standards will apply. Assurance reports include separate sections for each subject matter, criteria or level of assurance in order that the different matters concluded upon are clearly differentiated.
15. A table showing the AUASB Standards to apply to performance engagements depending on the subject matter and engagement circumstances is contained in Appendix 3.

Objectives

16. The objectives of the assurance practitioner for a performance engagement are:
- (a) to obtain reasonable assurance about an activity's performance against identified criteria;
 - (b) to express a reasonable assurance conclusion ~~in through~~ a written report on the ~~subject matters~~ in (a) above; ~~including which~~ describes the basis for the conclusion; and
 - (c) to communicate further as required by this ASAE and any other relevant ASAEs.

Definitions

17. For the purposes of this Standard on Assurance Engagements, the following terms have the meanings attributed below:
- (a) Activity—a government or private sector provision of products or services, system, operation, function or programme which may be conducted within a single entity or across multiple entities, departments, agencies, joint ventures or other organisations, within a single jurisdiction or across multiple jurisdictions.
 - (b) Assurance practitioner—individual or firm or other organisation, whether in public practice, industry and commerce, or the public sector, providing assurance services including performance engagements. Where this ASAE expressly intends that a requirement or responsibility be fulfilled by the lead assurance practitioner, the term the “lead assurance practitioner” rather than “assurance practitioner” is used.
 - (c) Attestation engagement—An assurance engagement in which a party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria. The outcome of that measurement or evaluation is often presented in a report or statement.
 - (d) Criteria—The benchmarks used to measure or evaluate the underlying subject matter, which in a performance engagement is the activity. The “identified criteria” are the criteria used for the particular engagement.
 - (e) Direct engagement on performance—A reasonable assurance engagement in which the assurance practitioner evaluates the activity's performance against the identified criteria. The outcome of the assurance practitioner's evaluation is expressed in the assurance practitioner's conclusion.
 - (f) Economy—the performance principle relating to the minimisation of the costs of resources, within the operational requirements of timeliness, availability of required quantity or quality.

- (g) Effectiveness—the performance principle relating to the extent to which the intended objectives at a program or entity level are achieved.
- (h) Efficiency—the performance principle relating to the minimisation of inputs employed to deliver the intended outputs in terms of quality, quantity and timing.
- (i) Engagement risk—the risk that the assurance practitioner expresses an inappropriate conclusion.
- (j) Engaging party—The party(ies) that engages the assurance practitioner to perform the assurance engagement. In an engagement initiated by an Auditor General there will not normally be an engaging party as the State, Territory or Federal Parliament provide the mandate for the Auditor General to conduct performance engagements, but will not usually engage the Auditor General to perform specific performance engagements.
- (k) Intended users—Parliament, responsible party, individual(s) or organisation(s), or group(s) thereof that the assurance practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed, such as the general public if the assurance report is made publicly available.
- (l) Limited assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the assurance practitioner to believe the activity has not performed with respect to economy, efficiency and/or effectiveness as evaluated against the identified criteria. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the assurance practitioner's professional judgement, meaningful. To be meaningful, the level of assurance obtained by the assurance practitioner is likely to enhance the intended users' confidence about the performance of the activity to a degree that is clearly more than inconsequential.
- (m) Materiality—findings that show a in the context of a performance engagement means variations in performance of an activity against the measure or assertions from identified criteria of the evaluation of performance of the activity which, if omitted, misstated or not disclosed has the potential to adversely affect decisions about the economy, efficiency and/or effectiveness and be reasonably expected to influence relevant decisions of the intended users or the discharge of accountability by the responsible party or governing body of the entity.
- (n) Performance engagement—An assurance engagement to conclude on the performance (expressed as either economy, efficiency and/or effectiveness) of all or a part of the activities of an entity or across multiple entities to assess performance the economy, efficiency and/or effectiveness as evaluated by identified criteria, commonly referred to as a performance audit.
- (o) Professional scepticism—an attitude that includes a questioning mind, being alert to the validity of evidence obtained and to critically assess evidence that contradicts or brings into question the reliability of documents and responses to enquiries and other information obtained.
- (p) Reasonable assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner's conclusion. The

assurance practitioner's conclusion in a performance engagement is expressed in a form that conveys the assurance practitioner's conclusion on the outcome of the evaluation of the activity against identified criteria.

- (q) Representation—Statement by the responsible party, either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence.
- (r) Responsible party—The party responsible for the performance of the activity, in a performance engagement.
- (s) Subject matter or underlying subject matter—The activity which is evaluated or measured against the identified criteria.
- (t) Variation —An instance where the underlying subject matter does not meet in whole or part the identified criteria, for example a material departure of performance against the identified criteria.

Requirements

Applicability of ASAE 3000

18. The assurance practitioner shall not represent compliance with this ASAE unless the assurance practitioner has complied with the requirements of this ASAE and the requirements of ASAE 3000 identified in this ASAE as relevant to performance engagements, adapted as necessary for direct engagements. ASAE 3000 contains requirements and application and other explanatory material specific to attestation assurance engagements but it may also be applied to direct engagements, adapted and supplemented as necessary in the engagement circumstances.²

Inability to Comply with Mandatory Requirements

19. Where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner from complying with a relevant requirement in this ASAE, the assurance practitioner shall:
- (a) if possible, undertake appropriate alternative evidence-gathering procedures; and
 - (b) document in the working papers:
 - (i) the circumstances surrounding the inability to comply;
 - (ii) the reasons for the inability to comply; and
 - (iii) justification of how alternative evidence-gathering procedures achieve the objectives of the mandatory requirement.
20. When the assurance practitioner is unable to undertake appropriate alternative evidence-gathering procedures, the assurance practitioner shall assess the implications for the assurance report.

Ethical Requirements

21. As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements.³

² See ASAE 3000, paragraph 2.

³ See ASAE 3000, paragraphs Aus 20.1 and ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

Initiation or Acceptance

22. The assurance practitioner shall initiate, where the assurance practitioner has the legislative mandate to do so, or accept a performance engagement only when:
- (a) The assurance practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied;
 - (b) The assurance practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities;
 - (c) The preconditions for an assurance engagement are present, as required by ASAE 3000;⁴ and
 - (d) The basis on which the engagement is to be performed has been communicated and, where relevant, agreed by the assurance practitioner and either:
 - (i) the engaging party, in written terms of engagement, including the assurance practitioner's reporting responsibilities; or
 - (ii) the responsible party, in an engagement initiated by the assurance practitioner where there is no engaging party, by issuing a written communication advising the responsible party of the planned engagement.

Preconditions for the Assurance Engagement

23. When establishing whether the preconditions for an assurance engagement are present, the assurance practitioner shall determine, based on their preliminary knowledge of the performance engagement circumstances, whether:
- (a) the activities (underlying subject matter) which are to be evaluated are appropriate;
 - (b) the criteria identified, selected or developed by the assurance practitioner or agreed with the engaging party are suitable in evaluating the activities, including that they exhibit the characteristics of suitable criteria⁵, and will be available to users;
 - (c) the assurance practitioner expects to be able to obtain the evidence needed to support the assurance practitioner's conclusion, which will be contained in a written report; and
 - (d) the engagement has a rational purpose.
24. When identifying, selecting or developing suitable criteria or determining whether the identified criteria selected by the engaging party are suitable, the assurance practitioner shall consider whether the criteria are reasonable quantitative or qualitative measures of performance against which the activity's performance may be assessed. Suitable criteria for a performance engagement shall reflect the overall audit objective/s, the assertions to be addressed (economy, efficiency and/or effectiveness) and have the following characteristics:
- (a) **Relevance:** relevant criteria contribute to conclusions that assist decision-making by the intended users.
 - (b) **Completeness:** criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the performance engagement circumstances are not omitted.

⁴ See ASAE 3000, paragraph 24.

⁵ See ASAE 3000, paragraph 24(b)(ii).

- (c) Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the activity, including when used in similar circumstances by similarly qualified assurance practitioners.
- (d) Neutrality: neutral criteria contribute to conclusions that are free from bias.
- (e) Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

Agreeing on or Communicating the Terms of the Performance Engagement

- 25. If the engagement is initiated by an engaging party, the assurance practitioner shall agree the terms of engagement with the engaging party in writing.
- 26. If the engagement is initiated by a State, Territory or the National Auditor General and does not involve an engaging party, then the assurance practitioner shall communicate the terms of engagement with the responsible party.

Quality Control

- 27. The assurance practitioner shall implement quality control procedures as required by ASAE 3000.⁶

Professional Scepticism, Professional Judgement and Assurance Skills and Techniques

- 28. The assurance practitioner shall apply professional scepticism, exercise professional judgement and apply assurance skills and techniques in planning and performing an assurance engagement on performance.

Planning and Performing the Engagement

Planning

- 29. The assurance practitioner shall plan the engagement so that it will be performed in an effective manner as required by ASAE 3000.⁷

Materiality

- 30. The assurance practitioner shall consider materiality when determining the nature, timing and extent of procedures.
- 31. The assurance practitioner shall identify any matter relating to the activity as material if it is significant to the performance of the activity in relation to economy, efficiency and/or effectiveness evaluated against the identified criteria. During the engagement the assurance practitioner shall reassess the materiality of any matters if there is any indication that the basis on which the materiality was determined has changed.
- 32. The assurance practitioner shall also consider materiality when evaluating the effect of any identified variations, taken individually and in combination, to the performance of the activity as evaluated against the identified criteria. Material variations are those which could adversely impact performance in relation to economy, efficiency and/or effectiveness and be reasonably expected to influence relevant decisions of the intended users of the assurance report.

⁶ See ASAE 3000, paragraphs 31-36.

⁷ See ASAE 3000, paragraph 40.

Understanding the Activity and Other Engagement Circumstances

33. The assurance practitioner shall obtain an understanding of the activity, which is included in the scope of the engagement, and other engagement circumstances sufficient to enable the assurance practitioner to be able to identify and assess any risks of material variations in the activity's performance in relation to economy, efficiency and/or effectiveness as evaluated against the identified criteria.
34. In doing so, the assurance practitioner shall obtain an understanding of any internal controls the assurance practitioner considers are relevant to the evaluation of the activity's performance against the identified criteria. This includes evaluating the design of those controls in being able to effectively prevent, detect and/or correct the risk of material variation in the activity's performance. It also includes determining whether the controls have been implemented (exist and in use) by the responsible party. The procedures the assurance practitioner performs are in addition to enquiry of the responsible party.

Obtaining Evidence

35. Based on the assurance practitioner's understanding obtained in paragraph 33 and 34 the assurance practitioner shall:
- (a) identify and assess the risks of material variation in the activity's performance to be concluded upon;
 - (b) consider the impact of assessed risks on the appropriateness of the engagement objective and the suitability of the criteria and, if necessary, seek to amend the objective and/or criteria; and
 - (c) design and perform assurance procedures to respond to assessed risks identified in paragraph 35(a); and
 - ~~(e)(d)~~ ~~to~~ obtain sufficient appropriate evidence to support the assurance practitioner's conclusion.

Work Performed by an Assurance Practitioner's Expert

36. When the assurance practitioner plans to use the work of an assurance practitioner's expert, the assurance practitioner shall comply with the requirements in ASAE 3000.⁸

Work Performed by Another Assurance Practitioner, a Responsible Party's or Evaluator's Expert or an Internal Auditor

37. If the assurance practitioner plans to use information prepared by another party, as evidence, the assurance practitioner shall comply with the requirements of ASAE 3000.⁹

Written Representations

38. The assurance practitioner may obtain written representations, as appropriate for the engagement, from the responsible party or parties.

Evaluation of Evidence

39. The assurance practitioner shall evaluate the impact of identified variations in the entity's performance of the activity which are material individually or in combination, on the assurance practitioner's conclusion. The assurance practitioner shall describe the extent and impact of those variations and conclude whether the activity partially performed or did not

⁸ See ASAE 3000, paragraph 52.

⁹ See ASAE 3000, paragraphs 53-54.

perform, ~~in terms of economy, efficiency and/or effectiveness, as evaluated~~ against the identified criteria in the assurance report.¹⁰

Subsequent Events

40. When relevant to the engagement, the assurance practitioner shall consider the effect on activity's performance of events that become known to the assurance practitioner after the date of the assurance report, and shall respond appropriately to any facts that become known to the assurance practitioner after the date of the assurance report, that, had they been known to the assurance practitioner at that date, may have caused the assurance practitioner to amend the assurance report. The extent of consideration of subsequent events depends on the assurance practitioners' judgement of the potential for such events to affect the performance of the activity and to affect the appropriateness of the assurance practitioner's conclusion. However, the assurance practitioner has no responsibility to perform any procedures regarding performance of the activity after the date of the assurance report.

Forming the Assurance Conclusion

41. The assurance practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the performance engagement, and if necessary, attempt to obtain further evidence. If the assurance practitioner is unable to obtain necessary further evidence, the assurance practitioner shall consider the implications for the assurance practitioner's conclusion. The assurance practitioner shall state in their conclusion that there was not sufficient or appropriate evidence to conclude whether the activity performed, in terms of economy, efficiency and/or effectiveness, as evaluated against the identified criteria.¹¹
42. The assurance practitioner shall form a conclusion about whether the performance of the activity as evaluated against the identified criteria is free of material variation. In forming that conclusion, the assurance practitioner shall consider the outcomes of procedures evaluations performed in paragraph's 39 and 40.

Preparing the Assurance Report

43. The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's reasonable assurance conclusion about the activity's performance.
44. The assurance practitioner's conclusion shall be clearly separated from other sections of the assurance report containing information or explanations that are not intended to affect the assurance practitioner's conclusion, including findings and recommendations.

Assurance Report Content

45. The assurance report shall include at a minimum the following base elements, to the extent that it is not inconsistent with relevant legislation or regulation:
- (a) a title, indicating that it is an independent assurance report;
 - (b) an addressee;
 - (c) identification of the scope of the engagement including:
 - (i) the responsible party (parties);
 - (ii) the activity which was the subject matter of the performance engagement;

¹⁰ The equivalent conclusion in ASAE 3000 is a qualified or adverse conclusion.

¹¹ The equivalent conclusion in ASAE 3000 is a qualified conclusion or disclaimer.

- (iii) identification of the criteria for evaluating the performance of the activity and the party specifying those criteria, if it was not the assurance practitioner;
 - (iv) if appropriate, a description of any significant inherent limitations associated with the evaluation of the activity's performance against the identified criteria;
 - ~~(e)~~(d) a statement that the responsible party is responsible for the activity covered by the assurance practitioner's report;
 - ~~(d)~~(e) a statement that the assurance practitioner's responsibility is to express a conclusion on the activity's performance in relation to economy, efficiency and/or effectiveness as evaluated against the identified criteria;
 - ~~(e)~~(f) a statement that the engagement was performed in accordance with ASAE 3500 *Performance Engagements*;
 - ~~(f)~~(g) a statement that:
 - (i) the office or firm of which the assurance practitioner is a member applies ASQC 1; and
 - (ii) the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;
 - ~~(g)~~(h) an informative summary of the work performed by the assurance practitioner to obtain reasonable assurance and a statement of the assurance practitioner's belief that the evidence obtained is sufficient and appropriate to provide a basis for the assurance practitioner's conclusion;
 - ~~(h)~~(i) the assurance practitioner's conclusion about the performance, in terms of economy, efficiency and/or effectiveness, of the activity as evaluated against the identified criteria;
 - ~~(i)~~(j) when the assurance practitioner has been unable to obtain sufficient appropriate evidence or has identified variations in the activity's performance in terms of economy, efficiency and/or effectiveness as evaluated against the identified criteria, the assurance report shall contain:
 - (i) a description of the extent and impact of those matter(s); and
 - (ii) the assurance practitioner's conclusion that either the activity did not perform in certain respects, did not perform in all respects or there was not sufficient or appropriate evidence to conclude whether the activity was performed.
 - ~~(j)~~(k) signature of the assurance practitioner, the Audit Office or location in the jurisdiction where the assurance practitioner practices and the date of the assurance report.
46. If the assurance practitioner is required to conclude on other subject matters under different AUASB standards in conjunction with an engagement to report under this ASAE, the assurance report shall include a separate section for each subject matter in the assurance report, clearly differentiated by appropriate section headings.

Scope Limitation

47. A limitation on the scope of the assurance practitioner's work may be imposed by the terms of the engagement, if the engagement was initiated by an engaging party, or by the circumstances of the particular engagement. When the limitation is imposed by the terms of the engagement, and it is likely to prevent the assurance practitioner from reaching a conclusion, the engagement shall not be accepted, unless required to do so by law or regulation.

48. When a scope limitation is imposed by the circumstances of the particular engagement, the assurance practitioner shall attempt to perform alternative procedures to overcome the limitation. When a scope limitation exists and remains unresolved, the wording of the assurance practitioner's conclusion shall describe the limitations on their engagement and the matters on which they are unable to conclude.

Other Communication Responsibilities

49. If during the course of the engagement the assurance practitioner identifies any material variations in the activity's performance, the assurance practitioner shall report those variations to the responsible party(ies) on a timely basis to allow the responsible party sufficient time to investigate and respond to the identified variations.
50. The assurance practitioner shall consider whether, pursuant to the terms of the engagement, if applicable, other engagement circumstances or legislative requirements, any matter that has come to the attention of the assurance practitioner that is to be communicated with Parliament, the responsible party, the engaging party (if applicable) or others, as required by ASAE 3000.¹²
51. The assurance practitioner shall determine whether there is a responsibility or legislative requirement for the assurance practitioner to report the occurrence or suspicion of fraud or other misconduct to a party outside the entity, including Parliament, a regulator or government agency. Any such reporting shall be in accordance with the relevant legislation.

Documentation

52. The assurance practitioner shall prepare documentation in accordance with ASAE 3000.¹³ In documenting the nature, timing and extent of procedures performed as required by ASAE 3000, the assurance practitioner shall record:
- (a) the identifying characteristics of the activity's performance being tested;
 - (b) who performed the work and the date such work was completed; and
 - (c) who reviewed the work performed and the date.

* * *

¹² See ASAE 3000, paragraph 78.

¹³ See ASAE 3000, paragraphs 79-83.

Application and Other Explanatory Material

Introduction

- A1. If the assurance practitioner initiates or accepts a limited assurance engagement on the performance of an activity, in adapting this ASAE for that purpose, the assurance practitioner ensures:
- (a) the users understand the lower level of assurance which the assurance practitioner will obtain as a basis for their conclusion;
 - (b) the needs of users will still be met by a limited assurance conclusion;
 - (c) the assurance conclusion clearly communicates that the procedures performed vary in nature and timing from and are less in extent than for a reasonable assurance engagement and so the level of assurance obtained is substantially lower than in a reasonable assurance engagement.

Objectives

- A2. The objectives of a performance engagement may be expressed in various ways and are often presented as statement of purpose or “questions” which are considered in the context of the responsible party’s responsibilities with respect to economy, efficiency and effectiveness. In these circumstances, the assurance practitioner exercises professional judgement in determining the use of the most appropriate terminology throughout the performance engagement and especially in the assurance report.
- A3. Performance engagements may address a broad range of activities including:
- (a) systems for planning, budgeting, authorisation, control and evaluation of resource allocation;
 - (b) systems established and maintained to ensure compliance with an entity’s mandate as expressed in policies or legislation;
 - (c) [adequacy of](#) resource management;
 - (d) measures aimed at deriving economies of scale, such as centralised resource acquisition, sharing common resources across a number of business units;
 - (e) measures aimed at improving economy, efficiency and/or effectiveness;
 - (f) the assignment of responsibilities and accountability;
 - (g) measures to monitor outcomes against predetermined objectives and performance benchmarks;
 - (h) program or service delivery; and
 - (i) implementation of government policy.
- A4. In the public sector, the conduct of performance engagements by Auditors-General is legislated in the respective jurisdictions. While the legislative requirements may have either a narrow or broad scope, performance engagements may include examination of:
- (a) economy, efficiency and/or effectiveness:
 - (i) in terms of management systems or an entity’s management in order to contribute to improvements;

- (ii) of the operations of an entity or an activity of an entity;
 - (iii) in the implementation of government policies or programs and the application of government grants;
 - (iv) in terms of financial prudence in the application of public resources; and
 - (v) of administrative arrangements.
- (b) intended and unintended impacts of the implementation of government policies or programs and the extent to which community needs and stated objectives of an activity or entity have been met; or
- (c) probity processes and identification of weaknesses.

Ethical Requirements

A5. Relevant ethical requirements include the following fundamental principles with which the assurance practitioner is required to comply:

- (a) integrity;
- (b) objectivity, including independence;
- (c) professional competence and due care;
- (d) confidentiality; and
- (e) professional behaviour.

Initiation or Acceptance

Preconditions for the Assurance Engagement

- A6. In the public sector, if an engagement is initiated by the assurance practitioner, some of the preconditions for the assurance engagement may be assumed to be present if they are set out in legislation, such as the roles and responsibilities of the responsible party and the right of access to information by the assurance practitioner.
- A7. When initiating or accepting a performance engagement, in order to satisfy themselves that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, the assurance practitioner may need to either assemble a multi-disciplinary team or be a specialist in the relevant discipline.
- A8. When multi-disciplinary teams are used in a performance engagement, adequate direction, supervision and review are particularly important so that the team members' different perspectives, experience and specialties are appropriately used. It is important that all team members understand the objectives of the particular performance engagement and the terms of reference of work assigned to them. Adequate direction, supervision and review are important so that the work of all team members is executed properly and is in compliance with this ASAE and meets the quality control requirements of ASAE 3000.

Assessing the appropriateness of the subject matter

- A9. When assessing the appropriateness of the activity as the subject matter of the engagement, the assurance practitioner considers whether:
- the activity is identifiable, and its performance capable of consistent evaluation against identified criteria; and

- the information about it is capable of being subjected to procedures for gathering sufficient appropriate evidence to support a conclusion.
- A10. If after initiating or accepting the performance engagement, the assurance practitioner concludes that the activity is not an appropriate subject matter, the assurance practitioner assesses whether to:
- change the scope of the performance engagement or, if terms of the engagement have been agreed with the engaging party, seek to amend those terms; or
 - withdraw from or discontinue the performance engagement.
- A11. In a performance engagement initiated by the assurance practitioner, the identification of the subject matter and development of criteria will be an iterative process which evolves as the audit objective/s are clarified and refined, based on the information gathered during the engagement. As the assurance practitioner gains a better understanding of the engagement circumstances they may revise their assessment of the matters which address the needs of users.
- A12. In the event that the assurance practitioner is unable to change the scope or terms of, or withdraw from or discontinue, the performance engagement, under paragraph A10 of this ASAE, the assurance practitioner needs to consider the implications for the assurance report.

Assessing the Suitability of the Criteria

- A13. Criteria are the specific measures used to assess the performance of the activity. They may be based on relevant legislation, guidelines, internal policies and procedures, industry standards or best practice. Criteria which address each objective or sub-objective are developed or identified in planning the engagement. In assessing the suitability of the criteria, the assurance practitioner considers whether the criteria are derived from sources such as:
- (a) regulatory bodies, legislation or policy statements;
 - (b) industry standards, accepted benchmarks, bettergood practice guides developed by professional bodies, associations or other recognised authorities;
 - (c) statistics, measures or practices developed by the responsible party or by similar entities; or
 - (d) developed by the assurance practitioner themselves, in which case the assurance practitioner ordinarily documents why the selected criteria are suitable.
- A14. The assurance practitioner assesses the suitability of the criteria to evaluate or measure the performance of the activity, with respect to economy, efficiency and/or effectiveness to be addressed within the scope of the engagement.
- A15. Criteria may range from general to specific. General criteria are broad statements of acceptable and reasonable performance. Specific criteria are derived from general criteria and are more closely related to an entity's governing legislation or mandate, objectives, programs, systems and controls.
- A16. Criteria are either established or specifically developed. Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users. Specific users may, however, develop a more detailed set of criteria that meet their specific needs in which case the assurance report may state, if it is relevant to the intended users:
- that the criteria are not embodied in laws or regulations, or issued by authorised or recognised bodies of experts that follow a transparent due process; and

- that the assurance report is only for the use of the intended users and for their purposes.
- A17. If after initiating or accepting the performance engagement, the assurance practitioner concludes that the identified criteria are not suitable, the assurance practitioner may either:
- identify or develop suitable criteria;
 - seek to change the terms of the performance engagement, if necessary, such as when the terms have been agreed with an engaging party; or
 - withdraw from or discontinue the performance engagement.
- A18. In the event that the assurance practitioner is unable to change the terms of, or withdraw from or discontinue, the performance engagement, the assurance practitioner considers the implications for the assurance report.

Agreeing on or Communicating the Terms of the Performance Engagement

- A19. The terms of the performance engagement normally identify:
- (a) the objectives of the engagement;
 - (b) that the engagement is a reasonable assurance engagement;
 - (c) the activity to be evaluated in the engagement;
 - (d) the period to be covered by the engagement;
 - (e) economy, efficiency and/or effectiveness to be addressed and suitable criteria, in so far as the criteria have been identified, against which the activity will be evaluated;
 - (f) the intended users of the assurance report;
 - (g) the base elements of the assurance report; and
 - (h) any other matters required by law or regulation to be included in the terms of engagement.
- A20. The terms of engagement may also seek the responsible party's agreement that they acknowledge and understand their responsibility to provide the assurance practitioner with:
- (a) access to all information, such as records, documentation and other matters of which the responsible party is aware are relevant to the activity's performance;
 - (b) all additional information that the assurance practitioner may request from the responsible party for the purposes of the assurance engagement; or
 - (c) unrestricted access to persons engaged in the activity from whom the assurance practitioner determines it necessary to obtain evidence.
- A21. If there is no engaging party, such as for engagements initiated by an Auditor General, the existence of a legislative mandate may obviate the need to agree on the terms of the performance engagement. Even in those circumstances it may be useful for the assurance practitioner to communicate the terms of engagement to the responsible party, including referral of any legislative requirements imposed on the responsible party to provide access to information or people relevant to the activity.

Planning and Performing the Engagement

- A22. Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the performance engagement, and a performance engagement plan, consisting of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be undertaken and the reasons for selecting them. Ordinarily, adequate planning:
- Helps to devote appropriate attention to important areas of the performance engagement, identify potential risk areas on a timely basis and properly organise and manage the performance engagement in order for it to be conducted in an effective and efficient manner.
 - Assists the assurance practitioner to properly assign work to performance engagement team members, and facilitates their direction and supervision and the review of their work.
 - Assists, where applicable, the coordination of work done by other assurance practitioners and experts.
- A23. The nature and extent of planning activities will vary with the performance engagement circumstances, for example the size and complexity of the activity and the assurance practitioner's previous experience with it. Examples of the main matters to be considered include:
- The terms of the performance engagement.
 - The characteristics of the activity and the identified criteria.
 - The performance engagement process and possible sources of evidence.
 - The assurance practitioner's understanding of the activity and other performance engagement circumstances.
 - Identification of intended users and their needs, and consideration of materiality and the assessment of risk.
 - Personnel and expertise requirements, including the nature and extent of involvement by experts.
- A24. Planning is not a discrete phase, but rather a continual and iterative process throughout the performance engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the assurance practitioner may need to revise the overall strategy and performance engagement plan, and as such the resulting planned nature, timing and extent of further evidence-gathering procedures.
- A25. In planning the engagement, if the scope of the engagement is based on overall objectives, then the assurance practitioner may identify sub-objectives from which they can identify, select or develop the criteria, against which the activity's performance can be evaluated.

Materiality

- A26. Professional judgements about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance. Materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.
- A27. The identified criteria may discuss the concept of materiality in the context of the preparation and presentation of the [subject matter information assurance report](#) and thereby provide a frame of reference for the assurance practitioner in considering materiality for the

engagement. Although identified criteria may discuss materiality in different terms, the concept of materiality generally includes the matters discussed in paragraphs A28–A36. If the identified criteria do not include a discussion of the concept of materiality, these paragraphs provide the assurance practitioner with a frame of reference.

A28. Variations in performance, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the [subject-matter information assurance report](#). The assurance practitioner's consideration of materiality is a matter of professional judgement, and is affected by the assurance practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the assurance practitioner to assume that intended users:

- (a) Have a reasonable knowledge of the [activity underlying subject matter](#), and a willingness to study the [subject-matter information assurance report](#) with reasonable diligence;
- (b) Understand that the [subject-matter information activity covered by the assurance report](#) is prepared and assured to appropriate levels of materiality, and have an understanding of any materiality concepts included in the identified criteria;
- (c) Understand any inherent uncertainties involved in the measuring or evaluating the underlying subject matter; and
- (d) Make reasonable decisions on the basis of the [subject-matter information assurance report](#) taken as a whole.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of variations in performance on specific users, whose information needs may vary widely, is not ordinarily considered.

A29. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the assurance practitioner's professional judgement.

A30. Qualitative [materiality](#) factors may include such things as:

- The number of persons or entities affected by the subject matter.
- The interaction between, and relative importance of, various components of the [subject-matter information activity](#) when it is made up of multiple components, such as a report that includes numerous performance indicators.
- The wording chosen with respect to [the subject-matter information activity](#) that is expressed in narrative form.
- The characteristics of the presentation adopted for the [subject-matter information assurance report](#) when the identified criteria allow for variations in that presentation.
- The nature of a variation, for example, the nature of observed variations from a control when the [subject-matter information assurance report includes](#) a statement that the control is effective.
- Whether a variation affects compliance with law or regulation.

- In the case of periodic reporting on an [activity underlying subject matter](#), the effect of an adjustment that affects past or current [subject matter information activities](#) or is likely to affect future [subject matter information activities](#).
 - Whether a variation is the result of an intentional act or is unintentional.
 - Whether a variation is significant having regard to the assurance practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the underlying subject matter.
 - Whether a variation relates to the relationship between the responsible party, the measurer or evaluator, or the engaging party or their relationship with other parties.
 - When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.
 - When the underlying subject matter is a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
- A31. Quantitative [materiality](#) factors relate to the magnitude of variations relative to reported amounts for those aspects of the [subject matter information assurance report](#), if any, that are:
- Expressed numerically; or
 - Otherwise related to numerical values (for example, the number of observed deviations from a control may be a relevant quantitative factor when the [subject matter information assurance report](#) is a statement that the control is effective).
- A32. When quantitative factors are applicable, planning the engagement solely to detect individually material variations overlooks the fact that the aggregate of uncorrected and undetected individually immaterial variations may cause the [subject matter information assurance report](#) to be materially misstated. It may therefore be appropriate when planning the nature, timing and extent of procedures for the assurance practitioner to determine a quantity less than materiality as a basis for determining the nature, timing and extent of procedures.
- A33. Materiality relates to the information covered by the assurance report. Therefore, when the engagement covers some, but not all, aspects of the information communicated about an underlying subject matter, materiality is considered in relation to only that portion that is covered by the engagement.
- A34. Concluding on the materiality of the variations identified as a result of the procedures performed requires professional judgement. For example:
- The identified criteria for a value for money engagement for a hospital's emergency department may include the speed ~~of~~ the services provided, the quality of the services, the number of patients treated during a shift, and benchmarking the cost of the services against other similar hospitals. If three of these identified criteria are satisfied but one applicable criterion is not satisfied by a small margin, then professional judgement is needed to conclude whether the hospital's emergency department represents value for money as a whole.

Understanding the Activity and Other Engagement Circumstances

- A35. Obtaining an understanding of the activity and other performance engagement circumstances is an essential part of planning and conducting a performance engagement. That

understanding provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the performance engagement, for example, when:

- Considering the characteristics of the activity.
- Assessing the suitability of criteria.
- Assessing systems established and maintained for ensuring compliance with an entity's mandate or internal controls as expressed in policies and legislation.
- Identifying where special consideration may be necessary, for example factors indicative of wastage or fraud, and the need for specialised skills or the work of an expert.
- Establishing and evaluating the continued appropriateness of quantitative levels of performance (where appropriate), and considering qualitative materiality factors or benchmarks.
- Developing expectations for use when undertaking analytical procedures.
- Use of data analytical tools to undertake the engagement.
- Designing and undertaking further evidence-gathering procedures to reduce risk to an appropriate level.
- Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.

Obtaining Evidence

- A36. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The assurance practitioner ordinarily considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering procedure for which there is no alternative. The assurance practitioner uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the conclusions in the assurance report.
- A37. Performance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic assurance engagement process. For further guidance on the nature, timing and extent of evidence-gathering procedures for performance engagements, refer to ASAE 3000.
- A38. In a performance engagement if the assurance practitioner becomes aware of a matter that leads the assurance practitioner to question whether sufficient appropriate evidence has been obtained, the assurance practitioner ordinarily pursues the matter by undertaking other evidence-gathering procedures sufficient to enable the assurance practitioner to report.

Written Representations

- A39. If the engagement is initiated by the assurance practitioner, the assurance practitioner may not be in a position to obtain representations from the responsible party, particularly as the responsible party may not be a party to the engagement.
- A40. Representations by the responsible party cannot replace other evidence the assurance practitioner could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation or measurement of the activity, when such evidence would ordinarily be available,

constitutes a limitation on the scope of the performance engagement, even if a representation from the responsible party has been received on the activity.

A41. Written representations may include that the responsible party:

- (a) acknowledges its responsibility for conducting the activity, intended to achieve a certain level of performance;
- (b) has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph A20;
- (c) has disclosed to the assurance practitioner any of the following of which it is aware may be relevant to the engagement:
 - (i) variations in achievement of intended performance; or
 - (ii) any events subsequent to the period covered by the assurance practitioner's report up to the date of the assurance report that could have a significant effect on the assurance practitioner's report.

Evaluation of Evidence

A42. The assurance practitioner needs to consider the impact of material variations in the performance of the activity when evaluated against the identified criteria, on the conclusions in the assurance report. A variation is material when, in the assurance practitioner's judgement, it has the potential to adversely:

- (a) affect decisions made by intended users about the performance (economy, efficiency and/or effectiveness) of an activity; or
- ~~(a)~~ the discharge of accountability by the responsible party or ~~or~~
- (b) the governing party of the entity.

Further guidance on the qualitative and quantitative factors for the assurance practitioner to consider with regard to variations in performance of an activity refer to A30-A34~~5~~.

Subsequent Events

A43. The extent of consideration of subsequent events, that come to the attention of the assurance practitioner, depends on the potential for such events to affect the activity and to affect the appropriateness of the assurance practitioner's conclusions. Consideration of subsequent events in some performance engagements may not be relevant because of the nature of the activity.

Preparing the Assurance Report

A44. There may be circumstances where an Auditor General, having conducted a performance engagement, decides not to report to Parliament or to publish an assurance report. The Auditor General usually has discretion under their mandate to choose whether and to whom they will report on performance engagements. Assurance reports which are tabled in Parliament become available to the public. In certain circumstances it may be necessary for the confidentiality of the assurance report to be maintained, in which case the report may, in accordance with relevant legislation be provided to the Public ~~a~~Accounts and estimates Committee (PAEC) or other appropriate user, in confidence. The Auditor General considers the public interest in determining whether the performance assurance report will be made publically available.

- A45. This ASAE does not require a standardised format for reporting on all performance engagements even though paragraph 45 identifies the basic elements of the assurance report. For instance, under:
- Paragraph 45(a), the title of the assurance report may differ depending on whether the assurance practitioner is an Auditor-General or a practitioner in the private sector. However, in both instances the title would convey that it is an independent report.
 - Paragraph 45(i), the assurance practitioner's conclusions may be drafted as appropriate to recognise local legislation or custom and may be worded in terms of a response to the statement of purpose or the audit question.
- A46. Therefore, assurance reports are tailored to the specific performance engagement circumstances with the assurance practitioner using professional judgement in deciding how best to meet the reporting requirements detailed in paragraph 45 in conveying the conclusion(s). The assurance practitioner includes the matters in paragraph 45 as a minimum and reports in the manner and to the extent necessary to facilitate effective communication to the intended users. Whilst the assurance conclusion makes a clear statement communicating the assurance practitioner's conclusion, the assurance report may include other matters which the assurance practitioner considers meet the information needs of the intended users, such as: the terms of the performance engagement, the objectives and sub-objectives of the engagement, the identified criteria used, findings relating to particular aspects of the performance engagement and, in some cases, recommendations. Ordinarily, any findings and recommendations are clearly separated from the assurance practitioner's conclusion on the performance of the activity.

Reporting Findings, Recommendations and Responsible Party Comments

- A47. The assurance practitioner may expand the assurance report to include other information and explanations, including:
- Relevant background information and historical context.
 - The assurance approach.
 - Underlying facts and identified criteria applied.
 - Disclosure of materiality levels.
 - Findings relating to particular aspects of the performance engagement.
 - Analysis of the causes of variations in the activity's performance.
 - Recommendations to address variations identified.
 - Comments received in response to the report from the responsible party/ies.
- A48. The decision to include any such information depends on its significance to the needs of the intended users. Additional information is clearly separated from the assurance practitioner's conclusion and worded in such a manner so as not to affect that conclusion.

Variations in the Activity's Performance

- A49. If material variations are identified, the assurance practitioner's conclusion clearly reflects that either:
- (a) the activity did not perform, in terms of economy, efficiency and/or effectiveness, with respect to the identified criteria of the activity or certain objectives or sub-objectives of the engagement;

- (b) the activity did not perform, in terms of economy, efficiency and/or effectiveness with respect to the identified criteria of the activity or the objective of the engagement, as a whole; or
- (c) the assurance practitioner was unable to conclude on the activity's performance when the assurance practitioner was unable to obtain sufficient appropriate evidence regarding the activity's performance as a whole.

| A50. The assurance practitioner's conclusions described in paragraph A49, are equivalent modified conclusions under ASAE 3000 and the equivalent terms in ASAE 3000¹⁴ are:

- A qualified conclusion – circumstances described in sub-paragraphs A49(a).
- An adverse conclusion – circumstance described in sub-paragraph A49(b).
- A disclaimer of conclusion – circumstance described in sub-paragraph A49(c).

Documentation

| A51. Documentation includes a record of the assurance practitioner's reasoning on all significant matters that require the exercise of [professional](#) judgement, and related conclusions. The existence of difficult questions of principle or judgement, calls for the documentation to include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.

A52. In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner considers what is necessary to provide an understanding of the work undertaken, the results of that work, the evidence obtained and the basis of the principal decisions taken to another experienced assurance practitioner, who has no previous connection with the performance engagement. It is, however, neither necessary nor practicable to document every matter the assurance practitioner considers during the performance engagement.

A53. Identifying characteristics of the activity's performance being tested that the assurance practitioner may document include:

- (a) subject matter; and
- (b) assertions being tested.

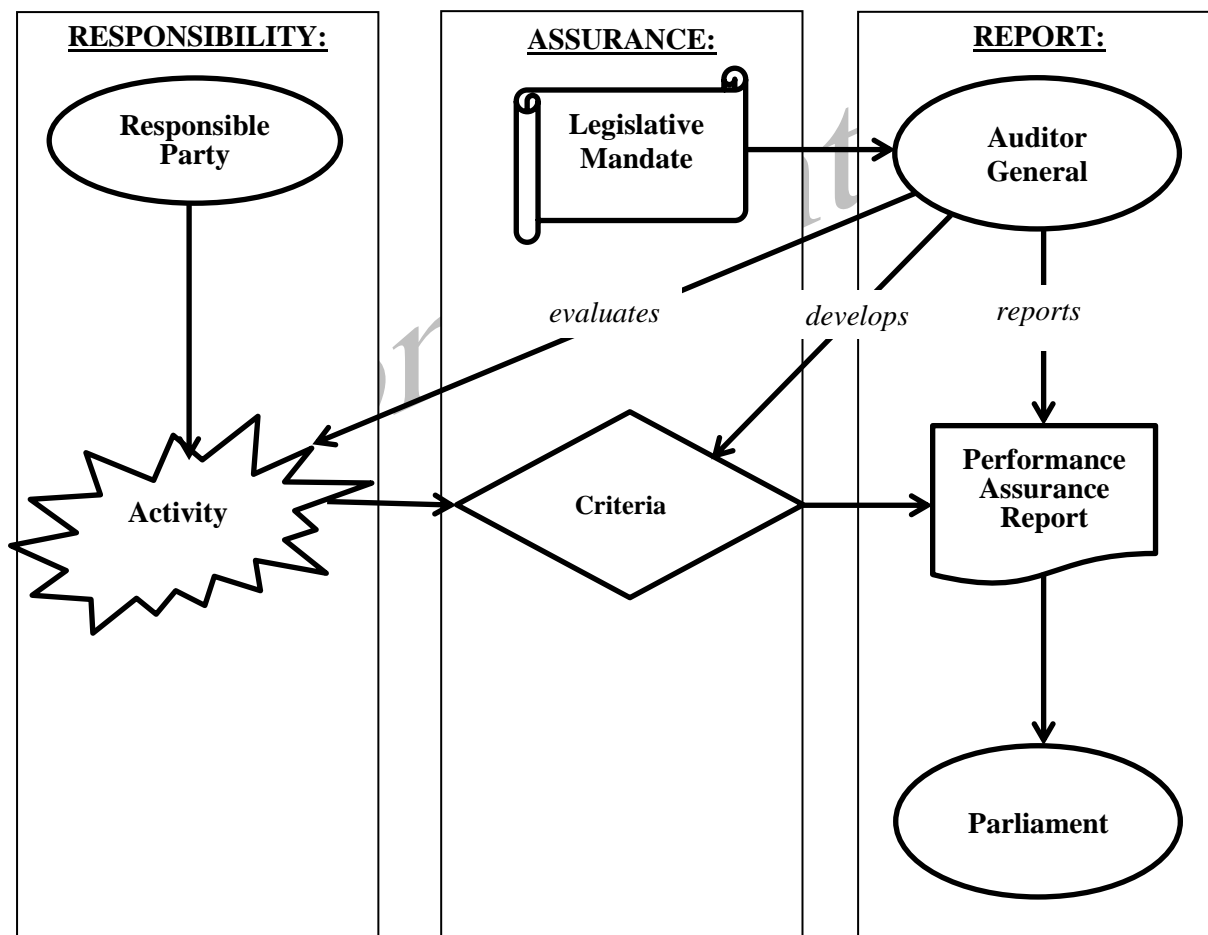
¹⁴ See ASAE 3000, paragraphs 74-75.

Appendix 1

(Ref: Para.9)

ROLES AND RESPONSIBILITIES – PERFORMANCE ENGAGEMENTS INITIATED BY AN AUDITOR GENERAL

The diagram below illustrates the relationships in a performance engagement conducted by an Auditor General.

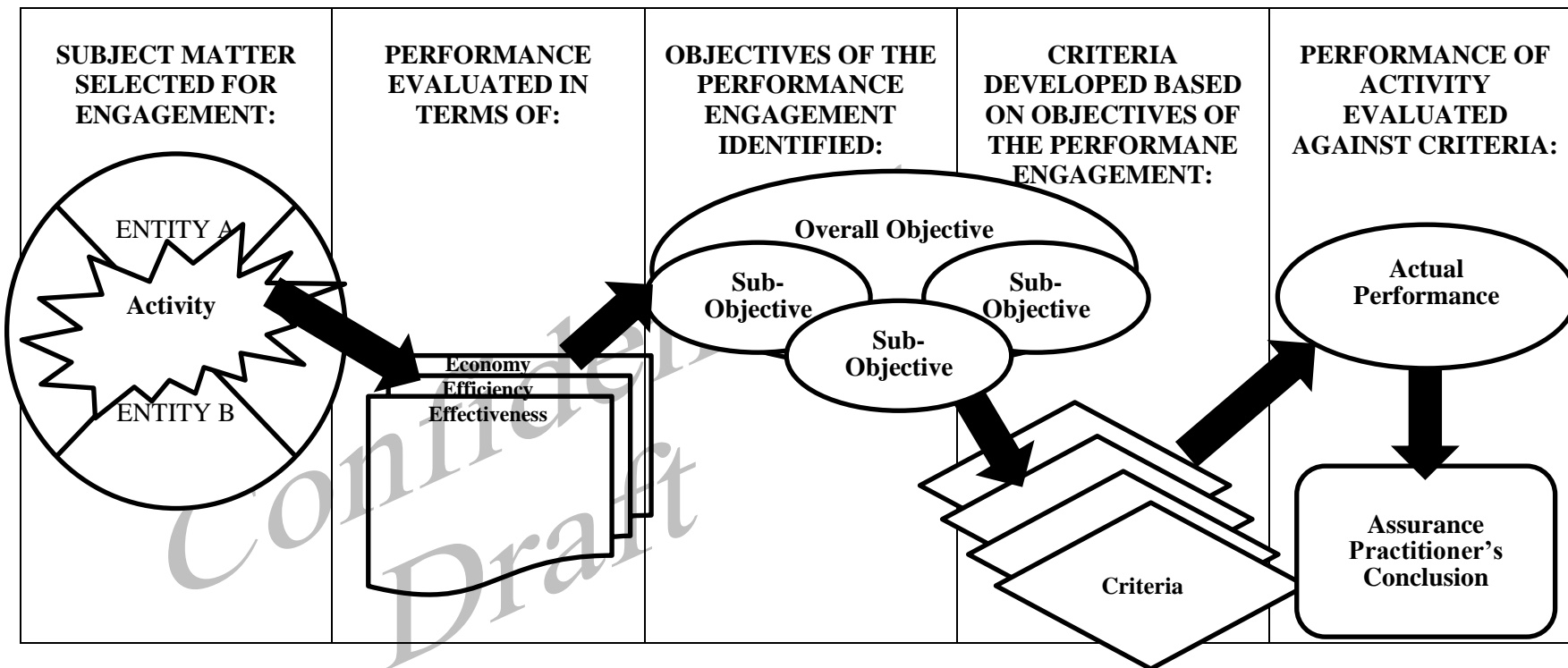


Under their legislative mandate, the Auditor General selects an activity, conducted by the responsible party or parties, to be the subject matter of a performance engagement. The Auditor General identifies economy, efficiency and/or effectiveness to be applied and develops suitable criteria against which to assess performance. The Auditor General evaluates the activity, in terms of economy, efficiency and/or effectiveness, against those identified criteria to obtain assurance on which to base their conclusion. The performance assurance report is ordinarily tabled in Parliament.

Appendix 2

(Ref: Para.7)

THE NATURE OF A PERFORMANCE ENGAGEMENT



Appendix 3

(Ref: Para.15)

**STANDARDS APPLICABLE TO EXAMPLE ENGAGEMENTS ON AN
ACTIVITY'S PERFORMANCE**

SUBJECT MATTER	APPLICABLE AUASB STANDARDS			
	ASAE 3000 Assurance Engagements (not Historical Financial Information)	ASAE 3500 Performance Engagements	ASAE 3100 Compliance Engagements	ASAE 3150 Assurance Engagements on Controls
1. Performance of an activity in achieving economy, efficiency and/or effectiveness, where there is no attestation (direct engagement)	✓ ¹⁵	✓		
2. Performance of an activity in complying with legislative and regulatory requirements	✓		✓	
3. Design and operating effectiveness of controls over an activity's performance in achieving economy, efficiency and/or effectiveness.	✓			✓

¹⁵ ASAE 3000 applies to attestation engagements, so as these are direct engagements, the assurance practitioner only complies with relevant requirements of ASAE 3000, adapted and supplemented as necessary in the engagement circumstances.

Appendix 4

(Ref: Para.7)

EXAMPLE OF THE ELEMENTS OF A PERFORMANCE ENGAGEMENT

Engagement Objective/ Audit Question/ Scope	Performance Assertion	Subject Matter/ Activity	Agency/ Entity	Criteria	Assurance Conclusion
How effectively pests are managed in the jurisdiction?	Effectiveness	Management of existing pests.	Public sector agencies and landholders	<p>Framework for management of pests.</p> <p>Co-operation & collaboration between agencies and landholders co-ordinated.</p> <p>Pest control activities based on identified priorities including:</p> <ul style="list-style-type: none"> - Prevention of new pests. - Highest environmental impact. - Greatest chance of controlling pest. 	<p>Conclude that pests were managed effectively.</p> <p>Or conclude that pests were not managed effectively due to:</p> <ul style="list-style-type: none"> - Lack of a jurisdiction-wide plan to implement framework and allocate roles & responsibilities. - Little monitoring or enforcement of landholders responsibilities regarding pest control. <p>Or conclude that there is insufficient evidence as to whether or the extent to which pests are managed effectively due to:</p> <ul style="list-style-type: none"> - Lack of adequate and reliable data collection and sharing on pest numbers, types, geographic spread and pest control measures undertaken to inform resource allocation and priorities. - Lack of adequate data on threats of new pests from other jurisdictions.

AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **3**

Meeting Date: 26 April 2017

Subject: ISA 540 ED Draft Project Plan

Date Prepared: 19 April 2017

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

- Consider and approve the ISA 540 ED Draft Project Plan.

1. Background

At its meeting on 7 March 2017 the AUASB reviewed and provided feedback on the final draft of the IAASB ED for ISA 540 *Auditing Accounting Estimates*. ISA 540 was the main topic of discussion at the most recent IAASB Meeting in Lima, Peru in March 2017.

At this IAASB meeting the exposure draft and conforming amendments were unanimously approved on the last day of the meeting, notwithstanding remaining concerns from some members about the complexity of the proposed standard, the length of the application material and mixed views about the usefulness of the Appendices. The overall view of the IAASB was that the amendments proposed over the duration of the meeting improved the draft standard. Also, given the pressure from the PIOB it was timely to approve it for exposure.

The proposed standard will be exposed in April 2017 with comments due on 1 August 2017. As at the date of this Board Meeting Summary Paper being prepared the ED is yet to be issued publically, but has been sent to IAASB Members for a final 'Fatal Flaw' review, so we anticipate its release very soon.

The complexity of the proposed standard and its increased requirements mean there is a risk that may be a large number of comments from constituents globally, and its finalisation may not run smoothly.

2. AUASB Technical Group Recommendation

That the AUASB Technical Group's ISA 540 ED Draft Project Plan is considered and approved with particular feedback requested on:

- Identification of the correct Stakeholders for this project
- Whether the correct Risks/Issues have been identified
- Whether the proposed Action Plan achieves the project objectives, particular in respect of the number and timing of Roundtable events planned.

3. AUASB Actions

- Review and, if agreed, approve the ISA / ASA 540 Auditing Accounting Estimates Draft Project Plan.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Material Presented

Agenda Item 3

AUASB Board Meeting Summary Paper

Agenda Item 3.1

ISA / ASA 540 Auditing Accounting Estimates – Draft Project Plan

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider and approve ISA/ASA 540 AUASB Draft Project Plan	Approval	AUASB	26 April 2017	o/s



Draft Project Plan

Project Title:	ISA / ASA 540 <i>Auditing Accounting Estimates</i>
Project ID:	ASA 540-2017
Project Objective(s):	<ol style="list-style-type: none">1. To provide comments on ED ISA 5402. To release an amended ASA 540 based on the amended ISA and making appropriate Australian amendments
Priority:	High
Issue/Reason:	Refer AUASB Strategic Direction re adoption of ISAs
Date Prepared:	19 April 2017
Date To Be Approved:	26 April 2017
Date Updated: (if applicable)	

Project Objectives

1. To provide comments on ED ISA 540 based on stakeholder input (Phase 1).
2. To release an amended ASA 540 based on the amended ISA, after making appropriate Australian amendments to conform to the Australian regulatory and statutory requirements, and further amendments where is a compelling reason to do so (Phase 2).

Background

The IAASB has conducted a significant re-write of ISA 540 due to strong feedback from practitioners and regulators about issues with the practical application of the existing Auditing Standard. Regulators have been highly critical of the performance of audits over estimates and the subject matter is often complex. Therefore the proposed amendments are significant and will impact the performance of most, if not all, audit engagements.

It is therefore vitally important that the amendments are appropriate, address the issues with the current standard, can be practically applied, and are scalable based on the complexity and size of the subject matter and audit engagement.

The IAASB has indicated it will release an exposure draft in mid to late April 2017, requesting comments by 1 August 2017. The timing of the release of the final standard is dependent on the comments received, and won't be known until later this year, however is likely to be in early / mid 2018.

Stakeholders

1. Practitioners – private (large, medium and SMP) and public sector
2. Regulators - ASIC, APRA, ACNC
3. Entities preparing general or special purpose financial statements that are audited
4. Accounting bodies – CA ANZ, CPA Australia & IPA – representing practitioners.
5. Users of financial reports including shareholders and investors
6. Other Standards Setting Boards – AASB, NZAuASB, IAASB

Risks/Issues

1. Issues are not identified and communicated to the IAASB on the ED.
2. Final ISA 540 not consistent with feedback from the AUASB (and its stakeholders).
3. Proposed amendments to the ISA are made only in accordance with the “compelling reasons” policies and such changes are consistently applied to the relevant standards.
4. Proper consideration is given to stakeholder input.

Action Plan

1. Develop project plan and obtain AUASB approval.

Phase 1

2. To provide comments on ED 540 based on stakeholder input.
 - a) Roundtables to be held in Brisbane, Sydney and Melbourne in May – June 2017. Attendees to be invited from all stakeholders listed above. [NB: Brisbane confirmed for Monday 8th May; Dates to be finalised for Sydney & Melbourne however these are likely to be in the last 2 weeks of May 2017).
 - b) Discuss Australian specific regulator concerns with ASIC to ensure the ED addresses its feedback and inspection findings.
 - c) AUASB to provide input at its 30 May 2017 meeting.
 - d) Submission to be presented to the AUASB for approval at its 18 July 2017 meeting.
 - e) Issue formal submission to the IAASB prior to 1 August 2017.

Phase 2

3. To release an amended ASA 540 based on the amended ISA and making appropriate Australian amendments

- f) Re-draft ASA 540 based on the ISA after making appropriate Australian amendments
- a) Ensure Australian amendments pass the Compelling Reasons test
- b) Present draft ASA 540 to the AUASB (date TBC) for approval to release an ED.
- c) Issue AUASB Exposure Draft for ASA 540 with 60 days comment period.
- d) Consider comments received on ED and present disposition paper to the AUASB for approval with:
 - (i) Finalise Compiled Standard including conforming amendments (if any)
 - (ii) Finalise relevant *Basis for Conclusions* document
 - (iii) Finalise OBPR *Regulatory Impact Assessment* (RIA) document(s) and/or *Regulatory Impact Statement* (RIS) as required
 - (iv) Prepare *Explanatory Memorandum*.

Resources

Ashley Wood – AUASB member to attend roundtables, and other stakeholder meetings considered appropriate.

Other AUASB Board Members to be invited to attend ISA 540 Roundtables in Sydney and Melbourne.

AUASB Technical Group Staff (final AUASB staff responsible for this project to be allocated by AUASB Chair and technical Director).

Project Timetable

Date	Description
May – August 2017	Phase 1
TBD	Phase 2



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4(a)**

Meeting Date: 26 April 2017

Subject: Auditor Reporting

Date Prepared: 11 April 2017

☒ **Action Required**

Agenda Item Objectives

AUASB to:

- Consider and approve FAQs on communicating KAMs for interim financial reports, consolidated and parent entity financial reports and stapled security groups – Appendix 1;
- Consider and provide comments on additional FAQs drafted by AUASB Technical Group – Appendix 2;
- Consider and approve the Australian release of FAQs which have been approved and released by the NZAuASB (and the IAASB) – Appendix 3.
- Consider and if in agreement, approve the AUASB Technical Group to commence drafting the additional FAQs requested by the Australian Public Policy Committee Audit Quality Working Group (APPC) – Appendix 4.

1 Background

At its meeting on 27 March 2017 the AUASB agreed that the key principles in relation to when Key Audit Matters (KAMs) are required to be communicated are when an entity:

- (a) Has prepared a complete set of financial statements; and
- (b) Is considered to be a listed entity.

Based on these principles it was agreed by the AUASB that:

- As a condensed interim financial report prepared under AASB 134 *Interim Financial Reporting* is not a complete set of financial statement, KAMs are not required in the auditor's report on a condensed interim financial report prepared in accordance with AASB 134.
- When parent entity financial statements are described in the basis of preparation note and the directors' declaration, as general purpose financial statements prepared in accordance with the Australian Accounting Standards, and the auditor is providing an opinion on the parent entity, KAMs specific for the parent entity are required to be communicated in accordance with ASA 701.

The AUASB requested that the Technical Group draft FAQs on these matters, and to consider the impact on ASA 701.

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In relation to communicating KAMs for stapled security groups, the AUASB deliberated on whether each entity within a stapled security group meets the definition of a listed entity. There were different views expressed by AUASB members and as a consequence the AUASB requested that the AUASB Technical group further consider the matter.

Note: Minor updates to the 27 March 2017 AUASB Board Papers have been made by the AUASB Technical Group to reflect additional factors for consideration by AUASB members on this topic. Refer to Board Papers 04-17 AI 4(a).1 and 04-17 AI 4(a).2 for details. Amendments made since the 27 March Board Papers were sent have been highlighted in yellow.

Since the AUASB's 27 March 2017 Teleconference the AUASB's Technical Group and the Chairman have considered this matter further and have drafted FAQs on these topics for the AUASB's consideration.

Refer to Appendix 1 for FAQs on when KAMs are required for condensed interim financial reports, parent entity financial statements and stapled security groups for the AUASB's consideration, and if appropriate, approval.

Appendix 2 includes additional draft FAQs requested previously by the AUASB. Note to assist AUASB members the AUASB Technical Group have attached the ASX's brochure "Quoting Investment Products on ASX" for additional background information at Board Paper 04-17 AI 4(a).3.

Appendix 3 includes additional FAQs which have been released by the IAASB and NZAuASB.

Appendix 4 includes new additional FAQs requested by the APPC.

2 AUASB Technical Group Recommendation

To retain consistency with ISA 701, ASA 701 does not need to be amended to address when KAMs are required for condensed interim financial reports, parent entity financial statements and stapled security groups. Instead the publishing of FAQs to address these issues is appropriate.

Consequently, the AUASB Technical Group recommends that the AUASB:

- Approve the FAQs in Appendix 1.
- Provide comments / amendments to the FAQs in Appendix 2 and 3 and to consider if it is appropriate to approve, subject to the AUASB's Technical Group's quality review.
- Approve for the AUASB's Technical Group to draft responses to the additional FAQs requested by the APPC.

3 AUASB Actions

- Review and, if agreed, approve the FAQs in Appendix 1.
- Provide comments / amendments to the FAQs in Appendix 2 and 3 and, subject to the AUASB's Technical Group's quality review, approve their publication.
- Approve for the AUASB Technical Group to commence drafting responses to the FAQs requested by APPC in Appendix 4?

Material Presented

Agenda Item 4(a)	AUASB Board Meeting Summary Paper
Agenda Item 4(a).1	Parent entity and consolidated financial report - Updated 27.03.17 Meeting Paper
Agenda Item 4(a).2	Stapled Security Groups - Updated 27.03.17 Meeting Paper
Agenda Item 4(a).3	Quoting investment products on ASX



APPENDIX 1

AUDITOR REPORTING FAQs – RELEASE 2

DRAFT FOR AUASB CONSIDERATION

1. How are KAMs communicated for parent and consolidated financial reports?

- KAMs are communicated in the auditor's report of general purpose financial reports of listed entities.
- Parent entity financial information may be presented within a consolidated financial report either by way of a note (as required by the Australian Accounting Standards), or as a separate column in a 4 column financial report, as allowed by ASIC Class Order 10/654.
- In consolidated financial reports which include parent entity information in a note only, KAMs do not need to be identified separately for the parent entity. However if there is a matter relative to the parent entity which is considered to be a KAM at the consolidated financial report level, the auditor may communicate this in the auditor's report on the consolidated financial report.
- If an entity elects to prepare a 4 column consolidated financial report including general purpose parent entity financial statements, they must be prepared in accordance with the Australian Accounting Standards. Therefore the auditor should communicate KAMs addressing the audits for both the parent entity and the consolidated entity separately.
- If a KAM is relevant to both the parent and the consolidated entity, the description should clearly explain how the KAM relates to each entity, as there will likely be differences. For example, a matter relating to goodwill impairment in the group is likely to be different from the asset impairment in the parent.
- If the parent entity has limited operations there may be no KAMs and the auditor's report reflects this as:

Key Audit Matters

We have determined there are no Key Audit Matters to communicate in our report for the parent entity

- If the parent entity prepares a separate set of special purpose set of financial statements, KAMs are not required to be communicated¹.

2. Are KAMs communicated for audited half year financial reports?

- KAMs are communicated in the auditor's report of general purpose financial reports of listed entities.
- Entities may elect to have their half year financial report audited or reviewed².
- KAMs do not need to be communicated in the auditor's review report.

¹ ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* paragraph A16

² Corporations Act 2001 s 302(b)

- Entities may elect to prepare complete or condensed interim / half year financial reports under AASB 134 *Interim Financial Reporting*, both of which are general purpose financial reports.
- AASB 134 is clear that a set of condensed financial statements for interim reporting is not a complete set of financial statements. As condensed interim / financial reports are not a complete financial report, KAMs are not communicated in the auditor's report.
- KAMs should be communicated in the auditor's report for complete half year financial reports.

3. How are KAMs communicated for Stapled Security Groups?

- KAMs are communicated in the auditor's report of general purpose financial reports of listed entities. The ASAs use the term financial report to align to local legal and regulatory requirements, however the term financial report and complete set of financial statements have the same meaning.
- Stapled security groups are a group of entities consisting of entities which are stapled issuers, and other entities controlled by the stapled issuers.
- A stapled issuer is an entity which has issued equity instruments that are stapled to the equity instrument of another legal entity or entities. They form and are quoted as a single saleable security, and cannot be traded separately.
- Each stapled issuer, and the stapled group is required to prepare and lodge audited general purpose financial reports. These financial reports can be separate, or may be presented in adjacent columns within the one report as allowed by Class Order 2015/838.
- A listed entity is defined in the Australian Auditing Standards³ as an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulation of a recognised stock exchange or other equivalent body.
- Each stapled issuer meets the definition of a listed entity as it is admitted separately to the ASX official list. Therefore KAMs are identified and communicated for separately for each stapled issuer and the stapled group.
- If the stapled issuer and the stapled group financial reports are presented together as allowed by Class Order 2015/838, the KAMs section in the auditor's report details which entity each KAM relates to.
- A KAM may be relevant to both the stapled issuer, and the stapled group. For example an investment property in the stapled issuer may be treated as property plant and equipment in the stapled group. In this scenario the KAM description includes how the matter was addressed in each audit.
- Where a stapled issuer has limited operations and in the auditor's judgement there are no KAMs, the auditor documents their rationale⁴, and communicates in the auditor's report as follows:

Key Audit Matters

We have determined there are no Key Audit Matters to communicate in our report for the stapled issuer (name of the entity).

- ASA 701 paragraph 14 allows the auditor to not communicate matters identified as KAMs, if in the auditor's judgement, there are adverse consequences which outweigh the public

³ ASQC 1 and ASA 220, paragraph 7

⁴ ASA 701, paragraph 18

interest benefit of providing greater transparency. If the auditor believes that communicating KAMs for the stapled issuer would not be beneficial to users, or may be confusing to users, they may elect not to communicate the matter, and communicate KAMs for the stapled issuer would not be beneficial to users, or may be confusing to users, they may elect not to communicate the matter, and communicate KAMs for the stapled group only. In this scenario the auditor documents their rationale⁵.

⁵ ASA 701, paragraph 18



AUDITOR REPORTING FAQs – RELEASE 2

DRAFT FOR AUASB CONSIDERATION

- 4. What date does the auditor date the auditor’s report?**
- The auditor dates the report the date that it is signed.
- 5. How does the auditor determine the documents that comprise the annual report?**
- The annual report may be a single document or a combination of documents that serve the same purpose.
 - Information found in the annual report includes material required by statutory and regulatory requirements from the *Corporations Act 2001* and the ASX listing rules, plus may include additional voluntary reporting.
 - Determining the documents that comprise the annual report is often clear as they are within the one document and are referred to by the title “Annual Report”.
 - If this is not the case the auditor uses professional judgement and evaluates what documents are considered integral, and for whom they are intended, and whether they comprise the annual report.
 - Auditors have an ethical requirement to avoid being knowingly associated with information that the auditor believes contains materially false or is misleading. If supplementary information is issued with the annual report, and is not considered an integral part of the audited financial report, or comprising the annual report, the auditor evaluates whether this information is clearly differentiated from the annual report. If it is not clearly differentiated the auditor requests that the presentation is changed to do so. If this is not rectified the auditor details in the auditor’s report that such information is not covered by that report.⁶
- 6. What does the auditor’s report include if not all of the other information has been received at the date of the auditor’s report?**
- Auditor’s reports of listed entities provide details of the other information they have received, and have not received, as at the date of the Auditor’s Report.⁷
 - When detailing the other information they have received, and have not received for listed entities, the auditor refers to the specific name of the documents to avoid any confusion as to the other information which the auditor has read and considered as at the date of the auditor’s report.
 - Auditor’s reports of non-listed entities include details of the other information obtained before the date of the Auditor’s Report, however are not required to include the details of the other information not yet received. If no other information has been received before the date of the Auditor’s Report, the Auditor’s Report does not include an Other Information section. However as the Director’s Report is other information and is ordinarily received before the Auditor’s Report date, this is unlikely to be the case for audits conducted under the *Corporations Act 2001*.
- 7. How does the auditor’s responsibility statements differ for different types of entities?**

⁶ ASA 700, paragraph 54

⁷ ASA 720, paragraph 21

- The auditor's responsibilities section in the auditor's report is no longer boiler plate and is amended depending on the type of entity being audited.
- All auditor's reports include the content required by ASA 700 paragraphs 37, 38 and 39 (a) and (b).
- ASA 700 paragraph 39 (c) is applicable for audits where ASA 600 applies.
- ASA 700 paragraph 40 (b) and (c) is applicable for audits of listed entities.

8. How does the auditor make reference to the auditor's responsibilities statement on the AUASB website?

- The following options are available to present parts of the auditor's responsibility section⁸:
 - ◆ within the body of the Auditor's Report (as is current practice)
 - ◆ within an appendix to the Auditor's Report with a reference in the Auditor's Report to the appendix
 - ◆ or by including a reference within the Auditor's Report to the relevant page on the Australian Auditing and Assurance Standards Board (AUASB) website (www.auasb.gov.au/Home.aspx).
- The auditor's report should refer to the specific webpage that applies to the auditor's responsibilities applicable in the context of the engagement⁹.
- Included on the AUASB website are auditor responsibility statements for:
 - ◆ Listed single company – Corporations Act 2001 (AR1)
 - ◆ Listed group entity – Corporations Act 2001 (AR2)
 - ◆ Single non-listed entity (fair presentation framework) (AR3)
 - ◆ Single non-listed entity (compliance framework) (AR4)
 - ◆ Listed single entity (AR5)
 - ◆ Listed group entity (AR6)
 - ◆ Single entity (ASA 600 applies) (AR7)
 - ◆ Non-listed group entity (AR8)
- When referring to the responsibilities statements the auditor needs to include the following URL, where # is the number of the statement above:
 - ◆ http://www.auasb.gov.au/auditors_files/ar#.pdf

9. Are auditor's reports on special purpose financial reports impacted by the changes to the auditor's report?

- ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks has been re-issued to align with the new auditor's report requirements.

⁸ ASA 700, paragraph 41
⁹ ASA 700, paragraph Aus A57.1

- Auditor's reports on special purpose financial reports are not within the scope of ASA 701, and therefore there is no requirement for the auditor to communicate KAMs. However the auditor can elect to communicate KAMs.

10. Are auditor's reports on summary financial statements impacted by the changes to the auditor's report?

- *ASA 810 Engagements to Report on Summary Financial Statements* has been re-issued to align with the new auditor's report requirements.
- Where an auditor's report on the complete financial report includes communication of KAMs, the auditor's report on the summary financial statements and concise financial reports states that the auditor's report on the full financial report includes communication of KAMs.
- The auditor is not required to describe the KAMs in the auditor's report of a concise or summary financial report, however the auditor, using professional judgement, may include more detailed references to KAMs.

11. What is the auditor's responsibility in relation to information in documents containing summary financial statements?

- ASA 810 requires the auditor to read and consider the information included in documents containing summary financial statements, and consider whether there is a material inconsistency between that information and the summary financial statements¹⁰.
- If the other information included with summary financial statements, is the same as the other information included in the annual report, the work performed by the auditor in accordance with ASA 720 may be adequate.
- If the auditor identifies a material inconsistency, the auditor discusses this with management and determines whether the summary financial statements or the information included in the document containing the summary financial statements needs to be revised. If management do not make appropriate amendments to address the material inconsistency the auditor considers the impact on the auditor's report.
- If the auditor's report on the financial report concludes that there is an uncorrected material misstatement in the other information in the annual report, and this information is included in a document containing the summary financial statements, the auditor's report on the summary financial statements includes reference to this, and describes the uncorrected material misstatement of the other information containing the summary financial statements.
- If there is unaudited supplementary information presented with Summary Financial Statements the auditor evaluates whether this is clearly differentiated from the summary financial statements. If considered necessary, the auditor explains in the auditor's report that such information is not covered by that report.

12. Are products quoted on the ASX under the AQUA Rules¹¹ considered listed entities for the purposes of auditor reporting requirements?

- The definition of listed entity is an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulation of a recognised stock exchange.
- The Aqua Rules govern products such as Managed Fund Products, Exchange Traded Funds, and Structured Products, quoted on the ASX.

¹⁰ ASA 810 para 14
¹¹ define

- Products quoted on the ASX under the Aqua Rules are not separate entities, and investors who purchase these products do not acquire shares, stock or debt of the entity as such.
- These product are not included on the official ASX list and are not subject to the ASX's listing rules.
- These products do not meet the definition of listed entity per the Australian Auditing Standards.



NZAuASB FAQ QUESTIONS NOT CURRENTLY IN AUASB FAQ

Changes to the Auditor's Report

2. What is the definition of a FMC reporting entity considered to have a higher level of public accountability?

A FMC reporting entity considered to have a higher level of public accountability is defined as a FMC reporting entity or a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:

- under section 461K of the [Financial Markets Conduct Act 2013](#); or
- by notice issued by the Financial Markets Authority (FMA) under section 461L(1)(1) of the [Financial Markets Conduct Act 2013](#).

Types of FMC reporting entities considered to have a higher level of public accountability include:

- [listed issuers](#)

and other FMC reporting entities considered to have a higher level of public accountability including unlisted:

- equity issuers who make a regulated offer (and have more than 50 shareholders);
- debt issuers who make a regulated offer;
- licensed derivative issuers;
- licensed Managed Investments Scheme (MIS) managers (for the financial statements of the MIS they manage);
- recipients of money from a conduit issuer;
- registered banks;
- licensed insurers;
- credit unions;
- building societies;
- any other entity designated by the FMA as having a higher level of public accountability.

Information on FMC designations is available on the [FMA website](#).

5. Where can I see what the changes look like?

There are early adopters of the revised requirements in New Zealand and internationally. There are illustrative examples in ISA (NZ) 700 (Revised) that illustrate the mandatory requirements for different entities. The IAASB has also prepared [Illustrative Key Audit Matters](#) to illustrate how the concept of KAM may be applied.

The changes also apply to auditors' reports of registered charities. The NZAuASB has illustrated the application of the revised requirements for tier 3 not-for-profit public benefit entities in supplementary

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illustrative reports in [EG Au9.1](#). These auditors' reports illustrate the new reporting requirements where service performance information is within the scope of the audit.

11.Can the auditor's report refer to both the ISAs and the ISAs (NZ)?

The ISAs (NZ) adopt and have been revised to incorporate the revisions to the International Standards on Auditing (ISAs). Very few compelling reason amendments have been made to ISAs (NZ). Any differences to the international standards are summarised at the back of each ISA (NZ). Of the few changes made, none of the changes:

- conflict with the international requirements;
- would lead the auditor to form a different opinion or not include an EOM or OM as required by the ISAs;

In addition, the ISAs (NZ) include all of the elements required by ISA 700 (Revised).

The ISAs (NZ) require that the auditor's report identify that the audit was conducted in accordance with the ISAs (NZ).

The auditor may wish to, and is permitted but not required by the ISAs and the ISAs (NZ) to, refer to both the ISAs and the ISAs (NZ).

Key Audit Matters

2.Are all significant risks considered to be KAM?

[ISA \(NZ\) 701](#) explains that areas of significant management judgement and significant unusual transactions may often be identified as significant risks and significant risks are often areas that require significant auditor attention.

However it is not intended that all significant risks or all matters communicated to those charged with governance will be KAMs. E.g., the ISAs (NZ) stipulate that the risk of management override of controls and the risk of fraud in the recognition of revenue are significant risks. It is however not intended that these are KAMs unless the auditor determines that they are of most significance to the audit.

3.Can a KAM only relate to a matter disclosed in the financial statements?

A KAM may be a matter relevant to the audit that is not required to be disclosed in the financial statements under accounting standards or the applicable regulatory or legal framework. E.g., the implementation of a new IT system may have required significant audit attention and the auditor may identify this as a KAM. If a matter giving rise to a KAM has not been disclosed in the financial statements but is publicly available information, the auditor may make reference to the publicly available information if it is considered appropriate and helpful to users, noting that this information has not been audited.

4.How many KAMs must be reported?

There is no specific guidance on how many KAMs should be communicated. 'Early adopter' reports issued to date in New Zealand, contained between 1 and 5 KAMs with an average of around 3 KAMs. For audits of more complex entities it may be appropriate to have more KAMs than for a non-complex entity. Other matters that may impact the number of KAMs communicated are the nature of an entity's business and environment. The intention however, is to communicate the areas of most significance in the audit and a long list of matters may detract from this.

13.Is there any impact on the KAM previously communicated in the auditor's report in circumstances when the auditor reissues the report or amends the report previously issued?

In certain circumstances under [ISA \(NZ\) 560](#), the auditor may be required to issue a new auditor's report or amend the auditor's report previously issued. For example, the auditor may determine that a new or amended auditor's report is appropriate when facts become known to the auditor after the financial statements have been issued. In this circumstance, [ISA \(NZ\) 560](#) requires that an Emphasis of Matter (EOM) paragraph or Other Matter (OM) paragraph may be included in the new or amended

auditor's report that refers to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor.

In circumstances where the auditor reissues a new auditor's report, the auditor would need to determine (i) whether the matter that has resulted in a new or amended auditor's report is an additional KAM that should be communicated, or (ii) if it relates to a matter previously communicated as a KAM, whether any revisions to the description of the KAM are necessary. It is unlikely that other matters previously communicated as a KAM would be affected since, at the time of the previous auditor's report, such matters were considered to be matters of most significance in the audit.

When an EOM or OM paragraph is required to be included in accordance with [ISA \(NZ\) 560](#) and the matter is also determined to be a KAM in accordance with [ISA \(NZ\) 701](#), the auditor includes the necessary EOM or OM paragraph in the new or amended auditor's report, as well as the KAM. The KAM description is intended to provide additional information to intended users of the financial statements beyond what is included in an EOM paragraph (i.e., more than a reference to the matter being emphasized and to relevant disclosures in the financial statements). The auditor may consider cross-referencing the respective descriptions in the auditor's report to clarify that both are in respect of the same matter.

14. Should KAM be communicated in respect of each period for which the financial statements are presented when comparative financial statements are presented?

[ISA \(NZ\) 701](#) indicates that the auditor shall determine which of the matters were of most significance in the audit of the financial statements of the current period. The auditor's determination of KAM is limited to those matters of most significance in the audit of the financial statements of the current period, even when comparative financial statements are presented. The IAASB's decision to limit the KAM to the audit of the current period was primarily because users are interested in the most recent information to make informed decisions, and therefore are more likely to value information from the auditor about matters of significance in the audit of the current period. Furthermore, the IAASB believed that there are practical challenges in communicating KAM in relation to the prior period, which could also result in further lengthening the auditor's report and a presentation that could be potentially confusing to users.

Nevertheless, the auditor is not precluded from communicating KAM in respect of the previous period, although in such circumstances consideration should be given to the presentation of the KAM to make sure that matters related to the current period are clearly differentiated from matters relating to the prior period.

15. Why is there a delayed mandatory application date for the reporting of Key Audit Matters for other FMC reporting entities considered to have a higher level of public accountability?

The reporting of key audit matters in the auditor's report is a significant change. The International Standards on Auditing only require the reporting of Key Audit Matters for listed entities. The IAASB is committed to considering a broader application as part of its post implementation review. The NZAuASB considers that the benefits of reporting KAM in the auditor's report apply to all FMC reporting entities considered to have a higher level of public accountability in New Zealand. Given the unique nature of the New Zealand economy, and the comparatively larger proportion of unlisted entities that have public accountability, the NZAuASB decided to mandate the reporting of KAMs for all of the most significant and publicly accountable entities in New Zealand. However, in recognition, that the requirements are new, and pose additional challenges and costs, agreed that a cautious phased approach would be appropriate, and therefore introduced a two-year transitional period. However, early adoption is permitted and encouraged.

16. How do KAMs apply to non-financial information?

The general purpose financial report of some entities (including registered charities and public sector entities) in New Zealand includes both financial and non-financial information that is subject to audit. Where service performance information is included within the scope of the audit and the auditor is required or elects to report KAM, the KAM may be in respect of the service performance information,

where, in the auditor's judgement, such matters were of most significance to the audit of the general purpose financial report.

17. Where the auditor is required to express an audit opinion on the separate financial statements of a parent or holding company, and the auditor is required to communicate KAM, is the auditor also required to communicate KAM in respect of the separate financial statements?

[ISA \(NZ\) 701](#) indicates that the standard applies to audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability. [ISA \(NZ\) 700 \(Revised\)](#) states "the requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements".

Accordingly, the determination of whether the communication of KAM is required in the separate parent or holding company financial statements (hereinafter referred to as separate financial statements) depends on whether the separate financial statements are viewed as a complete set of general purpose financial statements under the requirements of the applicable financial reporting framework.

In circumstances where the separate financial statements are not a complete set of general purpose financial statements under the applicable financial reporting framework, the auditor could voluntarily communicate KAM.

In New Zealand, the requirement to prepare financial statements for both the parent and the group was removed when the Financial Reporting Act 2013 was enacted. There are still limited instances where parent and group financial statements are prepared.

There are a variety of possible scenarios regarding the presentation of the consolidated and separate financial statements and the related auditor's report, with resulting implications for how KAM are communicated and presented in these circumstances. For example, the consolidated and separate financial statements could be presented in completely separate annual reports, presented as discrete financial statements in a single document (e.g., in separate sections of a single annual report), or presented combined in a single annual report (also known as a four-column format).

In circumstances where the KAM address both the audit of the consolidated financial statements and the separate financial statements in an auditor's report, the KAM should clearly explain how they relate to each audit. In some cases, the KAM might affect the audit of the financial statements of the separated and consolidated financial statements in different ways. For example, a matter relating to goodwill impairment in the consolidated financial statements might be different from the goodwill impairment in the separate financial statements (e.g., it is more likely that the impairment in the separate financial statements may relate to the valuation of the underlying investment).

If the financial statements are presented in a single document (columnar format) because the auditor in this case would likely issue a single auditor's report addressing both the consolidated and separate financial statements, the single report would include KAM relating to the audits of both sets of financial statements. This could be presented in a variety of ways, for example:

- Indicating for each KAM how it applies to each audit, i.e., the audit of the consolidated and separate financial statements
- Presenting the KAM for the consolidated financial statements in one section, and those for the separate financial statements in another section (the auditor could cross-refer to the related KAM in the respective sections if the auditor believes it appropriate to do so).

Other Information

2. When is the auditor's report required to include an Other Information section?

The requirements of [ISA \(NZ\) 720 \(Revised\)](#) apply to all audits when other information is presented in an annual report (as defined). The auditor's responsibilities with respect to other information are

described in Q28 and apply regardless of when the other information is received. The requirement to include a section on Other Information in the auditor's report however differs according to the type of entity and whether the information is available at the date of the auditor's report as follows:

Status of the other information received	FMC reporting entities considered to have a higher level of public accountability	Other entities (Not a FMC reporting entity considered to have a higher level of public accountability)
The auditor has received some or all of the other information at the date of the auditor's report	√ Identify information obtained prior to the date of the auditor's report	√
The auditor has not received any other information at the date of the auditor's report but expects to receive this information at a later date	√ Identify information not yet obtained but expected to be obtained after the date of the auditor's report	Voluntary reporting If no information has been received, the auditor's report is not required to include an Other Information section

It is not uncommon for an entity to prepare its full annual report after the audit opinion on the financial statements have been signed by the auditor. In this scenario the auditor's report for a FMC reporting entity considered to have a higher level of public accountability details the other information which is expected to be received after the date of the auditor's report.

Auditors should discuss their responsibility for other information with those charged with governance as early as possible, to ensure they are aware of the additional detail that will be provided in the auditor's report if the other information is not available to the auditor before the date the audit report is signed.

When some of the other information will not be available until after the date of the auditor's report, the auditor is required to request a representation from management/those charged with governance that the final version of the documents will be provided to the auditor when available and prior to its issuance by the entity.

Audit documentation includes details of the procedures performed and the final version of the other information.

3. What is reported in the Other Information section?

When the auditor is required to include an Other Information section, in all cases this section must include:

- a statement that those charged with governance are responsible for the other information;
- a statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any other form of assurance thereon; and
- a description of the auditor's responsibilities relating to reading, considering and reporting on the other information as required by [ISA \(NZ\) 720 \(Revised\)](#).

Where some or all of the other information has been received at the date of the auditor's report, the auditor's report:

- Identifies the other information that has been received; and
- In respect of this other information already received:
 - A statement that the auditor has nothing to report; or
 - A statement that describes the uncorrected material misstatement of the other information.

For FMC reporting entities considered to have a higher level of public accountability, the other information section is required to identify the other information that is expected but has not been received at the date of the auditor's report.

6. What are the auditor's responsibilities in relation to other information in circumstances when the auditor reissues the report or amends the report previously issued?

In certain circumstances under [ISA \(NZ\) 560](#), the auditor may be required to issue a new auditor's report or amend the auditor's report previously issued. For example, the auditor may determine that a new or amended auditor's report is appropriate when facts become known to the auditor after the financial statements have been issued. How this impacts the auditor's consideration of the other information depends on the circumstances and whether or not the auditor restricts the audit procedures for subsequent events to the amendment of the financial statements. For example:

1. The auditor does not restrict the audit procedures on subsequent events to the amendment of the financial statements.

Paragraph 15(c)(i) of [ISA \(NZ\) 560](#) indicates that the auditor shall extend the audit procedures as indicated in paragraphs 6 and 7 of [ISA \(NZ\) 560](#). This includes performing audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statement and the auditor's report that required adjustment of, or disclosure in, the financial statements have been identified. Accordingly, in such a case, the auditor would be expected to consider any impact on the auditor's procedures in relation to other information arising from the subsequent event, including whether further work is necessary on other information that was obtained prior to the date of the auditor's original report, particularly when management intends to amend other information previously issued. The auditor's report would need to be updated, as appropriate, to reflect other information that has now become available as at the date of the auditor's report and the auditor's conclusions thereon (i.e., nothing to report / material misstatement) and for FMC reporting entities considered to have a higher level of public accountability, any further other information that may not have previously been identified, which the auditor still expects to obtain.

The auditor would still be responsible for other information obtained after the date of the auditor's report, as set out in paragraph 19 of [ISA \(NZ\) 720 \(Revised\)](#).

2. The auditor restricts the audit procedures on subsequent events to the amendment of the financial statements (including the situation that is sometimes referred to as "dual-dating" the auditor's report).

Paragraph 12 of [ISA \(NZ\) 560](#) permits the auditor to restrict the audit procedures on subsequent events to the amendment to the financial statements in certain circumstances. In such a case, the auditor's report indicates that the procedures were restricted solely to that amendment (either by amending the existing auditor's report or providing a new or amended auditor's report). Where the amendment impacts the other information, the auditor would need to also perform the necessary procedures in relation to the other information, specific to the amendment. In such a case, the auditor may need to indicate this in the auditor's report as part of the procedures performed on the amendment, particularly if management intends to amend

other information previously issued. Furthermore, the auditor would identify the other information affected by the amendment and the auditor's conclusions thereon (i.e., nothing to report / material misstatement). However, if the other information was unaffected by the amendment, the auditor would make no further amendments to the auditor's report in respect of other information.

The auditor would still be responsible for other information obtained after the date of the auditor's report, as set out in paragraph 19 of [ISA \(NZ\) 720 \(Revised\)](#).



AUDITOR REPORTING FAQs – RELEASE 3

QUESTIONS FOR AUASB CONSIDERATION

FAQs requested by the Australian Public Policy Committee Audit Quality Working Group.

Does the AUASB agree that the AUASB Technical Group should provide answers to these questions?

13. **ASA 701: When a client becomes listed after year end date, but before audit report date, are KAMs communicated?**
14. **ASA 701: Given the Corporations Act refers to the Directors having responsibility for the preparation of the financial report, should KAMs avoid the term ‘management’ when discussing origination of estimates etc? [Note on a Big 4 call I was on the other day, some firms do seem to be avoiding the term, and generically referring to ‘The Group’ or something similar]**
15. **ASA 701: What is the interpretation of ‘current period’ for application in para 10? For instance, where a type 2 subsequent event is identified, are KAMs communicated / included?**
16. **ASA 700 & 570: Where a client prepares their financial report on a basis other than going concern, how should the going concern responsibilities in the standard wording in the Directors & auditors responsibilities of the audit report be revised, if at all?**
17. **ASA 805 & 700: Illustration 2 is arguable slightly confusing as to whether going concern assessment is needed (and therefore whether the Directors & Auditors responsibilities should include the going concern responsibilities). I think if we add that the cash basis of accounting is used, the illustration remains accurate. However at the moment the use of ‘cash basis’ is ambiguous as to whether it is really getting at cash in cash out (no residual obligation to distribute/accrue leftover cash) presentation of the Statement. If it is cash in cash out, there is an argument that teams would not consider going concern as there is no intent in the Statement that ‘continuity of business’ (going concern) is relevant.**
18. **ASRE2410 & ASA 570: Do AUASB consider it acceptable to use MURGC language instead of EOM language in a half year review, despite the ASRE 2410 not yet updated?**
19. **ASRE 2410: Do AUASB consider it acceptable to reorder review reports consistent with ASA 700 revisions to ordering of the audit report?**
20. **ASA 720 Illustration 2A OI section: additional guidance on using the wording in square brackets. There appears to be no ASA requirement or guidance paras to anchor the wording/intent to...and the ** footnote is odd (how would you know you have a material misstatement in info you haven’t yet received at audit report date?)**

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.



ASX

AUSTRALIAN SECURITIES EXCHANGE

Quoting investment products on ASX

The product manufacturer's roadmap



ABOUT ASX

ASX Limited (ASX) was created by the merger of the Australian Stock Exchange and SFE Corporation in July 2006.

ASX operates under the brand name Australian Securities Exchange and is one of the world's top-10 listed exchange groups measured by market capitalisation.

ASX spans the primary markets for corporate control and capital formation, and the secondary markets for capital allocation, price discovery and risk transfer. It functions as a market operator, supervisor, central counterparty clearer and payments system facilitator. It promotes good corporate governance among Australia's listed companies and helps educate retail investors.

The diverse domestic and international customer base of ASX includes issuers of a variety of listed securities (such as corporations and trusts), investment and trading banks, fund managers, hedge funds, commodity trading advisers, proprietary and retail traders, and retail investors.

More information on ASX can be found at: www.asx.com.au

Disclaimer

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Exchange Centre, 20 Bridge Street, Sydney NSW 2000 Telephone: 131 279 www.asx.com.au

A new market service

ASX has introduced a new flexible market service to facilitate the quotation, trading and clearing and settlement of a wider range of products.

This new service has been tailored to the requirements of fund managers and investment banks enabling them to quote managed funds, exchange-traded funds (ETFs) and other innovative product structures that previously were not readily accommodated by the ASX Listing Rules and systems.

Australian and international product manufacturers who may be looking to develop investment and trading products for retail or institutional investors, will benefit from the greater flexibility offered by this new service.

In addition to allowing a wider range of products to benefit from quotation on ASX, the service allows issuers to choose the type of market they are quoted on and provides access to the fast and economical CHES (Clearing House Electronic Sub-Register System) clearing and settlement facilities.

A new Rules framework, known as the AQUA Rules supports the quotation of these products on ASX. This new service expands the range of ASX services beyond equities, A-REITS (listed

property trusts), listed investment companies and warrants, all of which are listed under either the ASX Equity Listing Rules or quoted under the ASX Warrant Listing Rules.

ASX: Recognised for Innovation

ASX recognises the need to continually innovate in the funds and structured product space with the development of services to facilitate the quotation of structured products and managed funds. This was recently recognised when ASX was awarded Exchange of the Year 2007 in the Structured Products Asia Awards 2007. The judges identified ASX as a stand out Exchange in the region for "consistent innovation, market responsiveness, and for the breadth of initiatives it has brought to the Structured Products business." The launch of this new market service was one of the key initiatives referred to by the judges in their decision making process.

Quoting your investment product on ASX

The decision to quote a product on the ASX is an important step for any product manufacturer. Quoting your investment product on ASX provides profile, price distribution, liquidity (if required), efficient T+3 settlement, increased distribution and easier access to the large Australian investor market.

Quoted investment products benefit from raised profile, increased transparency and access to new investors; in addition ASX provides educational and promotional support to retail clients, brokers and financial planners about the benefits, features and risks of quoted products.

This booklet explains the benefits of quoting your investment product on ASX and discusses the important issues you need to consider when deciding whether quoting is right for your product.

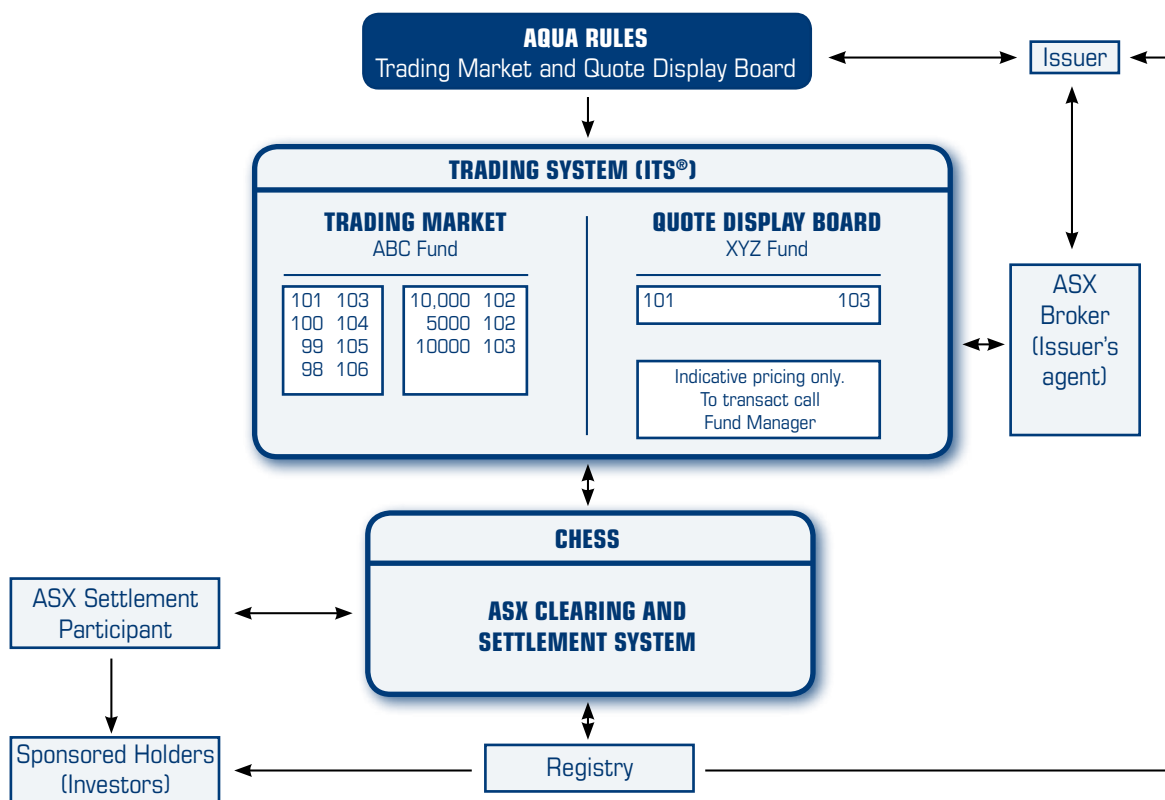
Choosing your quotation option

ASX has designed the new service to be as flexible as possible, so that it offers a range of choices for product issuers. Product quotation prior to this was a one-size-fits-all approach in terms of the elements of the ASX services a product really needed.

The new service provides the product issuer with the flexibility to select whether live trading in an open market is required. If not, the product manufacturer can choose not to trade its products in an open market but can still benefit from T+3 settlement of transactions via ASX CHESS. This flexibility is provided by the 'Quote Display Board', which forms part of the new market service and which is described in detail later in this brochure.

2

AQUA Quotation Options



The benefits of quoting on ASX

Quoting an investment product on ASX offers significant benefits to product issuers and provides very clear and tangible benefits to their investors both institutional and retail.

Benefits for product issuers

There are a number of benefits that can be realised through quoting your investment product on ASX. These include:

Increased Price and Product Distribution

Quoting on ASX creates the opportunity to use ASX Participants (stockbrokers) and financial planners as highly effective, low-cost distributors for your product.

ASX has an extensive network of stockbrokers nation-wide covering the full breadth of services from full-service institutional stockbroking to online, no-advice retail broking. An ASX quotation means these intermediaries can act as your distributor to their own retail and institutional client bases.

More recently, financial planners have been offering direct advice on quoted investments through an ASX broker. This effectively extends the distribution reach available through ASX to include the extensive network of financial planners. The effectiveness of this distribution channel is further increased through the inclusion of ASX quoted investments into Master Trust platforms and WRAP accounts.

Increased Visibility

Without visibility even the largest distribution channel can be rendered ineffective. Through a network of vendors including IRESS, Reuters and Bloomberg, over 40,000 professional investors world-wide and more than 80,000 active retail investors gain access to prices and key product characteristics of products quoted on ASX. This exposure is further increased through the internet, where typically between 1.4 and 1.5 million investors visit www.asx.com.au each month seeking information such as prices, announcements and product education or information.

Growth of FUM

Increased distribution and visibility and the potential opening of new customer markets can collectively assist to increase demand and thereby drive a growth in funds under management of your product.

In addition, because ASX trading and settlement systems largely administer investor activity, a quotation on ASX allows the fund manufacturer or issuer to focus on core business development activities.

Greater administration efficiency

The ASX settlement platform can reduce the cost of your back office and client administration functions.

The use of the ASX sub-register and settlement system, CHESS should deliver significant efficiencies in back-office operation.

CHESS offers:

- Streamlined management of client registration details and functions, through ASX Participants.
- Automatic production of client holding statements each time a movement occurs in a client account.
- Fully automated reconciliation through CHESS DvP settlement which eliminates settlement risk and provides immediate access to cleared funds.

New customer markets opened

Institutional investors can be limited by their mandates, regulatory or other legal constraints from investing in unlisted products. A quotation on ASX can open this otherwise closed market to product issuers.

Readily available market information, distributed by vendors, also has the potential to open new overseas wholesale customer markets that would otherwise be difficult to reach.

Benefits for your investors

ASX trading and settlement systems allow investors to move into and out of their investments easily and without delay, a feature not readily available in an unlisted environment.

The ASX trading system enables investors to readily see prices and liquidity, thus facilitating trading decisions. This information is readily available through the internet, market data vendors and through traditional media outlets such as newspapers and magazines.

Settlement through CHESSE ensures investors transactions are settled in three days (T+3) with settlement risk eliminated through the operation of transfer of entitlement against cleared funds (delivery versus payment). This is a significant improvement upon the variable environment for unlisted products, where access to cash can take up to 30 days

Additional benefits for product issuers

Opportunity for international products to be sponsored on ASX

A significant benefit of the new service is the flexibility it offers international product issuers. Under the new Rules framework a product can be quoted on ASX by an entity other than the original product manufacturer or issuer; in this case the local sponsor is responsible for complying with the Rules.

This effectively provides a simple and quick solution for investment banks or other local issuers to bring any international product that complies with the new Rules framework to the Australian market.

ASX quotation as a distribution channel

Many products have multiple distribution channels and a product issuer may wish to add an ASX quotation as one of these channels. In this instance, the issuer will only wish to quote a small portion of the product's units on ASX; prior to the AQUA quotation Rules, this was not possible on ASX.

Under the AQUA Rules, issuers can choose to quote only a small portion (or even begin a new channel) on ASX.

Increased profile and prestige

The Traded on ASX emblem provides issuers with an instantly recognisable symbol to differentiate investment products traded on ASX from the non-quoted products available. Only issuers of investment products on the ASX are eligible to use this emblem.



A Choice of Markets

One of the key elements of the new service is the flexibility it offers to product issuers to choose between quoting their product in a regular Trading Market offering liquidity and increased broker distribution or on the new Quote Display Board which provides visibility of product, indicative pricing on screen and access to CHESS.

The Trading Market

The Funds, Warrants, and Structured Products trading market provides a trading platform for products for on-market trading. In operational terms, the trading market operates on ASX's Integrated Trading System (ITS®) with continuous matching of bids and offers and an opening and closing auction.

The Quote Display Board (QDB)

The new QDB is available for products that are either not suited to on-market trading or the product issuer does not need or want on-market trading. The QDB allows products and prices to be posted and off-market transactions to be settled in CHESS.

For example forward priced products may not be suitable to be 'traded' in a live secondary market. In this case indicative application and redemption prices for products can be quoted on the QDB. The product issuer has complete control to post and amend its prices and these prices cannot be traded against – they are indicative prices only.

To use the QDB, the product issuer must establish a relationship with (or own) an ASX Market Participant, acting as their agent, to gain access to the QDB and the settlement facilities of CHESS. Any off-market transactions can then be routed to CHESS by the Participants on both sides of the transaction (the issuer's agent and another ASX Market / Trading Participant). Issuers may also decide to quote naturally illiquid products on the QDB, or products in which they do not wish to make markets.

What products can be quoted?

The key feature of products quoted under the Aqua Rules is that their value is determined from other assets such as a share, index, foreign or Australian currency or commodity.

In general, there are three broad categories of product that can be quoted in this way:

- Managed Fund Products
- Exchange Traded Funds (ETFs) and
- Structured Products

The AQUA Rules provide further details of the definitions of products that are able to be quoted.

The other routes for quotation on ASX, the Equity Listing Rules and the Warrants Listing Rules, complete the spectrum of quotation opportunities on ASX from traditional equities, through managed funds and ETF products, to more complex structured products and warrants.

Who can be an issuer?

The range of issuers that can quote products depends on the type of product in question.

Banks and other large, well capitalised and regulated organisations are able to quote all of the products that meet the product definitions in the new Rules and that ASX agrees to quote.

Responsible Entities (REs) of managed funds, ASX listed entities and other organisations accepted by ASX are able to quote a subset of the full range.

Further details of eligibility can be found within the AQUA Rules on www.asx.com.au/AQUA

International products on ASX: The Sponsor Concept

The AQUA Rules provide a simple and effective framework to enable international products to be quoted on ASX.

A local party may become the 'sponsor' or distributor of a product in Australia, or 'white label' products for distribution on the Australian market, provided that they comply with the requirements under the AQUA Rules.

The quoting process

The quoting process for a product issuer happens in two stages:

1. Approval of the issuer and
2. Approval of the product

The approval of the issuer (or manufacturer) only happens once, when that issuer's first product is being quoted. Approval of the product is a separate step each time a new product is quoted on ASX.

Step 1: Approval of the issuer

An entity must be nominated as the issuer of the product to be quoted on ASX (for internationally sponsored products this will be the entity that will comply with the rules). That entity then applies to ASX to be an Approved Issuer and is required to provide the relevant supporting documentation to demonstrate that it meets the eligibility criteria – full details of the required documentation can be found in the AQUA Rules at www.asx.com.au/AQUA

Step 2: Approval of the product

Under the Corporations Act an issuer is generally required to prepare a Prospectus or a Product Disclosure Statement (PDS) in respect of products issued in Australia. There are exemptions for certain issues to certain parties but given most products quoted on ASX are likely to be aimed at retail investors, a PDS or prospectus is likely to be required.

How long does it take?

The first time an issuer applies to quote a product on ASX, depending on the complexity of the proposed new issue, the turnaround between submission of application and quotation will be anywhere between three weeks and three months. Subsequent quotations of similar products by the same issuer can be expected to be approved within one week. Essentially, the more ASX is familiar with an issuer and its products the quicker the timeframe. For example, current structured products issued by banks as warrants are usually quoted within two days.

Cost considerations - Funds

The fees payable in respect of funds vary depending on whether the Trading Market or Quote Display Board is selected by the product issuer. Please note that these fees do not include GST.

Trading Market

INITIAL FEES	\$15,000 per new issuer (one-off payment) \$2,000 per new fund
ANNUAL FEES	Basis points fee based on the number of funds & FUM (see tables below)

TABLE 1. SCHEDULE FOR 1-4 FUNDS (PER FUND)

Funds Under Management (A\$)	Annual listing fee (A\$)
Up to \$100m	3.5 bps of FUM under \$100m
\$100m to \$500m	\$35,000 + 2.5 bps of FUM over \$100m
\$500m to \$1,000m	\$135,000 + 2.0 bps of FUM over \$500m
\$1,000m to \$2,000m	\$235,000 + 1.5 bps of FUM over \$1,000m
Over \$2,000m	\$385,000 + 0.75 bps of FUM over \$2,000m

TABLE 2. SCHEDULE FOR 5-9 FUNDS (FUM AGGREGATED)

Funds Under Management (A\$)	Annual listing fee (A\$)
Up to \$500m	2.0 bps of FUM under \$500m
\$500m to \$1,000m	\$100,000 + 1.5 bps of FUM over \$500m
\$1,000m to \$2,000m	\$175,000 + 1.25 bps of FUM over \$1,000m
\$2,000m to \$5,000m	\$300,000 + 0.75 bps of FUM over \$2,000m
Over \$5,000m	\$525,000 + 0.25 bps of FUM over \$5,000m

TABLE 3: SCHEDULE FOR 10+ FUNDS (FUM AGGREGATED)

Funds Under Management (A\$)	Annual listing fee (A\$)
Up to \$1,000m	1.5 bps of FUM under \$1,000m
\$1,000m to \$2,000m	\$150,000 + 1.0 bps of FUM over \$1,000m
\$2,000m to \$5,000m	\$250,000 + 0.5 bps of FUM over \$2,000m
\$5,000m to \$10,000m	\$400,000 + 0.25 bps of FUM over \$5,000m
Over \$10,000m	\$525,000 + 0.10 bps of FUM over \$10,000m

Quote Display Board

INITIAL FEES	\$15,000 per new issuer (one-off payment)	
	\$2,000 per new fund	
ANNUAL FEES	Up to \$50m FUM	\$2,000 per fund per annum
	\$50m to \$100m	\$4,000 per fund per annum
	\$100m to \$200m	\$6,000 per fund per annum
	\$200m to \$500m	\$8,000 per fund per annum
	\$500m +	\$10,000 per fund per annum

* ASX will use market value as a proxy for funds under management (FUM) (number of units x market price) where appropriate. The FUM or market Value in question is the amount of the fund quoted on ASX. This number will be derived by ASX. For example a previously unlisted fund may have FUM of \$500m when it applies to be quoted on ASX. The ASX FUM /market value may actually start at \$Nil and will grow as trades occur on ASX. Issuers must report the total number of units on issue in the fund including CHESS and issuer sponsored sub registers that was quoted on the ASX trading system to ASX quarterly.

Cost considerations - Structured products

The fees payable in respect of structured products vary depending on whether the Trading Market or Quote Display Board is selected by the product issuer. Please note that these fees do not include GST.

Trading Market

INITIAL FEES	\$15,000 per new issuer (one-off payment) \$1,000 per product
TURNOVER FEES	10bps of value traded capped @ \$10,000 p.a. per product (7.5bps if the product is less than 1 year to expiry)

Quote Display Board

INITIAL FEES	\$15,000 per new issuer (one-off payment) \$500 per product capped at 100 products per type (i.e. a program fee of \$50,000)
ANNUAL FEES	\$500 per product capped at 100 products per type. Product issuers should consult with ASX prior to quoting a series of products on the QDB to determine if the product issue is part of a 'program'. *

* A 'Program' is the issue of a series of products where:

- The key features and benefits of each product in the series are identical
- The rights and obligations of each product in the series are identical
- Each product only differs from other products in the program in respect of the underlying share, basket of shares, index or other reference Asset
- Each product in a program is issued either at the same time or within 6 months of the first product issued in the program (issues following this will constitute a new program).

The next steps

ASX recommend that product issuers discuss their requirements for quoting products with ASX at an early stage. All discussions will be on a strictly confidential basis and ASX will be able to review draft documentation to help ensure a smooth passage for any proposal.

Please contact:

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ASX

AUSTRALIAN SECURITIES EXCHANGE



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4(b)**

Meeting Date: 26 April 2017

Subject: Amendments to ASA 700, ASA 800 and ASA 805

Date Prepared: 12 April 2017

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To review and approve for issue, amendments to ASA 700 *Forming an Opinion and Reporting on a Financial Report*, ASA 800 *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* and ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts*. These amendments will:

- Reinstate the Aus paragraph from the previous version of ASA 700 in relation to the date the auditor's report is signed;
- Achieve consistency in relation to naming of the engagement partner, between application material contained within ASA 800 and ASA 805 and a requirement within ASA 700 *Forming an Opinion and Reporting on a Financial Report*; and
- Provide internal consistency in relation to numbering and internal referencing within ASA 800 and ASA 805.

Background

ASA 700

- The previous version of ASA 700 included paragraph Aus 40.1 which read "The auditor's report shall be dated as of the date the auditor signs that report".
- During approval of the current version of ASA 700 the above paragraph was not included in the standard approved by the AUASB on 1 December 2015.
- At the AUASB meeting on 12 September 2016 the AUASB requested the insertion of an Aus paragraph into the requirements of ASA 700 that reads as follows: "The auditor's report shall be dated as of the date the auditor signs that report". The change was requested as the international standard does not reflect principles and practices that are considered appropriate in Australia.
- The amendment was included in exposure draft 07/16 Proposed Auditing Standard ASA 2016-2 *Amendments to Australian Auditing Standards* which was on exposure between 22 December 2016 and 23 January 2017. The submissions received were supportive of this amendment.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

ASA 800 and 805

Consistency in relation to naming of the engagement partner

- ASA 700 was issued in December 2015, with several amendments from the ISA equivalent, to take into account Australian considerations largely *Corporations Act 2001* related.
- ASA 800 and ASA 805 were issued in December 2015, and again in July 2016, to align with the new ASA 700 series.
- One of the Australian amendments made to ISA 700, relates to the naming of the Engagement Partner, where the ISA paragraph was deleted and replaced with an Aus paragraph – refer below:

Name of the Engagement Partner

46. [Deleted by the AUASB. Refer Aus 46.1]

Aus 46.1 The name of the engagement partner shall be included in the auditor's report where required by law or regulation. (Ref: Para. Aus A61.1–A62)

- The background to this amendment is as follows:
 - ISA 700 requires the name of the engagement partner to be included in the auditor's report on the financial report of a listed entity. The ISA is silent on other circumstances. It is long-standing practice in Australia for the engagement partner's name to be included in the auditor's reports. However there are a number of audit engagements where there is no requirement to include the engagement partner's name. The AUASB changed the ISA so that the name of the engagement partner is included when required to by law or regulation. This amendment covers the requirements of the Act (s324AB does not refer to the engagement partner, but rather to a registered company auditor); and permits auditor discretion in cases where there are no legislative or regulatory requirements. The amendment does not lessen the requirements of the ISA. The old ASA 700 was silent on this matter.
- When ASA 800 and ASA 805 were reissued, the application paragraphs related to naming of the Engagement Partner were not updated to reflect the Australian amendment to ASA 700 (as above). This has resulted in there now being an inconsistency between the application material of ASA 800 and ASA 805 and the requirement of ASA 700.

Application paragraph of ASA 800:

Name of the Engagement Partner

A18. The requirement in ASA 700 for the auditor to include the name of the engagement partner in the auditor's report also applies to audits of a special purpose financial report of listed entities. The auditor may be required by law or regulation to include the name of the engagement partner in the auditor's report or may otherwise decide to do so when reporting on a special purpose financial report of entities other than listed entities.

Application paragraph of ASA 805:

Name of the Engagement Partner

A22. The requirement in ASA 700 for the auditor to include the name of the engagement partner in the auditor's report also applies to audits of single financial statements of listed entities or specific elements of financial statements of listed entities. The auditor may be required by law or regulation to include the name of the engagement partner in the auditor's report or may otherwise decide to do so when reporting on a single financial statement or on an element of a financial statement of entities other than listed entities.

Consistency in relation to numbering and internal referencing

- During the current review of ASA 800 and ASA 805 the AUASB Technical Group became aware of an error in relation to the numbering of Aus paragraphs 1.1, 1.2 and 1.3, which are inconsistent with the numbering used in other auditing standards that use the numbering of Aus 0.1, 0.2 and 0.3. The current numbering also creates an inconsistency in both standards, whereby paragraph 4 refers to a non-existent paragraph Aus 0.3.
- To correct the above error the AUASB Technical Group is proposing a change to the numbering of the paragraphs for ASA 800 and ASA 805 be included in ASA 2017-1.

Part B – NZAuASB

The NZAuASB at the time, made the necessary amendments in relation to the name of the engagement partner to their standards to achieve the consistency required across the ISA (NZ) 700 and ISA (NZ) 800 series.

The inclusion of the Aus paragraph and footnote in relation to the date of the audit report is an Australian jurisdictional addition that does not impact on New Zealand auditor reports.

Part C – “Compelling Reasons” Assessment

- The compelling reason test in relation to ASA 700 paragraph Aus 48.1 was approved by the AUASB on 12 December 2017.
- Refer paper attached to agenda item 5(a).12 for the compelling reason test for paragraph A20.1.

Matters to consider:

1. Issue an Amending Standard as follows:

Impact to ASA 700:

- New paragraph Aus 48.1 inserted after paragraph 48 and the heading “Date of the Auditor’s Report” as follows:
The auditor’s report shall be dated as of the date the auditor signs that report.
- A footnote is added to the “Auditor’s Signature” line in illustrations 1A, 2A, 3 and 4 after the heading as follows:
The date of the auditor’s report is the date the auditor signs the report.

Impact to ASA 800:

- Amend current paragraph Aus 1.1 to Aus 0.1
- Amend current paragraph Aus 1.2 to Aus 0.2
- Amend current paragraph Aus 1.3 to Aus 0.3
- Delete A18/ASA 800 (deletion to include deletion of footnote)
- Include Aus A18.1 in ASA 800 to read:
The requirement in ASA 700 for the name of the engagement partner to be included in the auditor’s report where required by law or regulation also applies to audits of special purpose financial reports. (footnote See ASA 700 paragraph Aus 46.1, A61-A63).

Impact to ASA 805:

- Amend current paragraph Aus 1.1 to Aus 0.1
- Amend current paragraph Aus 1.2 to Aus 0.2
- Amend current paragraph Aus 1.3 to Aus 0.3
- Delete A22/ASA 805 (deletion to include deletion of footnote)
- Include Aus A22.1 in ASA 805 to read:

The requirement in ASA 700 for the name of the engagement partner to be included in the auditor's report where required by law or regulation also applies to audits of single financial statements and specific elements, accounts or items of a financial statement. (footnote See ASA 700 paragraph Aus 46.1, A61-A63)

2. The technical group have considered whether the AUASB is required to expose this amending standard, and our view is that an amending standard will not be required to be exposed owing to the following:
 - the proposed change is to application material only;
 - the proposed change is to make application material consistent with a requirements paragraph;
 - the proposed change will not amend current practice in Australia; and
 - the proposed change is the correction of a typographical error in the standard in relation to paragraph numbering. The change is required to maintain internal consistency in relation to paragraph referencing within the standard.

AUASB Technical Group Recommendations

Approval to issue an amending standard, without exposure, and corresponding revised compiled standards ASA 700, ASA 800 and ASA 805

Material Presented

Agenda Item 4(b)	AUASB Board Meeting Summary Paper
Agenda Item 4(b).1	ASA 2017-1 Amendments to Australia Auditing Standards
Agenda Item 4(b).2	Compelling reason test for ASA 800 Aus A18.1
Agenda Item 4(b).3	Compelling reason test for ASA 805 Aus A22.1

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Approval	Approval	AUASB	26 April 2017	o/s

ASA 2017-1
(April 2017)

Auditing Standard ASA 2017-1
*Amendments to Australian Auditing
Standards*

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

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

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PREFACE

Reasons for Issuing ASA 2017-1

The AUASB issues Auditing Standard ASA 2017-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

Main Features

This Auditing Standard makes amendments to the following Auditing Standards:

- | | |
|---------|--|
| ASA 700 | <i>Forming an Opinion and Reporting on a Financial Report</i> (1 December 2015) |
| ASA 800 | <i>Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i> (26 July 2016) |
| ASA 805 | <i>Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i> (26 July 2016) |

The amendments arise from changes made by the AUASB to address Australian legislative scenarios. These changes have passed the compelling reasons test and are considered appropriate and in the public interest. Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2017-1 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: <TypeHere>

R Simnett
Chair - AUASB

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard setting board of the International Federation of Accountants (IFAC). It contains amendments to the Australian Auditing Standards (as shown below).

AUDITING STANDARD ASA 2017-1

Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:
 - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

3. This Auditing Standard is operative for financial reporting periods commencing on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to the Australian Auditing Standards:
 - (a) *ASA 700 Forming an Opinion and Reporting on a Financial Report* (issued 1 December 2015)
 - (b) *ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* (issued 26 July 2016)
 - (c) *ASA 805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* (issued 26 July 2016)

Objective

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
 - (a) *ASA 700 Forming an Opinion and Reporting on a Financial* (1 December 2015)
 - (b) *ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* (26 July 2016)
 - (c) *ASA 805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* (26 July 2016)

Definition

6. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

Amendments to Auditing Standards

Amendments to ASA 700

7. New paragraph Aus 49.1 inserted after paragraph 49 as follows:

The auditor's report shall be dated as of the date the auditor signs that report.
8. A footnote is added to the "Auditor's Signature" line in illustrations 1A, 2A, 3 and 4 after the heading as follows:

The date of the auditor's report is the date the auditor signs the report.

Amendments to ASA 800

9. Amend numbering of current paragraph Aus 1.1 to Aus 0.1.
10. Amend numbering of current paragraph Aus 1.2 to Aus 0.2.
11. Amend numbering of current paragraph Aus 1.3 to Aus 0.3.
12. Paragraph A18 and associated footnote is deleted.
13. A new paragraph Aus A18.1 and footnote is inserted as follows:

The requirement in ASA 700 for the name of the engagement partner to be included in the auditor's report where required by law or regulation also applies to audits of special purpose financial reports. (footnote See ASA 700 paragraph Aus 46.1, A61-A63)

Amendments to ASA 805

14. Amend numbering of current paragraph Aus 1.1 to Aus 0.1.
15. Amend numbering of current paragraph Aus 1.2 to Aus 0.2.
16. Amend numbering of current paragraph Aus 1.3 to Aus 0.3.
17. Paragraph A22 and associated footnote is deleted.
18. A new paragraph Aus A22.1 and footnote is inserted as follows:

The requirement in ASA 700 for the name of the engagement partner to be included in the auditor's report where required by law or regulation also applies to audits of single financial statements and specific elements, accounts or items of a financial statement. (footnote See ASA 700 paragraph Aus 46.1, A61-A63)



Proposed modification (3) to international standard ISA 800

Proposed modification

Include Aus A18.1:

The requirement in ASA 700 for the name of the engagement partner to be included in the auditor's report where required by law or regulation also applies to audits of special purpose financial reports. (footnote See ASA 700 paragraph Aus 46.1, A61-A63).

Rationale for the proposed modification

The international standard is not consistent with Australian regulatory arrangements.

The proposed modification is merely to correctly identify the reporting requirements under Australian legislation.

OR

The international standard does not reflect principles and practices that are considered appropriate in Australia.

NA

A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.

Compelling reason criteria as per agreed Principles of Convergence

Consideration whether the proposed modification meets the criteria

1. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia.

Yes.

The proposed modifications provides a reference to a requirement under the *Corporations Act 2001* (referred to in ASA 700).

2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.

There is no conflict or lessening of the ISA requirements merely adaptations to comply with applicable legislation.

B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.

Compelling reason criteria as per agreed Principles of Convergence

Consideration whether the proposed modification meets the criteria

1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.

NA

2. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners.

NA



Proposed modification (3) to international standard ISA 800	
(For example, excluding options not relevant in Australia and New Zealand)	
3. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)	NA
4. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	NA
5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	NA
6. The proposed modification overall does not result in the standard being overly complex and confusing.	NA
7. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.	NA
C. Conclusion	
Compelling reasons test met/not met?	The compelling reasons test has been met.
Does the Board agree that the proposed modification meets the compelling reason test, and that ISA 800 should be modified as described above?	



Proposed modification (3) to international standard ISA 805

Proposed modification

Include Aus A22.1:

The requirement in ASA 700 for the name of the engagement partner to be included in the auditor's report where required by law or regulation also applies to audits of single financial statements and specific elements, accounts or items of a financial statement. (footnote See ASA 700 paragraph Aus 46.1, A61-A63)

Rationale for the proposed modification

The international standard is not consistent with Australian regulatory arrangements.

The proposed modification is merely to correctly identify the reporting requirements under Australian legislation.

OR

The international standard does not reflect principles and practices that are considered appropriate in Australia.

NA

A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.

Compelling reason criteria as per agreed Principles of Convergence

Consideration whether the proposed modification meets the criteria

1. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia.

Yes.

The proposed modifications provides a reference to a requirement under the *Corporations Act 2001* (referred to in ASA 700).

2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.

There is no conflict or lessening of the ISA requirements merely adaptations to comply with applicable legislation.

B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.

Compelling reason criteria as per agreed Principles of Convergence

Consideration whether the proposed modification meets the criteria

1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.

NA

2. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners.

NA



Proposed modification (3) to international standard ISA 805	
(For example, excluding options not relevant in Australia and New Zealand)	
3. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)	NA
4. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	NA
5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	NA
6. The proposed modification overall does not result in the standard being overly complex and confusing.	NA
7. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.	NA
C. Conclusion	
Compelling reasons test met/not met?	The compelling reasons test has been met.
Does the Board agree that the proposed modification meets the compelling reason test, and that ISA 805 should be modified as described above?	



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4(c)**
Meeting Date: 26 April 2017
Subject: Auditor's Responsibilities – Update
Date Prepared: 13 April 2017

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

To present to the AUASB the final versions (subject to internal QA and approval by the Chairman) of the updated Auditor's Responsibilities Statements post approval of the revised approach at the 1 March 2017 AUASB meeting.

Background

1. ASA 700 *Forming an Opinion and Reporting on a Financial Report* (revised December 2015) requires an auditor to include, in the auditor's report, a description of the auditor's responsibilities. The standard permits an auditor to make reference in the auditor's report, to a description of the auditor's responsibilities on the AUASB website.
2. When an auditor chooses to adopt this option, the standard guides auditors to refer to the AUASB's homepage: <http://www.auasb.gov.au/Home.aspx> [Ref: ASA 700 paragraph Aus A57.1].
3. The standard also indicates via a footnote to the reference above that the auditor should include in the auditor's report, the exact AUASB link applicable to the circumstances. Users of the auditor's report will therefore be directed to only the auditor responsibilities description that is applicable to them.
4. At its 1 December 2015 meeting, the AUASB requested the AUASB website to include four auditor's responsibilities descriptions that aligned with the four illustrative auditor's reports that are included in the appendices of ASA 700. These were presented at the 22 February 2016 meeting.
5. At the 22 February 2016 meeting, the AUASB requested a more comprehensive suite of auditor's responsibilities descriptions be brought back to a later meeting (including examples in relation to listed trusts).
6. At the 14 June 2016 meeting an additional two statements were presented to include listed entities and listed groups that are not a company. During this meeting the AUASB also requested an additional statement to cover non-listed single entities were ASA 600 applies.
7. In July 2016 the AUASB approved via an out of session vote the issue of seven auditor responsibility statements.
8. In January 2017 a member of the AUASB requested an additional statement be added to cover non-listed groups. The AUASB member also suggested a change in the location of the statements from

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

the current http://www.auasb.gov.au/auditors_files/ to a more user friendly URL, such as [http://www.auasb.gov.au/auditor's responsibility statements/](http://www.auasb.gov.au/auditor's_responsibility_statements/).

9. Post the January AUASB meeting, the AUASB technical staff received input from a number of accounting firms who have suggested the preparation of additional statements with generic terms used in relation to “the entity” audited as well as “those charged with governance”. They also suggested that an additional statement be prepared to cover a single listed entity audit where ASA 600 applies. The AUASB technical staff are most appreciative of the assistance provided by the technical staff of the accounting firms.
10. The AUASB approved the updated approach in relation to the use of generic terms per above at the 1 March 2017 AUASB meeting.
11. Following the meeting the AUASB Technical Group continued to consult with key stakeholders and have prepared an updated set of statements to cover the vast majority of audit engagements, including situations where the auditor elects to voluntarily include the reporting of KAMs.

AUASB Technical Group Update

1. The AUASB Technical Group has prepared updated web content and 10 updated Auditor's Responsibilities Statements.

	ASA 600 Applies*	ASA 600 does not apply
Fair presentation framework		
Listed	Statement 1	Statement 2
Non-listed	Statement 3	Statement 4
Non-listed (voluntary reporting of key audit matter(s))	Statement 5	Statement 6
Compliance framework		
Non-listed	Statement 7	Statement 8
Non-listed (voluntary reporting of key audit matter(s))	Statement 9	Statement 10

2. The updated statements will be located at a more user friendly URL:
http://www.auasb.gov.au/auditors_responsibilities/

When referring to the responsibilities statements the auditor needs to include the following URL, where # is the number of the statement above:

http://www.auasb.gov.au/auditors_responsibilities/ar#.pdf

3. The AUASB Technical Group have will also update the content of the AUASB website to include reference to the new statements above (refer appendix 1 for updated content).
4. Given existing references in audit reports to date, the previous version of the statements will be retained on the AUASB website.

Part B – NZAuASB

1. N/A

Part C – “Compelling Reasons” Assessment

1. NA

The proposed changes conform to IAASB modification guidelines for NSS?

Y ☒ N ☐

Material Presented

Agenda Item 4(c).0	AUASB Board Meeting Summary Paper
Agenda Item 4(c).1	Auditor's Responsibilities Statement – Listed / ASA 600 Applies
Agenda Item 4(c).2	Auditor's Responsibilities Statement – Listed / ASA 600 Does not apply
Agenda Item 4(c).3	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Applies
Agenda Item 4(c).4	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Does not apply
Agenda Item 4(c).5	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Applies / KAMs
Agenda Item 4(c).6	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Does not apply / KAMs
Agenda Item 4(c).7	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Applies / Compliance Framework
Agenda Item 4(c).8	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Does not apply / Compliance Framework
Agenda Item 4(c).9	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Applies / KAMs / Compliance Framework
Agenda Item 4(c).10	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Does not apply / KAMs / Compliance Framework

Appendix 1: Auditor's Responsibilities content on AUASB website

Description of the Auditor's Responsibilities Forming Part of the Auditor's Report

Introduction

Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report* requires an auditor's report to include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Report". [Ref: ASA 700, paragraph 37 - 40]

ASA 700 paragraph 41 requires the description of the auditor's responsibilities required by ASA 700 paragraphs 39 - 40 to be included:

- in the body of the auditor's report;
- within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or
- by a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or Australian Auditing Standards expressly permit the auditor to do so.

ASA 700 paragraph Aus A57.1 provides Application and Other Explanatory Material that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is The Auditing and Assurance Standards Board website and the website address is <http://www.auasb.gov.au/Home.aspx>.

- When referring to the responsibilities statements the auditor needs to include the following URL, where # is the number of the statement below:

http://www.auasb.gov.au/auditors_responsibilities/ar#.pdf

Authorisation

The Australian Auditing and Assurance Standards Board authorises that descriptions of the *Auditor's Responsibilities* can be referenced to the following examples. The auditor's report includes a reference to the specific webpage that applies to the auditor's responsibilities applicable in the context of the engagement.

	ASA 600 Applies*	ASA 600 does not apply
Fair presentation framework		
Listed	Statement 1	Statement 2
Non-listed	Statement 3	Statement 4
Non-listed (voluntary reporting of key audit matter(s))	Statement 5	Statement 6
Compliance framework		
Non-listed	Statement 7	Statement 8
Non-listed (voluntary reporting of key audit matter(s))	Statement 9	Statement 10

Per ASA 600 *Special Considerations – Audits of a Group Financial Report* defines a component auditor as "Component auditor means an auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit"



AUDITOR'S RESPONSIBILITIES FORMING PART OF THE AUDITOR'S REPORT

Listed/ASA 600 applies (Fair Presentation Framework)

As part of an audit in accordance with the Australian Auditing Standards, the auditor¹ exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

- Identifies and assesses the risks of material misstatement of the financial report, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's 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.
- Obtains 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 Entity's² internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by those charged with governance³.
- Concludes on the appropriateness of those charged with governance's³ 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 Entity's² ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Entity² to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the business activities within the Entity² to express an opinion on the financial report. The auditor is responsible for the direction, supervision and performance of the audit. The auditor remains solely responsible for the audit opinion.

The auditor communicates with those charged with governance³ regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

The auditor also provides those charged with governance with a statement that the auditor has 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 the auditor's independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance³, the auditor determines those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 5(a)
Meeting Date: 26 April 2017
Subject: ASA 250 & ASA 2017-2
Date Prepared: 10 April 2017

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To present constituents' submissions on ED 05/16 Proposed Auditing Standard ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report* and ED 07/16 Proposed Auditing Standard ASA 2016-1 *Amendments to Australian Auditing Standards* (containing conforming amendments related to changes in the APESB Code).

To present the Auditing Standards ASA 250 and ASA 2017-2 for clearance to issue, subject to the release of the *Proposed Amendments to APES 110 Code of Ethics for Professional Accountants due to revisions to IESBA's Code of Ethics for Professional Accountants* standard by the APESB.

Background

The IAASB issued the final revised ISA 250 on 5 October 2016. In summary the changes in ISA 250 relate to:

- Align aspects of ISA 250 (Revised) to the Non Compliance with Laws and Regulations ("NOCLAR") provisions in the IESBA Code, particularly the definition of non-compliance and the examples of laws and regulations within the scope of ISA 250 (Revised) (see paragraphs 12, A6 and A9–A10 of ISA 250 (Revised)).
- Clarify the requirement regarding the auditor's determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity and the auditor's duty of confidentiality, in order to recognize the different provisions of laws, regulations, or relevant ethical requirements (see paragraphs 29 and A28–A34 of ISA 250 (Revised)).
- Highlight that the auditor may have additional responsibilities under law, regulation, or relevant ethical requirements regarding identified or suspected NOCLAR. This also includes additional emphasis of the possible documentation requirements contained in law, regulation or relevant ethical requirements (see paragraph 9 of ISA 250 (Revised)).
- Highlight the implications of identified or suspected NOCLAR on the audit, for example, the reliability of management's representations, the implications for the auditor's report, and the consideration of whether to withdraw from the engagement (see paragraphs 22 and A23–A27 of ISA 250 (Revised)).

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

- Emphasise the requirements in the IESBA Code relating to the communication of identified or suspected NOCLAR to a group engagement partner or an auditor at a component (see paragraph A8 of ISA 250 (Revised)).
- Draw attention to the fact that, in certain cases, communication with management or those charged with governance may be restricted or prohibited by law or regulation, for example law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (see paragraphs 20, 23 and A21 of ISA 250 (Revised)).
- Furthermore, conforming amendments were also made to a number of other International Standards to reflect the matters indicated above or clarify the expected work effort with regard to identified or suspected NOCLAR. These include ISQC 1; ISA 210; ISA 220; ISA 240; ISA 260; ISA 500; ISRE 3000, ISAE 3402; ISAE 3410; and ISRS 4410.

The AUASB approved the release of the exposure drafts ED 05/16 and ED 06/16 on 29 November 2017. The exposure drafts was issued on 23 December 2016 following the release of the APESB exposure draft on *Proposed Amendments to APES 110 Code of Ethics for Professional Accountants due to revisions to IESBA's Code of Ethics for Professional Accountants* on 16 December 2016. The exposure drafts were open for comment until 15 March 2017.

The AUASB received five submissions on ED 05/16 and four submissions on ED 06/16. The comments provided and their disposition are addressed in the papers provided in relation to agenda items 5(a).3 and 5(a).4.

The APESB have received six submissions to date and are planning on presenting their response to the next APESB meeting scheduled for 19 May 2017.

Due to the extensive use of references to the changes in the APESB Code, the final issuance of ASA 250 and ASA 2017-2 will be held back pending the APESB release of their amendments to APESB Code.

Matters to Consider

Part A – General

1. Key comments for board consideration:

1.1. EY – Comment in relation to question 1&2 for ED 05/16

The proposed standard requires the auditor to discuss any identified or suspected non-compliance with laws and regulations with management (paragraph 20) and communicate such matters to those charged with governance (paragraph 23) unless prohibited by law or regulation. We note that, under Section 1317 of the Corporations Act, there are prohibitions on auditor's discussing matters that have been brought to their attention by a whistle blower. These provisions are designed to avoid disclosure of the identity of a whistle blower.

We recommend an Australian specific requirement or guidance be added to the proposed standard to draw direct attention to these provisions to ensure that an auditor gives due consideration to it prior to discussing or communicating any identified or suspected non-compliance with laws and regulations which came to the auditor's attention by a whistle blower.

AUASB Technical Group (ATG) Comments on Disposition

The ATG agree with the recommendation and believe that the change meets the compelling reason test required when adding additional application material to ISA 250. We have added the following Aus paragraph A20.1:

In the case of an audit conducted under the *Corporations Act 2001*, the auditor may consider the provisions relating to the protection for whistle-blowers contained in Part 9.4AAA of the *Corporations Act 2001* when communicating identified or suspected non-compliance with management and those charged with governance.

Refer paper attached to agenda item 5(a).12 for the compelling reason test for paragraph A20.1.

1.2. Deloitte – Appendix 2 (Other specific comment relating to changes within ED 05/16)

We note that reference has been made to the “*Proposed Amendments to APES 110 Code of Ethics for Professional Accountants*” exposure draft issued by the Accounting Professional and Ethical Standards Board on December 16 2016”.

Given that this wording will quickly become outdated, we are assuming that the intention of the AUASB is to update this reference as appropriate, prior to the issuance of the amended auditing standard.

AUASB Technical Group (ATG) Comments on Disposition

Agreed by the ATG, changed to “*APES 110 Code of Ethics for Professional Accountants*”

This wording will be confirmed post the release of proposed amendments by the APESB, and prior to the issuance of the amended auditing standards.

1.3. CPA – submission in relation to ED05/16 and 06/16

We support the AUASB’s proposed amendments to ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* and conforming amendments to a number of other AUASB Standards to maintain conformity with International Auditing and Assurance Standards and to reflect the proposed amendments to APES 110 *Code of Ethics for Professional Accountants* (the Code), under certain conditions. The conditions for our support of the proposed amendments are that:

1. The revisions to ASA 250 and conforming amendments to other AUASB Standards are consistent with the final approved amendments to the Code; and
2. The operative date of revised ASA 250 and conforming amendments to other AUASB Standards is no earlier and preferably the same as the operative date of the revised Code.

AUASB Technical Group (ATG) Comments on Disposition

Agreed by the ATG, ASA 250 and the conforming amendments to other AUASB standards will be consistent with the final approved amendments to the APESB Code and with an operative date no earlier than the operative date of the revised APESB Code

2. All other comments received and proposed disposition

The AUASB Technical Group has considered all other comments received in the detailed comments received and disposition paper attached to agenda items 5(a).3 and 5(a).4.

Part B – NZAuASB

1. The NZAuASB issued ISA (NZ) 250 (Revised) on 24 November 2016. The NZAuASB standard applies for periods ending on or after 15 December 2017 with early adoption permitted.

AUASB Technical Group Recommendations

The AUASB to consider:

- Comment received and proposed disposition paper on ED 05/16 and ED 06/16 and recommend changes; and
- To approve the standards for issue, pending the release of the *Proposed Amendments to APES 110 Code of Ethics for Professional Accountants due to revisions to IESBA's Code of Ethics for Professional Accountants* by the APESB and subject to internal QA processes being completed and final review by the Chairman.

Material Presented

Agenda Item 5(a)	AUASB Board Meeting Summary Paper
Agenda Item 5(a).1	ASA 250
Agenda Item 5(a).2	ASA 2017-2
Agenda Item 5(a).3	Dispositions paper of submissions received 05/16 (board only)
Agenda Item 5(a).4	Dispositions paper of submissions received 06/16 (board only)
Agenda Item 5(a).5	Deloitte Submission (05/16)
Agenda Item 5(a).6	KPMG Submission (05/16)
Agenda Item 5(a).7	EY Submission (05/16)
Agenda Item 5(a).8	CPA Submission (05/16 & 06/16)
Agenda Item 5(a).9	CA ANZ Submission (05/16 & 06/16)
Agenda Item 5(a).10	Deloitte Submission (06/16)
Agenda Item 5(a).11	EY Submission (06/16)
Agenda Item 5(a).12	Compelling reasons test ASA 250 paragraph AUS A20.1
Agenda Item 5(a).13	Basis for conclusions ASA 250 (draft – board only)
Agenda Item 5(a).14	Basis for conclusions ASA 2017-2 (draft board only)
Agenda Item 5(a).15	Explanatory Statement ASA 250 (draft – board only)
Agenda Item 5(a).16	Explanatory Statement ASA 2017-2 (draft – board only)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider and approve comments of disposition	AUASB comments	AUASB	26 April 2017	o/s
2.	Give clearance to issue ASA 250 and ASA 2017-2	AUASB clearance	AUASB	26 April 2017	o/s

ASA 250
(April 2017)

Auditing Standard ASA 250
*Consideration of Laws and Regulations in
an Audit of a Financial Report*

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

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

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PREFACE

Reasons for Issuing ASA 250

The AUASB issues Auditing Standard ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

Main Features

This Auditing Standard represents the Australian equivalent of revised ISA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* and will replace the current ASA 250 issued by the AUASB in June 2011 (as amended).

This Auditing Standard contains differences from the revised ISA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

R Simnett
Chairman - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

This Auditing Standard incorporates terminology and definitions used in Australia.

Compliance with this Auditing Standard enables compliance with ISA 250.

AUDITING STANDARD ASA 250

Consideration of Laws and Regulations in an Audit of a Financial Report

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 15 December 2017.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibility to consider laws and regulations in an audit of a financial report. This Auditing Standard does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

Effect of Laws and Regulations

2. The effect on a financial report of laws and regulations varies considerably. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations have a direct effect on the financial report in that they determine the reported amounts and disclosures in an entity's financial report. Other laws or regulations are to be complied with by management or set the provisions under which the entity is allowed to conduct its business but do not have a direct effect on an entity's financial report. Some entities operate in heavily regulated industries (such as banks and chemical companies). Others are subject only to the many laws and regulations that relate generally to the operating aspects of the business (such as those related to occupational safety and health, and equal employment opportunity). Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial report.

Responsibility for Compliance with Laws and Regulations (Ref: Para. A1–A8)

3. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial report.

Responsibility of the Auditor

4. The requirements in this Auditing Standard are designed to assist the auditor in identifying material misstatement of the financial report due to non-compliance with laws and regulations.

However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

5. The auditor is responsible for obtaining reasonable assurance that the financial report, taken as a whole, is free from material misstatement, whether due to fraud or error.¹ In conducting an audit of the financial report, the auditor takes into account the applicable legal and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial report may not be detected, even though the audit is properly planned and performed in accordance with the Australian Auditing Standards.² In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:

- There are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial report and are not captured by the entity's information systems relevant to financial reporting.
- Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor.
- Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial report, the less likely the auditor is to become aware of it or to recognise the non-compliance.

6. This Auditing Standard distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows: (Ref: Para. A6, A12–A13)
- (a) The provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report such as tax and superannuation laws and regulations (see paragraph 14) (Ref: Para. A12); and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial report, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial report (see paragraph 15) (Ref: Para. A13).
7. In this Auditing Standard, differing requirements are specified for each of the above categories of laws and regulations. For the category referred to in paragraph 6(a), the auditor's responsibility is to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations. For the category referred to in paragraph 6(b), the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial report.
8. The auditor is required by this Auditing Standard to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on the financial report may bring instances of non-compliance to the auditor's attention. Maintaining professional

¹ See ASA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 5

² See ASA 200, paragraphs A51–A52

scepticism throughout the audit, as required by ASA 200,³ is important in this context, given the extent of laws and regulations that affect the entity.

9. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond this Auditing Standard, such as: (Ref: Para. A8)
- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
 - (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of a group financial report); and
 - (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other Australian Auditing Standards (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

Effective Date

10. [Deleted by the AUASB. Refer Aus 0.3]

Objectives

11. The objectives of the auditor are:
- (a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report;
 - (b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial report; and
 - (c) To respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

Definition

12. For the purposes of this Auditing Standard, the following term has the meaning attributed below:

Non-compliance – Acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity. (Ref: Para. A9–A10)

³ See ASA 200, paragraph 15

Requirements

The Auditor's Consideration of Compliance with Laws and Regulations

13. As part of obtaining an understanding of the entity and its environment in accordance with ASA 315,⁴ the auditor shall obtain a general understanding of:
 - (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
 - (b) How the entity is complying with that framework. (Ref: Para. A11)
14. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report. (Ref: Para. A12)
15. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial report: (Ref: Para. A13–A14)
 - (a) Enquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and
 - (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
16. During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. (Ref: Para. A15)
17. The auditor shall request management and, where appropriate, those charged with governance, to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial report have been disclosed to the auditor. (Ref: Para. A16)
18. In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 13–17.

Audit Procedures When Non-Compliance Is Identified or Suspected

19. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain: (Ref: Para. A17–A18)
 - (a) An understanding of the nature of the act and the circumstances in which it has occurred; and
 - (b) Further information to evaluate the possible effect on the financial report. (Ref: Para. A19)
20. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter, unless prohibited by law or regulation, with the appropriate level of management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance, do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgement, the effect of the

⁴ See ASA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11

suspected non-compliance may be material to the financial report, the auditor shall consider the need to obtain legal advice. (Ref: Para. A20–A22)

21. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.
22. The auditor shall evaluate the implications of identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action. (Ref: Para. A23–A25)

Communicating and Reporting Identified or Suspected Non-Compliance

Communicating Identified or Suspected Non-Compliance with Those Charged with Governance

23. Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor,⁵ the auditor shall communicate, unless prohibited by law or regulation, with those charged with governance, matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.
24. If, in the auditor's judgement, the non-compliance referred to in paragraph 23 is believed to be intentional and material, the auditor shall communicate the matter with those charged with governance as soon as practicable.
25. If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.

Potential Implications of Identified or Suspected Non-Compliance for the Auditor's Report (Ref: Para. A26–A27)

26. If the auditor concludes that the identified or suspected non-compliance has a material effect on the financial report, and has not been adequately reflected in the financial report, the auditor shall, in accordance with ASA 705, express a qualified opinion or an adverse opinion on the financial report.⁶
27. If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial report has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial report on the basis of a limitation on the scope of the audit in accordance with ASA 705.⁷
28. If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion in accordance with ASA 705.

⁵ See ASA 260, *Communication with Those Charged with Governance*, paragraph 13

⁶ See ASA 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7–8

⁷ See ASA 705, paragraphs 7 and 9

Reporting Identified or Suspected Non-Compliance to an Appropriate Authority outside the Entity

29. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A28–A34)
- (a) Require the auditor to report to an appropriate authority outside the entity.
 - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Documentation

30. The auditor shall include in the audit documentation⁸ identified or suspected non-compliance with laws and regulations and: (Ref: Para. A35–A36)
- (a) The audit procedures performed, the significant professional judgements made and the conclusions reached thereon; and
 - (b) The discussions of significant matters related to the non-compliance with management, those charged with governance and others, including how management and, where applicable, those charged with governance have responded to the matter.

* * *

⁸ See ASA 230, *Audit Documentation*, paragraphs 8–11, and A6

Application and Other Explanatory Material

Responsibility for Compliance with Laws and Regulations (Ref: Para. 3–9)

- A1. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with laws and regulations. Laws and regulations may affect an entity's financial report in different ways: for example, most directly, they may affect specific disclosures required of the entity in the financial report or they may prescribe the applicable financial reporting framework. They may also establish certain legal rights and obligations of the entity, some of which will be recognised in the entity's financial report. In addition, laws and regulations may impose penalties in cases of non-compliance.
- A2. The following are examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:
- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
 - Instituting and operating appropriate systems of internal control.
 - Developing, publicising and following a code of conduct.
 - Ensuring employees are properly trained and understand the code of conduct.
 - Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
 - Engaging legal advisors to assist in monitoring legal requirements.
 - Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.

In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:

- An internal audit function.
- An audit committee.
- A compliance function.

Responsibility of the Auditor

- A3. Non-compliance by the entity with laws and regulations may result in a material misstatement of the financial report. Detection of non-compliance, regardless of materiality, may affect other aspects of the audit including, for example, the auditor's consideration of the integrity of management, those charged with governance or employees.
- A4. Whether an act constitutes non-compliance with laws and regulations is a matter to be determined by a court or other appropriate adjudicative body, which is ordinarily beyond the auditor's professional competence to determine. Nevertheless, the auditor's training, experience and understanding of the entity and its industry or sector may provide a basis to recognise that some acts, coming to the auditor's attention, may constitute non-compliance with laws and regulations.
- A5. In accordance with specific statutory requirements, the auditor may be specifically required to report, as part of the audit of the financial report, on whether the entity complies with certain

provisions of laws or regulations. In these circumstances, ASA 700⁹ or ASA 800¹⁰ deal with how these audit responsibilities are addressed in the auditor's report. Furthermore, where there are specific statutory reporting requirements, it may be necessary for the audit plan to include appropriate tests for compliance with these provisions of the laws and regulations.

Categories of Laws and Regulations (Ref: Para. 6)

A6. The nature and circumstances of the entity may impact whether relevant laws and regulations are within the categories of laws and regulations described in paragraphs 6(a) or 6(b). Examples of laws and regulations that may be included in the categories described in paragraph 6 include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and superannuation liabilities and payments.
- Environmental protection.
- Public health and safety.

Considerations Specific to Public Sector Entities

A7. In the public sector, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of the financial report or may extend to other aspects of the entity's operations.

Additional Responsibilities Established by Law, Regulation or Relevant Ethical Requirements (Ref: Para. 9)

A8. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further action. For example, the *Amendments to APES 110 Code of Ethics for Professional Accountants* exposure draft issued by the Accounting Professional and Ethical Standards Board on December 16 2016 requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations to other auditors within a group, including a group engagement partner, component auditors or other auditors performing work at components of a group for purposes other than the audit of the group financial report.¹¹

Definition (Ref: Para. 12)

- A9. Acts of non-compliance with laws and regulations include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, by management or by other individuals working for or under the direction of the entity.
- A10. Non-compliance also includes personal misconduct related to the business activities of the entity, for example, in circumstances where an individual in a key management position, in a

⁹ See ASA 700, *Forming an Opinion and Reporting on a Financial Report*, paragraph 43

¹⁰ See ASA 800, *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*, paragraph 11

¹¹ See Sections 225.21–225.22 of APES 110 *Code of Ethics for Professional Accountants*.

personal capacity, has accepted a bribe from a supplier of the entity and in return secures the appointment of the supplier to provide services or contracts to the entity.

The Auditor's Consideration of Compliance with Laws and Regulations

Obtaining an Understanding of the Legal and Regulatory Framework (Ref: Para. 13)

- A11. To obtain a general understanding of the legal and regulatory framework, and how the entity complies with that framework, the auditor may, for example:
- Use the auditor's existing understanding of the entity's industry, regulatory and other external factors;
 - Update the understanding of those laws and regulations that directly determine the reported amounts and disclosures in the financial report;
 - Enquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity;
 - Enquire of management concerning the entity's policies and procedures regarding compliance with laws and regulations; and
 - Enquire of management regarding the policies or procedures adopted for identifying, evaluating and accounting for litigation claims.

Laws and Regulations Generally Recognised to Have a Direct Effect on the Determination of Material Amounts and Disclosures in the Financial Report (Ref: Para. 6, 14)

- A12. Certain laws and regulations are well-established, known to the entity and within the entity's industry or sector, and relevant to the entity's financial report (as described in paragraph 6(a)). They could include those that relate to, for example:
- The form and content of a financial report;
 - Industry-specific financial reporting issues;
 - Accounting for transactions under government contracts; or
 - The accrual or recognition of expenses for income tax or superannuation costs.

Some provisions in those laws and regulations may be directly relevant to specific assertions in the financial report (e.g., the completeness of income tax provisions), while others may be directly relevant to the financial report as a whole (e.g., the required statements constituting a complete set of financial statements). The aim of the requirement in paragraph 14 is for the auditor to obtain sufficient appropriate audit evidence regarding the determination of amounts and disclosures in the financial report in compliance with the relevant provisions of those laws and regulations.

Non-compliance with other provisions of such laws and regulations and other laws and regulations may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for in the financial report, but are not considered to have a direct effect on the financial report as described in paragraph 6(a).

Procedures to Identify Instances of Non-Compliance—Other Laws and Regulations (Ref: Para. 6, 15)

- A13. Certain other laws and regulations may need particular attention by the auditor because they have a fundamental effect on the operations of the entity (as described in paragraph 6(b)). Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may cause the entity to cease operations, or call into question the entity's

continuance as a going concern.¹² For example, non-compliance with the requirements of the entity's license or other entitlement to perform its operations could have such an impact (e.g., for a bank, non-compliance with capital or investment requirements). There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial report and are not captured by the entity's information systems relevant to financial reporting.

- A14. As the financial reporting consequences of other laws and regulations can vary depending on the entity's operations, the audit procedures required by paragraph 15 are directed to bringing to the auditor's attention instances of non-compliance with laws and regulations that may have a material effect on the financial report.

Non-Compliance Brought to the Auditor's Attention by Other Audit Procedures (Ref: Para. 16)

- A15. Audit procedures applied to form an opinion on the financial report may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. For example, such audit procedures may include:

- Reading minutes;
- Enquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and
- Performing substantive tests of details of classes of transactions, account balances or disclosures.

Written Representations (Ref: Para. 17)

- A16. Because the effect on a financial report of laws and regulations can vary considerably, written representations provide necessary audit evidence about management's knowledge of identified or suspected non-compliance with laws and regulations, whose effects may have a material effect on the financial report. However, written representations do not provide sufficient appropriate audit evidence on their own and, accordingly, do not affect the nature and extent of other audit evidence that is to be obtained by the auditor.¹³

Audit Procedures When Non-Compliance Is Identified or Suspected

Indications of Non-Compliance with Laws and Regulations (Ref: Para. 19)

- A17. The auditor may become aware of information concerning an instance of non-compliance with laws and regulations other than as a result of performing the procedures in paragraphs 13–17 (e.g., when the auditor is alerted to non-compliance by a whistle blower).
- A18. The following matters may be an indication of non-compliance with laws and regulations:
- Investigations by regulatory organisations and government departments or payment of fines or penalties.
 - Payments for unspecified services or loans to consultants, related parties, employees or government employees.
 - Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
 - Purchasing at prices significantly above or below market price.

¹² See ASA 570, *Going Concern*.

¹³ See ASA 580, *Written Representations*, paragraph 4

- Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.
- Unusual transactions with companies registered in tax havens.
- Payments for goods or services made other than to the country from which the goods or services originated.
- Payments without proper exchange control documentation.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorised transactions or improperly recorded transactions.
- Adverse media comment.

Matters Relevant to the Auditor's Evaluation (Ref: Para. 19(b))

A19. Matters relevant to the auditor's evaluation of the possible effect on the financial report include:

- The potential financial consequences of identified or suspected non-compliance with laws and regulations on the financial report including, for example, the imposition of fines, penalties, damages, threat of expropriation of assets, enforced discontinuation of operations, and litigation.
- Whether the potential financial consequences require disclosure.
- Whether the potential financial consequences are so serious as to call into question the fair presentation of the financial report, or otherwise make the financial report misleading.

Audit Procedures and Communicating Identified or Suspected Non-Compliance with Management and Those Charged with Governance (Ref: Para. 20)

A20. The auditor is required to discuss the suspected non-compliance with the appropriate level of management and, where appropriate, those charged with governance, as they may be able to provide additional audit evidence. For example, the auditor may confirm that management and, where appropriate, those charged with governance have the same understanding of the facts and circumstances relevant to transactions or events that have led to the suspected non-compliance with laws and regulations.

Aus A20.1 In the case of an audit conducted under the *Corporations Act 2001*, the auditor may consider the provisions relating to the protection for whistleblowers contained in Part 9.4AAA of the *Corporations Act 2001* when communicating identified or suspected non-compliance with management and those charged with governance.

A21. However, in some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with management and those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

A22. If management or, as appropriate, those charged with governance, do not provide sufficient information to the auditor that the entity is in fact in compliance with laws and regulations, the auditor may consider it appropriate to consult with the entity's in-house or external legal counsel about the application of the laws and regulations to the circumstances, including the

possibility of fraud, and the possible effects on the financial report. If it is not considered appropriate to consult with the entity's legal counsel or if the auditor is not satisfied with the legal counsel's opinion, the auditor may consider it appropriate to consult on a confidential basis with others within the firm, a network firm, a professional body, or with the auditor's legal counsel as to whether a contravention of a law or regulation is involved, including the possibility of fraud, the possible legal consequences, and what further action, if any, the auditor would take.

Evaluating the Implications of Identified or Suspected Non-Compliance (Ref: Para. 22)

- A23. As required by paragraph 22, the auditor evaluates the implications of identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations. The implications of particular identified or suspected non-compliance will depend on the relationship of the perpetration and concealment, if any, of the act to specific control activities and the level of management or individuals working for, or under the direction of, the entity involved, especially implications arising from the involvement of the highest authority within the entity. As noted in paragraph 9, the auditor's compliance with law, regulation or relevant ethical requirements may provide further information that is relevant to the auditor's responsibilities in accordance with paragraph 22.
- A24. Examples of circumstances that may cause the auditor to evaluate the implications of identified or suspected non-compliance on the reliability of written representations received from management and, where applicable, those charged with governance include when:
- The auditor suspects or has evidence of the involvement or intended involvement of management and, where applicable, those charged with governance, in any identified or suspected non-compliance.
 - The auditor is aware that management and, where applicable, those charged with governance, have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorised reporting of, the matter to an appropriate authority within a reasonable period.
- A25. In certain circumstances, the auditor may consider withdrawing from the engagement, where permitted by law or regulation, for example when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances or the identified or suspected non-compliance raises questions regarding the integrity of management or those charged with governance, even when the non-compliance is not material to the financial report. The auditor may consider it appropriate to obtain legal advice to determine whether withdrawal from the engagement is appropriate. When the auditor determines that withdrawing from the engagement would be appropriate, doing so would not be a substitute for complying with other responsibilities under law, regulation or relevant ethical requirements to respond to identified or suspected non-compliance. Furthermore, paragraph A9 of ASA 220¹⁴ indicates that some ethical requirements may require the predecessor auditor, upon request by the proposed successor auditor, to provide information regarding non-compliance with laws and regulations to the successor auditor.

Communicating and Reporting Identified or Suspected Non-Compliance

Potential Implications of Identified or Suspected Non-Compliance for the Auditor's Report

(Ref: Para. 26–28)

- A26. Identified or suspected non-compliance with laws and regulation is communicated in the auditor's report when the auditor modifies the opinion in accordance with paragraphs 26–28. In certain other circumstances, the auditor may communicate identified or suspected non-compliance in the auditor's report, for example:

¹⁴ See ASA 220, *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

- When the auditor has other reporting responsibilities, in addition to the auditor's responsibilities under the Australian Auditing Standards, as contemplated by paragraph 43 of ASA 700;
- When the auditor determines that the identified or suspected non-compliance is a key audit matter and accordingly communicates the matter in accordance with ASA 701,¹⁵ unless paragraph 14 of that Auditing Standard applies; or
- In exceptional cases when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances and withdrawal from the engagement is not possible (see paragraph A25), the auditor may consider describing the identified or suspected non-compliance in an Other Matter paragraph in accordance with ASA 706.¹⁶

Aus A26.1 If, in the case of an audit conducted under the *Corporations Act 2001*, the auditor identifies non-compliance with an Australian Accounting Standard, defects or irregularities in the financial report or deficiencies, failures or shortcomings in respect of sec 307 of the Act, the auditor's report is to include the information required by the Act.* The auditor needs to consider any other relevant laws and regulations. If the auditor is in doubt as to the proper interpretation of laws or regulations, or whether non-compliance has in fact occurred, the auditor ordinarily seeks legal advice before expressing an opinion on the financial report.

A27. Law or regulation may preclude public disclosure by either management, those charged with governance or the auditor about a specific matter. For example, law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including a prohibition on alerting the entity. When the auditor intends to communicate identified or suspected non-compliance in the auditor's report under the circumstances set out in paragraph A26 or otherwise, such law or regulation may have implications for the auditor's ability to describe the matter in the auditor's report, or in some circumstances to issue the auditor's report. In such cases, the auditor may consider obtaining legal advice to determine the appropriate course of action.

Reporting Identified or Suspected Non-Compliance to an Appropriate Authority outside the Entity
(Ref: Para. 29)

A28. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

- (a) Law, regulation or relevant ethical requirements require the auditor to report (see paragraph A29);
- (b) The auditor has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements (see paragraph A30); or
- (c) Law, regulation or relevant ethical requirements provide the auditor with the right to do so (see paragraph A31).

A29. In some jurisdictions, the auditor may be required by law, regulation or relevant ethical requirements to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity. For example, in some jurisdictions, statutory requirements exist for the auditor of a financial institution to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to a supervisory authority.

¹⁵ See ASA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

¹⁶ See ASA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

* See sections 308 (2) and (3) of the *Corporations Act 2001*.

Also, misstatements may arise from non-compliance with laws or regulations and, in some jurisdictions, the auditor may be required to report misstatements to an appropriate authority in cases where management or those charged with governance fail to take corrective action.

- Aus A29.1 In certain circumstances, the auditor has a statutory responsibility to report instances of non-compliance with laws and regulations. For example, in certain circumstances, the auditor is required under the *Corporations Act 2001*, to report to the Australian Securities and Investments Commission (ASIC).^{*} Establishing the appropriate authority to which such a report would be made in a particular instance will depend on the nature and circumstances of the non-compliance. When in doubt, the auditor would ordinarily seek legal advice.
- A30. In other cases, the relevant ethical requirements may require the auditor to determine whether reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in the circumstances. For example, the *APES 110 Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed, which may include reporting to an appropriate authority outside the entity.¹⁷ The *APES 110 Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board explains that such reporting would not be considered a breach of the duty of confidentiality under the APESB Code.¹⁸
- A31. Even if law, regulation or relevant ethical requirements do not include requirements that address reporting identified or suspected non-compliance, they may provide the auditor with the right to report identified or suspected non-compliance to an appropriate authority outside the entity. For example, when auditing the financial report of financial institutions, the auditor may have the right under law or regulation to discuss matters such as identified or suspected non-compliance with laws and regulations with a supervisory authority.
- A32. In other circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements.
- A33. The determination required by paragraph 29 may involve complex considerations and professional judgements. Accordingly, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

Considerations Specific to Public Sector Entities

- A34. A public sector auditor may be obliged to report on identified or suspected non-compliance to the legislature or other governing body or to report them in the auditor's report.

Documentation (Ref: Para. 30)

- A35. The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:
- Copies of records or documents.

^{*} See ASIC Regulatory Guide 34 *Auditors' obligations: Reporting to ASIC* that provides guidance to help auditors comply with their obligations, under sections 311, 601HG and 990K of the *Corporations Act 2001*, to report contraventions and suspected contraventions of the Act to ASIC.

¹⁷ See, for example, Section 225.29 and Sections 225.33–225.36 of *APES 110 Code of Ethics for Professional Accountants*.

¹⁸ See, for example, Section 140.7 and Section 225.35 of *APES 110 Code of Ethics for Professional Accountants*.

- Minutes of discussions held with management, those charged with governance or parties outside the entity.
- A36. Law, regulation or relevant ethical requirements may also set out additional documentation requirements regarding identified or suspected non-compliance with laws and regulations.¹⁹

Draft

¹⁹ See, for example, Section 225.37 of APES 110 *Code of Ethics for Professional Accountants*.

ASA 2017-2
(April 2017)

Auditing Standard ASA 2017-2 *Amendments to Australian Auditing Standards*

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

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PREFACE

Reasons for Issuing ASA 2017-2

The AUASB issues Auditing Standard ASA 2017-2 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

Main Features

This Auditing Standard makes amendments to the requirements and/or application & other explanatory material of the following Auditing Standards:

ASQC 1	<i>Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements</i> (27 October 2009)
ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (27 October 2009)
ASA 220	<i>Quality Control for an Audit of a Financial Report and Other Historical Information</i> (27 October 2009)
ASA 240	<i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> (27 October 2009)
ASA 260	<i>Communication with Those Charged with Governance</i> (27 October 2009)
ASA 450	<i>Evaluation of Misstatements Identified During the Audit</i> (27 October 2009)
ASA 500	<i>Audit Evidence</i> (27 October 2009)
ASRE 2400	<i>Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity</i> (26 March 2013)
ASAE 3000	<i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> (24 June 2014)
ASAE 3402	<i>Assurance Reports on Controls at a Service Organisation</i> (24 June 2014)
ASAE 3410	<i>Assurance Engagements on Greenhouse Gas Statements</i> (24 June 2014)

The amendments arise from changes made by the International Auditing and Assurance Standards Board (IAASB) to ISA 250. Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing and to make appropriate consequential amendments to the Australian Auditing Standards.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2017-2 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: <TypeHere>

Roger Simnett
Chairman - AUASB

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes. It contains a series of proposed miscellaneous amendments to various Australian Auditing Standards (as shown) arising from the proposed revision of the existing ASA 250. These proposed amendments, in the main, reflect similar amendments made to the equivalent International Standards on Auditing (ISAs).

Compliance with the amended Australian Auditing Standards enables compliance with the amended ISAs.

AUDITING STANDARD ASA 2017-2

Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:
 - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

3. This Auditing Standard is operative for financial reporting periods commencing on or after 15 December 2017.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to the Australian Auditing Standards. The amendments arise from:
 - (a) Consequential changes arising from revisions to ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.
 - (b) Changes made by the International Auditing and Assurance Standards Board (IAASB) to ISA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* resulting from enhancements aimed at addressing laws and regulations.

Objective

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
 - (a) ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (27 October 2009)
 - (b) ASA 210 *Agreeing the Terms of Audit Engagements* (27 October 2009)
 - (c) ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Information* (27 October 2009)
 - (d) ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* (27 October 2009)
 - (e) ASA 260 *Communication with Those Charged with Governance* (27 October 2009)
 - (f) ASA 450 *Evaluation of Misstatements Identified During the Audit* (27 October 2009)
 - (g) ASA 500 *Audit Evidence* (27 October 2009)

- (h) ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* (26 March 2013)
- (i) ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (24 June 2014)
- (j) ASAE 3402 *Assurance Reports on Controls at a Service Organisation* (24 June 2014)
- (k) ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* (24 June 2014)

Definition

6. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

Amendments to Auditing Standards

Amendments to ASQC 1

7. Paragraph A56 is amended to read as follows:

Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there are responsibilities under law, regulation or relevant ethical requirements ~~is a legal or professional duty~~ to do so.¹ Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

Amendments to ASA 210

8. Paragraph A26 is amended to read as follows:

When relevant, the following points could also be made in the audit engagement letter:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other staff of the entity.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- A reference to, and description of, the auditor's responsibilities under law, regulation or relevant ethical requirements that address reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- Any restriction of the auditor's liability when such possibility exists.
- A reference to any further agreements between the auditor and the entity.
- Any obligations to provide audit working papers to other parties.

An example of an audit engagement letter is set out in Appendix 1.

¹ See, for example, Section 140.7 and Section 225.35 of APES 110 *Code of Ethics for Professional Accountants*.

Amendments to ASA 220

9. A new paragraph after existing paragraph A8 is inserted as follows:

Law, regulation, or relevant ethical requirements² may require the auditor to request, prior to accepting the engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgement, the auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, where the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the APES 110 Code of Ethics for Professional Accountants requires that the predecessor auditor, on request by a proposed successor auditor, provides all such facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.³

10. As a result of the change made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

Amendments to ASA 240

11. A new paragraph after existing paragraph 8 is inserted as follows:

The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including fraud, which may differ from or go beyond this and other Australian Auditing Standards, such as: (Ref: Para. A6A5)

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of a group financial report); and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other Australian Auditing Standards (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

12. Existing paragraph 40 is amended to read as follows:

If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis ~~with~~ the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. ~~A60–A61~~A60)

13. Existing paragraph 41 is amended to read as follows:

² See, for example, Sections 210.14 of APES 110 *Code of Ethics for Professional Accountants*.

³ See, for example, Sections 225.31 of APES 110 *Code of Ethics for Professional Accountants*.

Unless all of those charged with governance are involved in managing the entity, if the auditor has identified or suspects fraud involving:

- (a) management;
- (b) employees who have significant roles in internal control; or
- (c) others where the fraud results in a material misstatement in the financial report,

the auditor shall communicate these matters ~~with~~ to those charged with governance on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions ~~with~~ to those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation. (Ref: Para. ~~A60~~, Aus ~~A61.1~~~~A60.1~~ ~~A64~~~~A63~~)

14. Existing paragraph 42 is amended to read as follows:

The auditor shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in the auditor's judgement, relevant to their responsibilities. (Ref: Para. ~~A60~~, ~~A65~~~~A64~~)

15. The heading above existing paragraph 43 is amended to read as follows:

~~Communications to Regulatory and Enforcement Authorities~~ Reporting Fraud to an Appropriate Authority Outside the Entity

16. Existing paragraph 43 is amended to read as follows:

If the auditor has identified or suspects a fraud, the auditor shall determine whether law, regulation or relevant ethical requirements ~~there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances.~~ (Ref: Para. ~~A66~~~~65~~ ~~A68~~~~67~~)

- (a) Require the auditor to report to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

17. New headings are inserted after existing paragraph A5 as follows:

Responsibility for the Prevention and Detection of Fraud

Responsibilities of the Auditor (Ref: Para. 9)

18. A new paragraph after existing paragraph A5 (and new heading) is inserted as follows:

Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations to other auditors within a group, including a group engagement partner, component auditors or

other auditors performing work at components of a group for purposes other than the audit of the group financial report.⁴

19. The heading after existing paragraph A60 is amended to read as follows:

Communications to Management and Those Charged With Governance (Ref: Para. 41-43)

20. A new paragraph before existing A60 is inserted as follows:

In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with management and those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report the fraud to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

21. The heading above existing paragraph A65 is amended to read as follows:

Communications to Regulatory and Enforcement Authorities Reporting Fraud to an Appropriate Authority outside the Entity (Ref: Para. 4443)

22. Existing paragraph A65 is amended as follows:

ASA 250 (Revised)⁵ provides further guidance with respect to the auditor's determination of whether reporting identified or suspected non-compliance with laws or regulations to an appropriate authority outside the entity is required or appropriate in the circumstances, including consideration of the auditor's duty of confidentiality. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting fraud to a party outside the client entity. However, the auditor's legal responsibilities vary by country and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some countries, the auditor of a financial institution has a statutory duty to report the occurrence of fraud to supervisory authorities. Also, in some countries the auditor has a duty to report misstatements to authorities in those cases where management and those charged with governance fail to take corrective action.

23. Existing paragraph A66 is amended to read as follows:

The determination required by paragraph 44 may involve complex considerations and professional judgements. Accordingly, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider it appropriate to obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular determine the appropriate course of action in the circumstances, the purpose of which is to ascertain the steps necessary in considering the public interest aspects of identified fraud.

24. As a result of the changes made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

Amendments to ASA 260

25. Existing paragraph 7 is amended to read as follows:

⁴ See Sections 225.21–225.22 of APES 110 *Code of Ethics for Professional Accountants*.

⁵ See ASA 250, *Consideration of Laws and Regulations in an Audit of a Financial Report*, paragraphs A28–A34

In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In some these circumstances, the issues considered by the auditor potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, and the auditor may consider it appropriate to obtaining legal advice.

Amendments to ASA 450

26. Existing paragraph 8 is amended to read as follows:

The auditor shall communicate, unless prohibited by law or regulation, on a timely basis all misstatements accumulated during the audit with the appropriate level of management, ~~unless prohibited by law or regulation.~~⁶ The auditor shall request management to correct those misstatements. (Ref: Para. A7–A9)

27. Existing paragraph A8 is amended to read as follows:

In some jurisdictions, law or regulation may restrict the auditor's communication of certain misstatements to management, or others, within the entity. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with law or regulation to an appropriate authority pursuant to anti-money laundering legislation. In some these circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the issues considered by the auditor may be complex and the auditor may consider seeking appropriate to obtain legal advice

Amendments to ASA 500

28. Existing paragraph 7 is amended to read as follows:

When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. (Ref: Para. A26–A34~~33~~)

29. Existing paragraph A26 is amended to read as follows:

As noted in paragraph A1, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, for example, previous audits, in certain circumstances, ~~and~~ a firm's quality control procedures for client acceptance and continuance and complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

30. A new paragraph after existing paragraph A33 is inserted as follows:

ASA 250⁷ provides further guidance with respect to the auditor complying with any additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's identified or suspected non-compliance with laws and regulations that may provide further

⁶ See ASA 260, *Communication with Those Charged with Governance*, paragraph 7

⁷ See ASA 250, *Consideration of Laws and Regulations in an Audit of a Financial Report*, paragraph 9

information that is relevant to the auditor's work in accordance with Australian Auditing Standards and evaluating the implications of such non-compliance in relation to other aspects of the audit.

31. As a result of the changes made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

Amendments to ASRE 2400

32. Existing paragraph 48 is amended to read as follows:

The practitioner's enquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A84–A93~~87~~)

- (d) The existence of any actual, suspected or alleged:
 - (i) Fraud or illegal acts affecting the entity; and
 - (ii) Non-compliance with provisions of laws and regulations that are generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report, such as tax and superannuation laws and regulations;

33. The heading above existing paragraph 52 is amended to read as follows:

Fraud and non-compliance with laws ~~and~~ regulations

34. Existing paragraph 52 is amended to read as follows:

When there is an indication that fraud or non-compliance with laws ~~and~~ regulations, or suspected fraud or non-compliance with laws ~~and~~ regulations, has occurred in the entity, the practitioner shall:

- (a) Communicate that matter, unless prohibited by law or regulation, with to the appropriate level of ~~senior~~ management or those charged with governance as appropriate; (Ref: Para. A92)
- (b) Request management's assessment of the effect(s), if any, on the financial report;
- (c) Consider the effect, if any, of management's assessment of the effects of identified or suspected fraud or non-compliance with laws ~~and~~ regulations communicated to the practitioner on the practitioner's conclusion on the financial report and on the practitioner's report; and
- (d) Determine whether law, regulation or relevant ethical requirements; ~~there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity.~~ (Ref: Para. A92~~93~~–A95)
 - (i) Require the practitioner to report to an appropriate authority outside the entity.
 - (ii) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

35. A new paragraph after existing A87 is inserted as follows:

The practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including fraud, which may differ from or go beyond this ASRE, such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor, for example a group engagement partner;⁸ and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the practitioner's work in accordance with this Assurance Standard (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

36. The heading before existing paragraph A92 is amended to read as follows:

Fraud and non-compliance with laws ~~or~~ and regulations (Ref: Para. 52(a) and (d))

37. A heading before existing paragraph A92 is inserted as follows:

Communication with management and those charged with governance

38. A new paragraph before existing A92 is inserted as follows:

In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the practitioner is required to report identified or suspected non-compliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

Reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity

39. Existing paragraph A92 is amended to read as follows:

~~Under this ISRE, if the practitioner has identified or suspects fraud or illegal acts, the practitioner is required to determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:~~

- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
- (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements (see paragraph A93); or
- (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so (see paragraph A94).

~~Although the practitioner's professional duty to maintain the confidentiality of client information may preclude such reporting, the practitioner's legal responsibilities may override the duty of confidentiality in some circumstances.~~

⁸ See, for example, Sections 225.44–225.48 of APES 110 *Code of Ethics for Professional Accountants*.

40. A new paragraph after existing A92 is inserted as follows:

In some cases, the relevant ethical requirements may require the practitioner to report or to consider whether reporting identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in these circumstances. For example, the *Amendments to APES 110 Code of Ethics for Professional Accountants* exposure draft issued by the Accounting Professional and Ethical Standards Board on December 16 2016 requires the practitioner to take steps to respond to identified or suspected non-compliance with laws and regulations, and consider whether further action is needed, which may include reporting to an appropriate authority outside the entity.⁹ The APESB Code explains that such reporting would not be considered a breach of the duty of confidentiality under the *APES 110 Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.¹⁰

41. A new paragraph after existing A92 (and insertion above) is inserted as follows:

Even if law, regulation or relevant ethical requirements do not include requirements that address reporting identified or suspected non-compliance, they may provide the practitioner with the right to report identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity.

42. A new paragraph after existing A92 (and insertions above) is inserted as follows:

In other circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements.

43. A new paragraph after existing A92 (and insertions above) is inserted as follows:

The determination required by paragraph 52(d) may involve complex considerations and professional judgements. Accordingly, the practitioner may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The practitioner may also consider obtaining legal advice to understand the practitioner's options and the professional or legal implications of taking any particular course of action.

44. As a result of the changes made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

Amendments to ASAE 3000

45. Existing paragraph 45 is amended to read as follows:

The practitioner shall make enquiries of the appropriate party(ies) regarding:

- (a) Whether they have knowledge of any actual, suspected or alleged intentional misstatement or non-compliance with laws and regulations affecting the subject matter information; (Ref: Para. A101–A102)
- (b) Whether the responsible party has an internal audit function and, if so, make further enquiries to obtain an understanding of the activities and main findings of the internal audit function with respect to the subject matter information; and
- (c) Whether the responsible party has used any experts in the preparation of the subject matter information.

⁹ See, for example, Section 225.51 to 225.52 of *APES 110 Code of Ethics for Professional Accountants*.

¹⁰ See, for example, Section 140.7 and Section 225.53 of *APES 110 Code of Ethics for Professional Accountants*.

46. Existing paragraph 78 is amended to read as follows:

The practitioner shall consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the practitioner that is to be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others. (Ref: Para. ~~A193-192~~ A199)

47. A new paragraph after existing A101 is inserted as follows:

The practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond the practitioner's responsibilities under this ASAE, such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor;¹¹ and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the practitioner's work in accordance with this and any other ASAE (e.g., regarding the integrity of the responsible party or those charged with governance). Paragraphs A194–A198 further address the practitioner's responsibilities under law, regulation or relevant ethical requirements regarding communicating and reporting identified or suspected non-compliance with laws and regulations.

48. A new heading after existing paragraph A192 is inserted as follows:

Communication with Management and Those Charged with Governance

49. A new paragraph after existing paragraph A192 (and heading) is inserted as follows:

Relevant ethical requirements may include a requirement to report identified or suspected non-compliance with laws and regulations to an appropriate level of management or those charged with governance. In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with the responsible party, management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the practitioner is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

50. A new heading is inserted below existing paragraph A192 (and changes above) as follows:

Reporting of Identified or Suspected Non-Compliance with Laws and Regulations to an Appropriate Authority outside the Entity

51. A new paragraph below existing paragraph A192 (and changes above) is inserted as follows:

Law, regulation or relevant ethical requirements may:

¹¹ See, for example, Sections 225.44–225.48 of APES 110 *Code of Ethics for Professional Accountants*.

- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
 - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.¹²
52. A new paragraph after existing paragraph A192 (and changes above) is inserted as follows:
- Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:
- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
 - (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or.
 - (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.
53. A new paragraph after existing paragraph A192 (and changes above) is inserted as follows:
- The reporting of identified or suspected non-compliance with laws and regulations in accordance with law, regulation or relevant ethical requirements may include non-compliance with laws and regulations that the practitioner comes across or is made aware of when performing the engagement but which may not affect the subject matter information. Under this ASAE, the practitioner is not expected to have a level of understanding of laws and regulations beyond those affecting the subject matter information. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgement and expertise in responding to such non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
54. A new paragraph after existing paragraph A192 (and changes above) is inserted as follows:
- In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation, or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.¹³
55. A new paragraph after existing paragraph A192 (and changes above) is inserted as follows:
- The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality).¹⁴
56. As a result of the changes made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

¹² See, for example, Section 225.51 to 225.52 of APES 110 *Code of Ethics for Professional Accountants*.

¹³ See, for example, Section 140.7 and Section 225.53 of APES 110 *Code of Ethics for Professional Accountants*.

¹⁴ See, for example, Section 225.55 of APES 110 *Code of Ethics for Professional Accountants*.

Amendments to ASAE 3402

57. Existing paragraph 56 is amended to read as follows:

If the service auditor becomes aware of non-compliance with laws and regulations, fraud, or uncorrected errors attributable to the service organisation that are not clearly trivial and may affect one or more user entities, the service auditor shall determine whether the matter has been communicated appropriately to affected user entities. If the matter has not been so communicated and the service organisation is unwilling to do so, the service auditor shall take appropriate action. (Ref: Para. A53)

58. Existing paragraph A53 is amended to read as follows:

Appropriate actions to respond to the circumstances identified in paragraph 56, unless prohibited by law or regulation, may include:

- Obtaining legal advice about the consequences of different courses of action.
- Communicating with those charged with governance of the service organisation.
- Determining whether to communicate with third parties (e.g., law, regulation or relevant ethical requirements may require the service auditor to report to an appropriate authority outside the entity or the external auditor of the service organisation,¹⁵ or establish responsibilities under which such reporting may be appropriate in the circumstances). ~~Communicating with third parties (for example, a regulator) when required to do so.~~
- Modifying the service auditor's opinion, or adding an Other Matter paragraph.
- Withdrawing from the engagement.

Amendments to ASAE 3410

59. Paragraph 78 is amended to read as follows:

The practitioner shall communicate, unless prohibited by law or regulation, with ~~to~~ those person(s) with oversight responsibilities for the GHG statement the following matters that come to the practitioner's attention during the course of the engagement, and shall determine whether there is a responsibility to report them to another party within or outside the entity:

- (a) Deficiencies in internal control that, in the practitioner's professional judgement, are of sufficient importance to merit attention;
- (b) Identified or suspected fraud; and
- (c) Matters involving identified or suspected non-compliance with laws and ~~or~~ regulations, other than when the matters are clearly trivial. (Ref: Para. A87)

¹⁵ See, for example, Section 225.44 to 225.48 of APES 110 *Code of Ethics for Professional Accountants*.



AUASB Comments Received and Proposed Disposition Paper

AGENDA ITEM NO. **5(a).3**

Meeting Date: 26 April 2017

Subject: ED 05/16 *Amendments to Australian Auditing Standards*

Date Prepared: 7 April 2017

Document Type: Exposure Draft

Document Number: ED 04/16

Proposed Type & No: *Amendments to Australian Auditing Standards*

Proposed Title: *Amendments to Australian Auditing Standards*

EXHIBIT 1:	ED 05/16 <i>Amendments to Australian Auditing Standards</i>	Page Number 3
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This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

LISTING OF RESPONDENTS

Short Form Name	Name	Date Received
Deloitte	Deloitte	28/02/2017
KPMG	KPMG	10/03/17
EY	EY	08/03/17
CPA	CPA Australia Ltd	27/03/2017
CAANZ	Chartered Accountants Australia New Zealand (via email)	10/03/2017

ATG = AUASB Technical Group

EXHIBIT 1: ED 05/16**1. Have applicable laws and regulations been appropriately addressed in the proposed standard?**

Respondent Comment		Commentary	Change made to Doc? Y/N	Para No.
Deloitte	Yes	Comment noted by the ATG	N	
KPMG	Given the significant number and variety of laws and regulations that may be relevant in an audit of a financial report, we are satisfied that the proposed standard uses wording that is appropriate to encompass those laws and regulations that may be relevant depending on specific facts and circumstances.	Comment noted by the ATG	N	
EY	<p>The proposed standard requires the auditor to discuss any identified or suspected non-compliance with laws and regulations with management (paragraph 20) and communicate such matters to those charged with governance (paragraph 23) unless prohibited by law or regulation. We note that, under Section 1317 of the Corporations Act, there are prohibitions on auditor's discussing matters that have been brought to their attention by a whistle blower. These provisions are designed to avoid disclosure of the identity of a whistle blower.</p> <p>We recommend an Australian specific requirement or guidance be added to the proposed standard to draw direct attention to these provisions to ensure that an auditor gives due consideration to it prior to discussing or communicating any identified or suspected non-compliance with laws and regulations which came to the auditor's attention by a whistle blower.</p>	<p>The ATG agree with the recommendation and believe that the change meets the compelling reason test required when adding additional application material to ISA 250. We have added the following Aus paragraph A20.1:</p> <p>In the case of an audit conducted under the <i>Corporations Act 2001</i>, the auditor may consider the provisions relating to the protection for whistleblowers contained in Part 9.4AAA of the <i>Corporations Act 2001</i> when communicating identified or suspected non-compliance with management and those charged with governance.</p>	Y	Aus A20.1
CPA	N/A	N/A	N/A	
CAANZ	N/A	N/A	N/A	

EXHIBIT 1: ED 05/16 (cont'd)**2. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	Nothing noted.	Comment noted by the ATG	N	
KPMG	Other than the matters outlined in paragraphs 20, 23 and A21, we are not aware of any laws and regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.	Comment noted by the ATG	N	
EY	ATG - Refer response to question 1 above.	ATG - Refer response to question 1 above.	N	
CPA	N/A	N/A	N	
CAANZ	N/A	N/A	N	

EXHIBIT 1: ED 05/16 (cont'd)**3. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	None noted.	Comment noted by the ATG	N	
KPMG	Paragraph 30(a) to the proposed standard requires documentation of the audit procedures performed, the significant professional judgements made and the conclusions reached thereon. We are of the view that auditors would ordinarily document the procedures performed, the significant professional judgements made and the conclusions reached thereon in accordance with ASA 230 Audit documentation, and therefore additional cost to / benefits for auditors are minimal.	Comment noted by the ATG	N	
EY	In our view, there are no additional significant costs to/ benefits arising from compliance with the main changes to the requirements of the proposed standard and there are no other significant public interest matters to raise. We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency of such services in Australia.	Comment noted by the ATG	N	
CPA	N/A	N/A	N	
CAANZ	N/A	N/A	N	

EXHIBIT 1: ED 05/16 (cont'd)**4. Are there any other significant public interest matters that constituents wish to raise?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	Nothing further of significance noted.	Comment noted by the ATG	N	
KPMG	KPMG do not wish to raise any other significant public interest matters.	Comment noted by the ATG	N	
EY	In our view, there are no additional significant costs to/ benefits arising from compliance with the main changes to the requirements of the proposed standard and there are no other significant public interest matters to raise. We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency of such services in Australia.	Comment noted by the ATG	N	
CPA	N/A	N/A	N	
CAANZ	N/A	N/A	N	

EXHIBIT 1: ED 05/16 (cont'd)**5. GENERAL COMMENTS**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	<p>Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the Australian Auditing and Assurance Standards Board's (AUASB) Exposure Draft ED 05/16 – Proposed Auditing Standard ASA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> (“ED 05/16”).</p> <p>We support having one set of international standards on auditing that are used by practitioners worldwide in the audit of a financial report (although we also acknowledge that there may be certain circumstances where compelling reasons exist for the inclusion of Australian specific requirements and guidance). Accordingly, we support the issuance of the proposed revised and amending standards.</p> <p>Please refer to Appendix 1 for our responses to the specific questions posed by the AUASB within ED 05/16.</p> <p>In addition, we have included specific comments relating to the wording of the proposed standards within ED 05/16 in Appendix 2.</p>	Comment noted by the ATG	N	
Deloitte	<p>Paragraph 5 (page 8)</p> <p>We note that within the second sentence of this paragraph, the word “the” should be included before the reference to “financial report”. Thus, the sentence would read as follows: “<i>In conducting an audit of the financial report, the auditor takes into account the applicable legal and regulatory framework.</i>”</p>	Agree, changed made by the ATG	Y	5
Deloitte	<p>Paragraph Aus 29.1</p> <p>The Australian paragraph should be referenced as “Aus A29.1” as it is supplementing International guidance paragraph A29.</p>	Agree, changed made by the ATG	Y	Aus A29.1

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	<p>We note that reference has been made to the “<i>Proposed Amendments to APES 110 Code of Ethics for Professional Accountants exposure draft issued by the Accounting Professional and Ethical Standards Board on December 16 2016</i>”.</p> <p>Given that this wording will quickly become outdated, we are assuming that the intention of the AUASB is to update this reference as appropriate, prior to the issuance of the amended auditing standard.</p>	<p>Paragraph A30</p> <p>Agreed by the ATG, changed to “<i>APES 110 Code of Ethics for Professional Accountants</i>”</p> <p>This wording will be confirmed post the release of proposed amendments by the APESB, and prior to the issuance of the amended auditing standards.</p>	Y	A30
KPMG	<p>We are pleased to have the opportunity to comment on Exposure Draft 05-16, Proposed Auditing Standard ASAS 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> (the proposed standard) issued by the Auditing and Assurance Standards Board (AUASB). This letter represents the views of KPMG Australia.</p> <p>Overarching comments</p> <p>KPMG Australia is supportive of the content of the proposed standard, including the Australian amendments to International Standard on Auditing ISA 250 <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i> issued by the International Auditing and Assurance Standards Board (IAASB).</p> <p>We are supportive of the removal of Aus 11.1 on the basis that there is no compelling reason for the amendment.</p> <p>We encourage the AUASB to continue to ensure the consistency of the proposed standard with the <i>Proposed Amendments to APES 110 Code of Ethics for Professional Accountants</i> as issued by the APESB as the</p>	Comment noted by the ATG	N	

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	<p>APESB progress with their project.</p> <p>Our comments in relation to the specific matters raised by the AUASB in the proposed standard are set out below.</p>			
EY	<p>Ernst & Young Australia welcomes the opportunity to offer its views on the exposure draft Proposed Auditing Standard ASA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i>, issued by the Auditing and Assurance Standards Board (AUASB).</p> <p>We fully support the proposed amendments outlined in ED 05/16 which arise from changes made by the International Auditing and Assurance Board to ISA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i>. These changes are aimed at addressing auditor responsibilities in considering the impact of non-compliance of relevant laws and regulations by an entity. We believe that the auditing and assurance standards in Australia should be closely aligned to and consistent as possible with its international equivalents.</p>	Comment noted by the ATG	N	
CPA	<p>CPA Australia welcomes the opportunity to respond to ED 05/16 and ED 06/16. CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.</p> <p>We support the AUASB's proposed amendments to ASA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> and conforming amendments to a number of other AUASB Standards to maintain conformity with International Auditing and Assurance Standards and to reflect the proposed amendments to APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code), under certain conditions. The conditions for our support of the</p>	Agreed by the ATG, ASA 250 and the conforming amendments to other AUASB standards will be consistent with the final approved amendments to the APESB Code and with an operative date no earlier than the operative date of the revised APESB Code.	Y	

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	<p>proposed amendments are that:</p> <ol style="list-style-type: none"> 1. The revisions to ASA 250 and conforming amendments to other AUASB Standards are consistent with the final approved amendments to the Code; and 2. The operative date of revised ASA 250 and conforming amendments to other AUASB Standards is no earlier and preferably the same as the operative date of the revised Code. <p>We have no further comments or concerns to raise on ED 05/16 or ED 06/16.</p>			
CAANZ	<p>Re: Exposure Draft 05/16 Proposed Auditing Standard ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report (“ED 05/16”) and ED 06-2016 Proposed Auditing Standard ASA 2016-1 Amendments to Australian Auditing Standards (“ED 06/16”).</p> <p>We are supportive of amending ASA 250 to conform with the revised ISA 250 of the same name, including the removal of paragraph Aus A11.1 as set out in ED 05/16. We are also supportive of the conforming amendments to additional standards set out in ED 06/16.</p> <p>We encourage the board to consider the timing of issuing the revised ASAs in relation to the timing of the release by the APESB of final changes to APES 110 Code of Ethics for Professional Accountants, so that references in the ASAs (for example ASA 250 paragraph A8) can be made to a final ethical pronouncement where possible.</p>	Agreed by the ATG – refer comment above in relation to consistency and timing.	Y	

* * *



AUASB Comments Received and Proposed Disposition Paper

AGENDA ITEM NO. **5(a).4**

Meeting Date: 26 April 2017

Subject: ED 06/16 *Amendments to Australian Auditing Standards*

Date Prepared: 7 April 2017

Document Type: Exposure Draft

Document Number: ED 06/16

Proposed Type & No: *ASA 2016-1 Amendments to Australian Auditing Standards*

Proposed Title: *Amendments to Australian Auditing Standards*

EXHIBIT 1:	ED 06/16 <i>Amendments to Australian Auditing Standards</i>	Page Number 3
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This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

LISTING OF RESPONDENTS

Short Form Name	Name	Date Received
Deloitte	Deloitte	28/02/2017
EY	EY	8/03/2017
CPA	CPA Australia Ltd	27/03/2017
CAANZ	Chartered Accountants Australia New Zealand	10/03/2017

ATG = AUASB Technical Group

EXHIBIT 1: ED 06/16**1. Have applicable laws and regulations been appropriately addressed in the proposed standard?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	Yes.	Comment noted by the ATG	N	
EY	N/A	N/A	N	
CPA	N/A	N/A	N	
CAANZ	N/A	N/A	N	

EXHIBIT 1: ED 06/16 (cont'd)**2. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	Nothing noted.	Comment noted by the ATG	N	
EY	N/A	N/A	N	
CPA	N/A	N/A	N	
CAANZ	N/A	N/A	N	

EXHIBIT 1: ED 06/16 (cont'd)

3. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	Nothing noted.	Comment noted by the ATG	N	
EY	N/A	N/A	N	
CPA	N/A	N/A	N	
CAANZ	N/A	N/A	N	

EXHIBIT 1: ED 06/16 (cont'd)

- 4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	None noted.	Comment noted by the ATG	N	
EY	N/A	N/A	N	
CPA	N/A	N/A	N	
CAANZ	N/A	N/A	N	

EXHIBIT 1: ED 06/16 (cont'd)**5. Are there any other significant public interest matters that constituents wish to raise?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	Nothing further of significance noted.	Comment noted by the ATG	N	
EY	We believe that all applicable laws and regulations have been appropriately addressed in the proposed standard. We are not aware of any omitted references. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard. In our view, there are no additional significant costs to/benefits arising from compliance with the requirements of the proposed standard and there are no other significant public interest matters to raise.	Comment noted by the ATG	N	
CPA	N/A	N/A	N	
CAANZ	N/A	N/A	N	

EXHIBIT 1: ED 06/16 (cont'd)**5. GENERAL COMMENTS**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
Deloitte	<p>Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the Australian Auditing and Assurance Standards Board's (AUASB) Exposure Draft ED 06/2016 – <i>Amendments to Australian Auditing Standards</i> (“ED 06/2016”).</p> <p>We support having one set of international standards on auditing that are used by practitioners worldwide in the audit of a financial report (although we also acknowledge that there may be certain circumstances where compelling reasons exist for the inclusion of Australian specific requirements and guidance). Accordingly, we support the issuance of the proposed amending standards.</p> <p>Please refer to Appendix 1 for our responses to the specific questions posed by the AUASB within ED 06/2016.</p> <p>In addition, we have included specific comments relating to the wording of the proposed standards within ED 06/2016 in Appendix 2.</p>	Comment noted by the ATG	N	
Deloitte	<p>Paragraphs 22, 25 and 27</p> <p>We note that holistically there seems to have been a conscious decision made to specifically differentiate between the terminology used when applying to the auditor and the entity.</p> <p>Based on our review of the exposure draft, the distinction is as follows:</p> <ul style="list-style-type: none"> • Applicable to the auditor - the terminology utilised is “law or regulation” or “law, regulation or relevant ethical requirements”. • Applicable to the entity - the terminology utilised is “laws and 	<p>The ATG agree, the ISA equivalent of paragraphs 25 and 27 do refer to “law or regulation” – the document has been updated to reflect this omission from the exposure draft.</p> <p>Paragraph 22 (in relation to changes to ASA 240):</p> <p><u>ASA 250 (Revised)¹ provides further guidance with respect to the auditor’s determination of whether reporting</u></p>	<p>Y</p> <p>(25,27)</p> <p>N</p> <p>(22)</p>	25,27

¹ See ASA 250, *Consideration of Laws and Regulations in an Audit of a Financial Report*, paragraphs A28–A34

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	<p>regulations”.</p> <p>If our understanding is correct, we note that there are at least three instances where the terminology utilised is inconsistent with the distinction summarised above.</p> <p>For example in paragraph 27 of ED 06/2016 (in relation to updates to ASA 450), both “law or regulation” as well as “laws or regulations” are used interchangeably when referring to the applicability to the auditor. We also noted similar instances in paragraph 22 (in relation to updates to ASA 240) and paragraph 25 (in relation to updates to ASA 260).</p> <p>If the intention is to make a clear distinction between terminologies used when applicable to the auditor versus the entity, then we recommend that the wording within the exposure draft is revisited to consider potential instances of inconsistency, in addition to those noted above.</p>	<p><u>identified or suspected non-compliance with laws or regulations to an appropriate authority outside the entity is required or appropriate in the circumstances, including consideration of the auditor’s duty of confidentiality.</u></p> <p>It is the view of the ATG that reference to “laws or regulations” is related to the compliance of the entity and is therefore appropriate.</p>		
Deloitte	<p>Paragraphs 9, 18 and 40</p> <p>We note that references have been made to the “<i>Proposed Amendments to APES 110 Code of Ethics for Professional Accountants exposure draft issued by the Accounting Professional and Ethical Standards Board on December 16 2016</i>”.</p> <p>Given that this wording will quickly become outdated, we are assuming that the intention of the AUASB is to update these references as appropriate, prior to the issuance of the amended auditing standards</p>	<p>Agreed by the ATG, changed to “<i>APES 110 Code of Ethics for Professional Accountants</i>”</p> <p>This wording will be confirmed post the release of proposed amendments by the APESB, and prior to the issuance of the amended auditing standards.</p>	Y	9, 18 and 40
EY	<p>Ernst & Young Australia welcomes the opportunity to offer its views on the exposure draft Proposed Auditing Standard ASA 2016-1 <i>Amendments to Australian Auditing Standards</i>, issued by the Auditing and Assurance Standards Board (AUASB).</p> <p>We fully support the proposed amendments outlined in ED 06/16 which arise</p>	Comment noted by the ATG	N	

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	from consequential changes following revisions to ASA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> and changes made by the International Auditing and Assurance Board to ISA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> resulting from enhancements aimed at addressing laws and regulations. We believe that the auditing and assurance standards in Australia should be closely aligned to and consistent as possible with its international equivalents.			
CPA	<p>CPA Australia welcomes the opportunity to respond to ED 05/16 and ED 06/16. CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.</p> <p>We support the AUASB's proposed amendments to ASA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> and conforming amendments to a number of other AUASB Standards to maintain conformity with International Auditing and Assurance Standards and to reflect the proposed amendments to APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code), under certain conditions. The conditions for our support of the proposed amendments are that:</p> <ol style="list-style-type: none"> 1. The revisions to ASA 250 and conforming amendments to other AUASB Standards are consistent with the final approved amendments to the Code; and 2. The operative date of revised ASA 250 and conforming amendments to other AUASB Standards is no earlier and preferably the same as the operative date of the revised 	Agreed by the ATG, ASA 250 and the conforming amendments to other AUASB standards will be consistent with the final approved amendments to the APESB Code and with an operative date no earlier than the operative date of the revised APESB Code.	Y	

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	<p>Code.</p> <p>We have no further comments or concerns to raise on ED 05/16 or ED 06/16.</p>			
CAANZ	<p>Re: Exposure Draft 05/16 Proposed Auditing Standard ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report (“ED 05/16”) and ED 06-2016 Proposed Auditing Standard ASA 2016-1 Amendments to Australian Auditing Standards (“ED 06/16”).</p> <p>We are supportive of amending ASA 250 to conform with the revised ISA 250 of the same name, including the removal of paragraph Aus A11.1 as set out in ED 05/16. We are also supportive of the conforming amendments to additional standards set out in ED 06/16.</p> <p>We encourage the board to consider the timing of issuing the revised ASAs in relation to the timing of the release by the APESB of final changes to APES 110 Code of Ethics for Professional Accountants, so that references in the ASAs (for example ASA 250 paragraph A8) can be made to a final ethical pronouncement where possible.</p>	Agreed by the ATG – refer comment above in relation to consistency and timing.	Y	

* * *



Proposed modification (3) to international standard ISA 250

Proposed modification

Include Aus A20.1:

In the case of an audit conducted under the *Corporations Act 2001*, the auditor may consider the provisions relating to the protection for whistleblowers contained in Part 9.4AAA of the *Corporations Act 2001* when communicating identified or suspected non-compliance with management and those charged with governance.

Rationale for the proposed modification

The international standard is not consistent with Australian regulatory arrangements.

The proposed modification is merely to correctly identify the reporting requirements under Australian legislation.

OR

The international standard does not reflect principles and practices that are considered appropriate in Australia.

NA

A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.

Compelling reason criteria as per agreed Principles of Convergence

Consideration whether the proposed modification meets the criteria

1. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia.

Yes.

The proposed modifications provides a reference to a requirement under the *Corporations Act 2001*.

2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.

There is no conflict or lessening of the ISA requirements merely adaptations to comply with applicable legislation.

B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.

Compelling reason criteria as per agreed Principles of Convergence

Consideration whether the proposed modification meets the criteria

1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.

NA

2. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not

NA



Proposed modification (3) to international standard ISA 250	
relevant in Australia and New Zealand)	
3. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)	NA
4. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	NA
5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	NA
6. The proposed modification overall does not result in the standard being overly complex and confusing.	NA
7. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.	NA
C. Conclusion	
Compelling reasons test met/not met?	The compelling reasons test has been met.
Does the Board agree that the proposed modification meets the compelling reason test, and that ISA 250 should be modified as described above?	

April 2017

Basis for Conclusions

ASA 250 Consideration of Laws and Regulations in the Audit of a Financial Report

Prepared by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Basis for Conclusions

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

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ISSN 2201-3628

Basis for Conclusions ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 250.

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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BASIS FOR CONCLUSIONS

ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report*

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report*, and is not a substitute for reading the Standard.

Background

1. The IAASB issued the final revised ISA 250 on 5 October 2016. In summary the changes in ISA 250 relate to:
 - Align aspects of ISA 250 (Revised) to the NOCLAR (non-compliance with laws and regulations) provisions in the IESBA Code, particularly the definition of non-compliance and the examples of laws and regulations within the scope of ISA 250 (Revised) (see paragraphs 12, A6 and A9–A10 of ISA 250 (Revised)).
 - Clarify the requirement regarding the auditor's determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity and the auditor's duty of confidentiality, in order to recognize the different provisions of laws, regulations, or relevant ethical requirements (see paragraphs 29 and A28–A34 of ISA 250 (Revised)).
 - Highlight that the auditor may have additional responsibilities under law, regulation, or relevant ethical requirements regarding identified or suspected NOCLAR. This also includes additional emphasis of the possible documentation requirements contained in law, regulation or relevant ethical requirements (see paragraph 9 of ISA 250 (Revised)).
 - Highlight the implications of identified or suspected NOCLAR on the audit, for example, the reliability of management's representations, the implications for the auditor's report, and the consideration of whether to withdraw from the engagement (see paragraphs 22 and A23–A27 of ISA 250 (Revised)).
 - Emphasise the requirements in the IESBA Code relating to the communication of identified or suspected NOCLAR to a group engagement partner or an auditor at a component (see paragraph A8 of ISA 250 (Revised)).
 - Draw attention to the fact that, in certain cases, communication with management or those charged with governance may be restricted or prohibited by law or regulation, for example law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (see paragraphs 20, 23 and A21 of ISA 250 (Revised)).
 - Furthermore, conforming amendments were also made to a number of other International Standards to reflect the matters indicated above or clarify the expected work effort with regard to identified or suspected NOCLAR. These include ISQC 1; ISA 210; ISA 220; ISA 240; ISA 260; ISA 500; ISRE 3000, ISAE 3402; ISAE 3410; and ISRS 4410.
2. Due to the extensive use of references to the changes in the APESB Code, the final issuance of ASA 250 and ASA 2017-2 will be held back pending the APESB release of their standard.

AUASB

3. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's (FRC) *Strategic Direction*, the AUASB's policy is to adopt the IAASB's ISAs, unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so.
4. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB).
5. The AUASB's principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB's website:
http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB-NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf
6. The AUASB has decided to adopt the revised ISA 800, into the Australian Auditing Standards that are made under section 336 of the *Corporations Act 2001* (the Act). Prior to implementation, the AUASB is required to consult with stakeholders and accordingly has issued Exposure Drafts **ED 05/16** for public exposure and comment. All comments received from stakeholders are considered by the AUASB prior to finalisation of the revised standard.

Public Exposure

7. The revised Australian standard, including the amendments described below, were published for public comment in ED 05/16: Proposed Auditing Standard ASA 800 Consideration of Laws and Regulation in the Audit of a Financial Report issued on 23 December 2016 and closed on 15 March 2017.

Proposed Amendments to the ASAs on Public Exposure in Australia

8. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the NZAuASB (see paragraphs 5 to 8). The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so.

As a result of the "compelling reasons" test, the following three Aus paragraphs were added to ASA 250:

- | | |
|-----------|--|
| Aus A20.1 | In the case of an audit conducted under the <i>Corporations Act 2001</i> , the auditor may consider the provisions relating to the protection for whistleblowers contained in Part 9.4AAA of the <i>Corporations Act 2001</i> when communicating identified or suspected non-compliance with management and those charged with governance. |
| Aus A26.1 | If, in the case of an audit conducted under the <i>Corporations Act 2001</i> , the auditor identifies non-compliance with an Australian Accounting Standard, defects or irregularities in the financial report or deficiencies, failures or shortcomings in respect of sec 307 of the Act, the auditor's report is to include the information required by the Act.* The auditor needs to consider any other relevant laws and regulations. If the auditor is in doubt as to the proper interpretation of laws or regulations, or whether non-compliance has in |

* See sections 308 (2) and (3) of the *Corporations Act 2001*.

fact occurred, the auditor ordinarily seeks legal advice before expressing an opinion on the financial report.

- Aus A29.1 In certain circumstances, the auditor has a statutory responsibility to report instances of non-compliance with laws and regulations. For example, in certain circumstances, the auditor is required under the *Corporations Act 2001*, to report to the Australian Securities and Investments Commission (ASIC).^{*} Establishing the appropriate authority to which such a report would be made in a particular instance will depend on the nature and circumstances of the non-compliance. When in doubt, the auditor would ordinarily seek legal advice.

AUASB Drafting Conventions

9. The changes to auditor reporting relate solely to Australian Auditing Standards issued under section 336 of the Act. Accordingly, the AUASB makes format and other editorial changes from the ISAs, such as spelling and terminology changes, to accord with Australian legislative requirements, particularly those relating to legislative instruments.

Other General Changes

10. The AUASB made other general changes from the ISAs which reflect ongoing policies and include:
- (a) Replacement of requirements, guidance and references to international ethical requirements with requirements, guidance and references to relevant Australian ethical requirements; and
 - (b) Replacing references to international standards and international standard-setters with references to relevant Australian standards and standard-setters.

Major Issues raised by Respondents on Exposure

11. EY – Comment in relation to question 1&2 for ED 05/16

The proposed standard requires the auditor to discuss any identified or suspected non-compliance with laws and regulations with management (paragraph 20) and communicate such matters to those charged with governance (paragraph 23) unless prohibited by law or regulation. We note that, under Section 1317 of the Corporations Act, there are prohibitions on auditor's discussing matters that have been brought to their attention by a whistle blower. These provisions are designed to avoid disclosure of the identity of a whistle blower.

We recommend an Australian specific requirement or guidance be added to the proposed standard to draw direct attention to these provisions to ensure that an auditor gives due consideration to it prior to discussing or communicating any identified or suspected non-compliance with laws and regulations which came to the auditor's attention by a whistle blower.

AUASB Technical Group (ATG) Comments on Disposition

The ATG agree with the recommendation and believe that the change meets the compelling reason test required when adding additional application material to ISA 250. We have added the following Aus paragraph A20.1:

In the case of an audit conducted under the *Corporations Act 2001*, the auditor may consider the provisions relating to the protection for whistle-blowers contained in Part 9.4AAA of the

^{*} See ASIC Regulatory Guide 34 *Auditors' obligations: Reporting to ASIC* that provides guidance to help auditors comply with their obligations, under sections 311, 601HG and 990K of the *Corporations Act 2001*, to report contraventions and suspected contraventions of the Act to ASIC.

Corporations Act 2001 when communicating identified or suspected non-compliance with management and those charged with governance.

Refer paper attached to agenda item 5(a).12 for the compelling reason test for paragraph A20.1.

12. Deloitte – Appendix 2 (Other specific comment relating to changes within ED 05/16)

We note that reference has been made to the “*Proposed Amendments to APES 110 Code of Ethics for Professional Accountants* exposure draft issued by the Accounting Professional and Ethical Standards Board on December 16 2016”.

Given that this wording will quickly become outdated, we are assuming that the intention of the AUASB is to update this reference as appropriate, prior to the issuance of the amended auditing standard.

AUASB Technical Group (ATG) Comments on Disposition

Agreed by the ATG, changed to “*APES 110 Code of Ethics for Professional Accountants*”

This wording will be confirmed post the release of proposed amendments by the APESB, and prior to the issuance of the amended auditing standards.

13. CPA – submission in relation to ED05/16 and 06/16

We support the AUASB’s proposed amendments to ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* and conforming amendments to a number of other AUASB Standards to maintain conformity with International Auditing and Assurance Standards and to reflect the proposed amendments to APES 110 *Code of Ethics for Professional Accountants* (the Code), under certain conditions. The conditions for our support of the proposed amendments are that:

The revisions to ASA 250 and conforming amendments to other AUASB Standards are consistent with the final approved amendments to the Code; and

The operative date of revised ASA 250 and conforming amendments to other AUASB Standards is no earlier and preferably the same as the operative date of the revised Code.

AUASB Technical Group (ATG) Comments on Disposition

Agreed by the ATG, ASA 250 and the conforming amendments to other AUASB standards will be consistent with the final approved amendments to the APESB Code and with an operative date no earlier than the operative date of the revised APESB Code

Conclusion

The AUASB voted to approve and issue ASA 250 on TBD

* * *

Appendix 1

(Ref: Para.)

Draft

April 2017

Basis for Conclusions ***ASA 2017-2 Amendments to Australian*** ***Auditing Standards***

Draft

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



Australian Government

Auditing and Assurance Standards Board

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

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ISSN 2201-3628

Basis for Conclusions ASA 2017-2 *Amendments to Australian Auditing Standards* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 250.

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BASIS FOR CONCLUSIONS

ASA 250 Consideration of Laws and Regulations in the Audit of a Financial Report

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, ASA 2017-2 *Amendments to Australian Auditing Standards*, and is not a substitute for reading the Standard.

Background

1. The IAASB issued the final revised ISA 250 on 5 October 2016. In summary the changes in ISA 250 relate to:
 - Align aspects of ISA 250 (Revised) to the NOCLAR (non-compliance with laws and regulations) provisions in the IESBA Code, particularly the definition of non-compliance and the examples of laws and regulations within the scope of ISA 250 (Revised) (see paragraphs 12, A6 and A9–A10 of ISA 250 (Revised)).
 - Clarify the requirement regarding the auditor's determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity and the auditor's duty of confidentiality, in order to recognize the different provisions of laws, regulations, or relevant ethical requirements (see paragraphs 29 and A28–A34 of ISA 250 (Revised)).
 - Highlight that the auditor may have additional responsibilities under law, regulation, or relevant ethical requirements regarding identified or suspected NOCLAR. This also includes additional emphasis of the possible documentation requirements contained in law, regulation or relevant ethical requirements (see paragraph 9 of ISA 250 (Revised)).
 - Highlight the implications of identified or suspected NOCLAR on the audit, for example, the reliability of management's representations, the implications for the auditor's report, and the consideration of whether to withdraw from the engagement (see paragraphs 22 and A23–A27 of ISA 250 (Revised)).
 - Emphasise the requirements in the IESBA Code relating to the communication of identified or suspected NOCLAR to a group engagement partner or an auditor at a component (see paragraph A8 of ISA 250 (Revised)).
 - Draw attention to the fact that, in certain cases, communication with management or those charged with governance may be restricted or prohibited by law or regulation, for example law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (see paragraphs 20, 23 and A21 of ISA 250 (Revised)).
 - Furthermore, conforming amendments were also made to a number of other International Standards to reflect the matters indicated above or clarify the expected work effort with regard to identified or suspected NOCLAR. These include ISQC 1; ISA 210; ISA 220; ISA 240; ISA 260; ISA 500; ISRE 3000, ISAE 3402; ISAE 3410; and ISRS 4410. These amendments are reflected in ASA 2017-2 *Amendments to Australian Auditing Standards*.
2. Due to the extensive use of references to the changes in the APESB Code, the final issuance of ASA 250 and ASA 2017-2 will be held back pending the APESB release of their standard.

AUASB

3. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's (FRC) *Strategic Direction*, the AUASB's policy is to adopt the IAASB's ISAs, unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so.
4. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB).
5. The AUASB's principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB's website:
http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB-NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf
6. The AUASB has decided to adopt the revised ISA 800, into the Australian Auditing Standards that are made under section 336 of the *Corporations Act 2001* (the Act). Prior to implementation, the AUASB is required to consult with stakeholders and accordingly has issued Exposure Drafts **ED 06/16** for public exposure and comment. All comments received from stakeholders are considered by the AUASB prior to finalisation of the revised standard.

Public Exposure

7. The revised Australian standard, including the amendments described below, were published for public comment in ED 06/16: Proposed Auditing Standard ASA 2016-1 *Amendments to Australian Auditing Standards* issued on 23 December 2016 and closed on 15 March 2017.

Proposed Amendments to the ASAs on Public Exposure in Australia

8. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the NZAuASB (see paragraphs 5 to 8). The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so.

AUASB Drafting Conventions

9. The changes to auditor reporting relate solely to Australian Auditing Standards issued under section 336 of the Act. Accordingly, the AUASB makes format and other editorial changes from the ISAs, such as spelling and terminology changes, to accord with Australian legislative requirements, particularly those relating to legislative instruments.

Other General Changes

10. The AUASB made other general changes from the ISAs which reflect ongoing policies and include:
 - (a) Replacement of requirements, guidance and references to international ethical requirements with requirements, guidance and references to relevant Australian ethical requirements; and
 - (b) Replacing references to international standards and international standard-setters with references to relevant Australian standards and standard-setters.

Major Issues raised by Respondents on Exposure

There were no major issues raised by respondents on Exposure.

Conclusion

The AUASB voted to approve and issue ASA 2017-2 on TBD

* * *

Draft

ASA 2017-2
(April 2017)

Explanatory Statement

ASA 2017-2 Amendments to Australian Auditing Standards

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

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

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Reasons for Issuing Auditing Standard ASA 2017-2

The AUASB issues Auditing Standard ASA 2015-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

Purpose of Auditing Standard ASA 2017-2 Amendments to Australian Auditing Standards

The purpose of the Auditing Standard is to make amendments to the following Auditing Standards:

Main Features

This Auditing Standard makes amendments to the following Auditing Standards:

ASQC 1	<i>Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements</i> (27 October 2009)
ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (27 October 2009)
ASA 220	<i>Quality Control for an Audit of a Financial Report and Other Historical Information</i> (27 October 2009)
ASA 240	<i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> (27 October 2009)
ASA 260	<i>Communication with Those Charged with Governance</i> (27 October 2009)
ASA 450	<i>Evaluation of Misstatements Identified During the Audit</i> (27 October 2009)
ASA 500	<i>Audit Evidence</i> (27 October 2009)
ASRE 2400	<i>Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity</i> (26 March 2013)
ASAE 3000	<i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> (24 June 2014)
ASAE 3402	<i>Assurance Reports on Controls at a Service Organisation</i> (24 June 2014)
ASAE 3410	<i>Assurance Engagements on Greenhouse Gas Statements</i> (24 June 2014)

Operative Date

ASA 2017-2 *Amendments to Australian Auditing Standards* is operative for financial reporting periods ending on or after 15 December 2017.

Process of making Australian Auditing Standards

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

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard.

Exposure Draft ED 2016-1 *Amendments to Australian Auditing Standards* was issued on 23 December 2016 with a 90 day comment period.

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

Regulatory Impact Statement

A Regulatory Impact Statement (RIA) will be prepared in connection with the preparation of ASA 2017-2 *Amendments to Australian Auditing Standards*. The RIA is expected to be cleared by the Office of Best Practice Regulation (OBPR).

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

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

Legislative Instrument: **Auditing Standard ASA 2017- 2 Amendments to Australian Auditing Standards**

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

Overview of the Legislative Instrument

Background

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

Purpose of Auditing Standard ASA 2017-2

The purpose of ASA 2017-2 is to make amendments to various Australian Auditing Standards.

Main Features

ASA 2017-2 makes amendments to various Australian Auditing Standards as a result of conforming amendments issued by the International Auditing and Assurance Standards Board in respect of changes to the IESBA Code in relation to compliance with laws and regulations.

Human Rights Implications

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

Conclusion

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

ASA 250
(April 2017)

Explanatory Statement

ASA 250 Considerations of Laws and Regulations in the Audit of a Financial Report

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

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

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Reasons for Issuing Auditing Standard ASA 250

The AUASB issues Auditing Standard ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

Purpose of Auditing Standard ASA 250 Considerations

The purpose of the Auditing Standard represents the Australian equivalent of revised ISA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report* and will replace the current ASA 250 issued by the AUASB in October 2009 (as amended).

Main Features

The revision of ASA 250 reflects changes developed by the International Auditing and Assurance Standards Board as a result of changes to the IESBA Code

Operative Date

ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* is operative for financial reporting periods ending on or after 15 December 2017.

Process of making Australian Auditing Standards

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

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 05/16 Proposed Auditing Standard ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report* was issued in December 2016 with a 90 day comment period.

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

Regulatory Impact Statement

A Regulatory Impact Statement (RIA) will be prepared in connection with the preparation of ASA 250 *Considerations*. The RIA is expected to be cleared by the Office of Best Practice Regulation (OBPR).

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

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

Legislative Instrument: **Auditing Standard ASA250 Consideration of Laws and Regulations in the Audit of a Financial Report**

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

Overview of the Legislative Instrument

Background

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

Purpose of Auditing Standard ASA 250

The purpose of ASA 250 is to conform with the equivalent revised international standard on auditing, ISA 250; and to replace the pre-existing auditing standard.

Main Features

The revision of ASA 250 reflects recent enhancements to auditor reporting developed by the International Auditing and Assurance Standards Board.

Human Rights Implications

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

Conclusion

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



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **6**

Meeting Date: 26 April 2017

Subject: Audit Committee Guide

Date Prepared: 11 April 2017

☐ **Action Required**

☒ **For Information Purposes Only**

Objective:

To present to the AUASB the final version of the Audit Committee Guide Revision as prepared by the three authors, the Australian Institute of Company Directors (AICD), the Institute of Internal Auditors Australia (IIA) and the Australian Auditing and Assurance Standards Board (AUASB).

Background:

At the 1 March 2017 AUASB meeting, the AUASB considered and provided input into the draft Audit Committees – A Guide to Good Practice. The AUASB made further suggestions for consideration by the technical staff and the other co-authors of the guide (the Australian Institute of Company Directors and the Institute of Internal Auditors). The updated version of the guide was circulated to the AUASB for out of session review and approval in order to meet the proposed publishing timetable.

AUASB Technical Group Update

The updated version of guide was approved unanimously out of session by AUASB members.

The final version submitted for publication by the AICD is included for noting.

The final published version will be completed in June 2017, with launch events coordinated by the AICD to follow in late June / early July 2017.

Material Presented

Agenda Item 6	AUASB Board Meeting Summary Paper
Agenda Item 6.1	Final Audit Committee Guide

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

AUDIT COMMITTEES
A GUIDE TO GOOD PRACTICE
3rd Edition

A joint publication from the Auditing and Assurance Standards Board, Australian Institute of
Company Directors and The Institute of Internal Auditors-Australia

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1. Introduction

An audit committee is a committee of a board of directors (board), operating under delegation of authority from the board. Its objectives are clearly defined and documented in its charter and its efficiency and effectiveness is measured by reference to its objectives.

An independent audit committee is a fundamental component of good corporate governance.¹

Typically, an audit committee:

1. focuses on issues relevant to the integrity of an entity's financial reporting
2. oversees external audit, internal audit², risk management, internal control and compliance
3. liaises with the board, internal auditors, external auditors³ and management.

Some entities establish one committee with the responsibility for all of these tasks, such as an audit and risk management committee. Larger entities may establish more than one committee, such as an audit committee, a risk and compliance committee, health and safety committee and an environmental committee depending on the nature and extent of the entity's operations.

Who should use this guide?

This guide is primarily for directors and audit committees of Australian listed companies. Directors, boards of management and audit committees of not-for-profit, public sector⁴, and other private sector entities, may also find this guide to be a useful reference.

There is no "one size fits all" good practice solution for audit committees. The nature of the business, the regulatory environment, ownership structure, legal requirements, and audit committee membership influence the objectives and activities of an audit committee. Smaller entities with limited resources might find it impractical to meet all of the practices outlined in this guide. They may use this guide to assess the elements of good practice that are relevant for their financial reporting, corporate governance, risk management and internal control and exercise them at the board or committee level.

Purpose of this guide

This guide provides a practical introduction to the role and responsibilities of an audit committee. It explains the context in which an audit committee typically operates and outlines good practice.

While the guide assists the board and audit committee members, it may also be helpful to risk and compliance managers, internal auditors, external auditors and senior management, as it explains the expectations and accountabilities between the audit committee and these other parties.

Clarifying the roles and responsibilities between the audit committee, risk and compliance managers and auditors (both internal and external) assists their communication, efficiency and effectiveness. Using this guide assists audit committees in assessing an entity's external financial and other internal and external reporting requirements. It also assists in assessing the effectiveness of an entity's risk management and internal control systems.

¹ See Principle 4 *Safeguard Integrity in Corporate Reporting*, Recommendation 4.1 of the 3rd edition of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

² See glossary for definitions.

³ See glossary for definitions.

⁴ Federal and state bodies should also consider their own specific guidance relating to the operation of their audit committees.

This third edition of the guide reflects developments in audit committee practice, legislation and guidance from regulatory bodies and in leading global board practices since the previous edition was published in 2012. It has been produced by the Auditing and Assurance Standards Board, the Australian Institute of Company Directors and the Institute of Internal Auditors-Australia.

The guide does not attempt to advise directors or members of audit committees about their legal duties. For a general discussion of directors' duties refer to *Duties and Responsibilities of Directors and Officers 21st Edition* by Professor Robert Baxt AO, published by the Australian Institute of Company Directors in 2016.

Recent developments regarding audit committees

Since the previous edition of this guide was published in 2012, some of the key developments in Australia include:

- January 2017 – The Institute of Internal Auditors Inc. (IIA) issued a revised *International Professional Practices Framework* (IPPF). The IPPF has been adopted by the Institute of Internal Auditors-Australia (IIA-A) and was effective from 1 January 2017. The changes mainly affect the International Standards for the Professional Practice of Internal Auditing and have generally been made for clarification purposes.
- December 2016 – revised Australian Auditing Standards came into effect, some of which impact the operation of audit committees as they change the requirements in relation to the auditor reporting to the board. For example, Auditing Standard ASA 700 series, including the new ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, ASA 720 *The Auditor's Responsibility Relating to Other Information* and related consequential changes to other relevant auditing standards, such as ASA 260 *Communication with Those Charged with Governance* and ASA 570 *Going Concern*.
- August 2016 – The IIA issued *Supplemental Guidance: Applying the International Practices Framework as a Professional Services Firm* which provides some distinction to the services of internal auditing as distinct from external auditing.
- June 2015 – The Australian Securities and Investments Commission (ASIC) issued *ASIC Information Sheet 203 Impairment of non-financial assets: Materials for directors* explaining the responsibilities of a director in connection with the testing of non-financial assets for impairment in the financial report of a company.
- December 2014 – ASIC re- issued *ASIC Information Sheet 183 Directors and financial reporting* covering financial reporting responsibilities as a director.
- March 2014 – the ASX Corporate Governance Council ("The Council")⁵ released the 3rd edition of the *ASX Corporate Governance Council Principles and Recommendations* ("ASX Principles and Recommendations"). These revised guidelines came into effect from 1 July 2014 and broadens Principle 4 to encompass corporate reporting rather than merely financial reporting.

⁵ The ASX Corporate Governance Council was formed in August 2002 and brings together various business, shareholder and industry groups to enhance corporate governance practices in Australia. Its ongoing mission is to ensure that the principles-based framework it developed for corporate governance continues to be a practical guide for listed entities, their investors and the wider Australian community.

- March 2014 –ASIC issued *ASIC Information Sheet 196 Audit Quality – the role of directors and audit committees* (INFO 196) providing guidance to assist directors and audit committees in their role in supporting the quality of the external audit of the financial report.
- February 2014 – the International Auditing and Assurance Standards Board (IAASB) issued *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality* which encourages all participants in the financial reporting supply chain, including audit committees, to challenge themselves to do more to increase audit quality in their particular environments.
- January 2014 – The Australian Prudential Regulatory Authority (APRA) revised *Prudential Standard CPS 510 Governance* from 1 January 2015 and the new *Prudential Standard CPS 220 Risk Management*. Revisions of these guides have since been issued and come into effect from 1 July 2017.

2. The board and board committees

The *Corporations Act 2001* (“The Act”) requires every company to have at least one director and public companies must have at least three directors.^{6 7} Collectively, the directors are known as the board of directors (board) and its overriding responsibility is to supervise the company on behalf of shareholders and other stakeholders.

The 3rd edition of the *ASX Principles and Recommendations* recommends that the board establish three committees – audit, remuneration and nomination. In addition it recommends that boards should have a committee or committees to oversee risk. In some cases this function is combined with the audit committee. In other cases it is a standalone committee of the board.

Similarly, APRA’s prudential standards, applying to APRA-regulated entities, include the requirement for the establishment of the audit committee and a remuneration committee.⁸ These requirements are imposed on authorised deposit taking institutions (for example banks, building societies and credit unions) and general and life insurers as well as regulated superannuation funds.

The boards of larger entities often establish committees of directors to better use their time and to help deal with complex or specialised areas, such as financial reporting and audit, compliance, risk management, remuneration, investment, sustainability and health and safety. The nature and type of committees will vary from industry to industry and according to the size of the organisation. For example, a resources company may have an environmental committee, an airline may have a safety committee, and a charity may have a fundraising committee.

Involvement in committees allows directors to deepen their knowledge of the organisation, become more actively engaged and utilise their experience. Additionally, the existence of committees can indicate to investors that the board has identified particular areas for closer scrutiny.

Committees such as the audit committee, may be ongoing in nature, are usually referred to as standing committees, or may be formed for a specific short term project or goal.

⁶ This requirement does not include alternative directors, and two of the three directors (one for proprietary companies) need to ordinarily reside in Australia.

⁷ Section 201A of the *Corporations Act 2001*

⁸ Prudential Standard CPS 510 *Governance*

Committees make recommendations for action to the full board, which retains collective responsibility for decision-making.

The Act allows boards to delegate some of their powers to a committee of directors unless the company's constitution disallows it.⁹ The delegation must be recorded in the minute book.

When directors delegate a power under s198D of The Act they are required to remain responsible for the exercise of the power by the delegate as if it had been exercised by the directors themselves.¹⁰ There is a limited exception where the director who delegates will not be held responsible if that director believed:

- On reasonable grounds at all times that the delegate would exercise the power in conformity with the duties imposed by the Act and the company's constitution; and
- On reasonable grounds and in good faith (and after making proper inquiries if circumstances so required) that the delegate was reliable and competent in relation to the power delegated.

The rest of the board can reasonably rely on the information or advice given by a committee so long as it is independently assessed by the board and is relied upon in good faith.¹¹ However, this delegation of authority does not lessen the board's overall duties and responsibilities.

The limits of delegation are discussed more fully in ASIC guidance¹², as well as the Centro case (ASIC v Healey (2011)). Justice Middleton said "....Each director then needed to formulate his own opinion, and apply that opinion to the task of approving the financial statements."

3. Role of the audit committee

The audit committee plays a key role in assisting the board to fulfil its corporate governance and oversight responsibilities in areas including:

- Corporate reporting, including external financial reporting, the directors' report and annual report
- External audit
- Internal audit
- Risk management and internal control
- Compliance
- Ethics and organisation culture
- Fraud and corruption

The main responsibilities of an appropriately established and effective audit committee may include assisting the board to discharge its responsibility to exercise due care, diligence and skill in relation to the following areas:

- Promoting and monitoring an ethical culture throughout the entity
- Ascertaining that a code of conduct is appropriately designed and implemented and compliance with the code is monitored
- Reviewing the effectiveness of risk oversight and management
- Assessing the entity's fraud risk and action to mitigate fraud risk

⁹ Section 198D of the *Corporations Act 2001*

¹⁰ Section 190 of the *Corporations Act 2001*

¹¹ Section 189 of the *Corporations Act 2001*

¹² ASIC INFO 183 *Directors and Financial Reporting*

- Assessing the effectiveness of the internal control system in relation to accounting and financial records and reporting
- Assessing the adequacy of financial management practices
- Exercising oversight of systems in place to protect an entity's assets
- Reviewing the adequacy of internal and external reporting (financial and non-financial) to users of financial reports
- Exercising oversight over compliance with applicable laws, regulations, standards and best practice guidelines, including reviewing correspondence with regulators
- Providing a formal forum for communication between the board and senior financial management
- Obtaining an independent, effective and efficient external audit, including assessing audit quality and independence matters
- Facilitating effective communication between the board and the internal and external auditors, and providing timely and appropriate responses to matters arising from audits
- Considering significant matters that were raised during the services provided by both internal audit and external audit.

The audit committee's responsibilities are typically documented in its charter. Ideally, the audit committee's annual work plan is derived from its charter to ascertain that the committee fulfils its responsibilities.

The audit committee can assist directors to fulfil their responsibilities and facilitate decision making by:

- Facilitating open communication between board members and senior management, risk and compliance managers, internal and external auditors
- Focusing on matters within the audit committee's charter, thereby allowing the full board to spend more time on other matters.

To be effective, the audit committee must be independent from management and free from any undue influence. Members of the audit committee should not have any executive powers, management functions, or delegated financial responsibility of the entity.

4. Relevant regulatory requirements, standards and guidance

Audit committee members need to be aware of legislation, regulatory requirements, standards and guidance that are relevant to the operation of the audit committee, either directly, by establishing requirements for boards and audit committees, or indirectly, by establishing requirements for other parties reporting to, or working with, the audit committee, such as the internal auditors and external auditors.

For those entities that operate in multiple jurisdictions, the audit committee would also need to consider the relevant legislation and regulations in those jurisdictions.

The legislation, regulatory bodies and the accompanying regulation, standards and other guidance listed below may be relevant.

Corporations Act 2001

The *Corporations Act 2001* ("The Act") is the principal legislation regulating companies in Australia. It covers matters such as the formation and operation of companies, duties of officers, takeovers and fundraising. It is a key point of reference for the audit committee on financial reporting and external audit requirements.

In accordance with The Act the directors are required to declare that the financial statements and notes comply with accounting standards and give a true and fair view of the financial

position and performance of the company.¹³ Overall responsibility for the content of the annual financial statements and notes sits with the board.

An audit is required to be undertaken in accordance with The Act and the audit must be undertaken in accordance with auditing standards.¹⁴ In these circumstances the individual auditor must provide the directors of the company with an independence declaration set out in accordance with The Act.¹⁵

Australian Securities Exchange Listing Rules and Corporate Governance Guidelines

The ASX Listing Rules require entities included in the S&P/ASX All Ordinaries Index at the beginning of their financial year to have an audit committee.¹⁶ They also require the S&P/ASX 300 listed entities to comply with the 3rd edition of the ASX *Corporate Governance Council Principles and Recommendations* (“ASX Principles and Recommendations”) on the composition, operation and responsibility of the audit committee.

ASX Listing rule 12.7

An entity which was included in the S&P All Ordinaries Index at the beginning of its financial year must have an audit committee during that year. If the entity was included in the S&P/ASX 300 Index at the beginning of its financial year it must also comply with the recommendations set out by the ASX Corporate Governance Council in relation to composition and operation of the audit committee for the whole of that financial year, unless it had been included in that index for the first time less than three months before the beginning of that financial year. An entity that is included in the S&P/ASX 300 Index for the first time less than three months before the first day of its financial year but did not comply with the recommendations set by the ASX Corporate Governance Council in relation to composition and operation of the audit committee at that date must take steps so that it complies with those recommendations within three months of the beginning of the financial year.

Principle 4 of the ASX *Principles and Recommendations* states that:

A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

The supporting recommendation for a listed entity in relation to the audit committee for that principle is:

Recommendation 4.1

- (a) The board should have an audit committee which:
- consists only of non-executive directors
 - consists of a majority of independent directors
 - is chaired by an independent chair, who is not the chair of the board
 - has at least three members; and

The board should disclose the:

- charter of the audit committee
- relevant qualifications and experience of the audit committee

¹³ Section 295 of the *Corporations Act 2001*

¹⁴ Section 307A of the *Corporations Act 2001*

¹⁵ Section 307C of the *Corporations Act 2001*

¹⁶ See ASX Listing Rule 12.7.

– number of times the committee met during the period and the individual attendances of the members at those meetings; or

(b) If the board does not have an audit committee, this is disclosed as well as the processes that the board employs that independently verifies and safeguards the integrity of the corporate reporting function.

Where a listed entity does not have a stand-alone risk committee, then the audit committee may be charged with the responsibilities of a risk committee, the responsibilities of which are set out in Principle 7 of the *ASX Principles and Recommendations* that states:

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

AASB Accounting Standards

The Act requires the entity's financial report to comply with the Accounting Standards¹⁷ made by the Australian Accounting Standards Board (AASB)¹⁸ and that the financial report be "true and fair"¹⁹. Compliance with these requirements underpins the audit committee's monitoring and oversight of the entity's financial reporting. In the rare circumstance that the financial statements and notes prepared in compliance with the accounting standards would not give a true and fair view, additional information to ensure it is "true and fair" must be included in the notes to the financial statements in accordance with The Act and the accounting standards.

Since July 2005 the standards made by the AASB incorporate the equivalent International Financial Reporting Standards (IFRS).²⁰ Those entities whose financial statements comply with IFRS are required to provide an explicit and unreserved statement of such compliance in the notes.

AUASB Auditing Standards

The Act requires the entity's financial report to be audited in accordance with the Auditing Standards²¹ made by the Auditing and Assurance Standards Board (AUASB).^{22 23} The Australian Auditing Standards establish mandatory requirements and provide application and other explanatory material for the external auditor of the entity.

This includes requirements for the external auditor to:

- Agree with the entity the terms of the audit engagement
- Communicate with the entity:
 - the auditor's responsibility for forming and expressing an opinion on the financial report prepared by management
 - an overview of the planned scope and timing of the audit
 - significant qualitative aspects of the entity's accounting practices
 - significant difficulties, if any, encountered during the audit

¹⁷ Section 296 of the *Corporations Act 2001*

¹⁸ Section 336 of the *Corporations Act 2001*

¹⁹ Section 297 of the *Corporations Act 2001*

²⁰ Australian Accounting Standards may include additional paragraphs that do not appear in the equivalent IFRS. They are identified by the prefix "Aus" and generally relate to identifying the entities required to apply the standard and to matters affecting not-for-profit entities.

²¹ Section 307A of the *Corporations Act 2001*

²² Auditing Standards made by the AUASB conform with equivalent International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB). Australian Auditing Standards may include additional paragraphs that do not appear in the equivalent ISA. Such paragraphs are identified by the prefix "Aus" and generally relate to Australian-specific legislative requirements and established audit practices.

²³ Section 336 of the *Corporations Act 2001*

- significant matters arising during the audit that were discussed or subject to correspondence with management, including significant deficiencies in internal control identified during the audit
- circumstances that affect the form and content of the auditor's report including where:
 - the auditor expects to modify the opinion;
 - a material uncertainty related to going concern is reported;
 - a key audit matter (KAM) is communicated;
 - an emphasis of matter or other matter is included; and
 - there is an uncorrected material misstatement of the other information and any other matters that are significant to the oversight of the financial reporting process
- independence statements
- Seek management representations (refer Appendix 3).

The audit committee can expect to interact with the external auditor on these matters and plays a key role in establishing an appropriate relationship with the external auditor.

Australian Securities and Investments Commission

ASIC is Australia's corporate, markets and financial services regulator, established under the *Australian Securities and Investments Commission Act 2001* ("ASIC Act"). Its role includes maintaining, facilitating and improving the performance of the Australian financial system and entities in that system, thereby promoting confident and informed participation by investors and consumers in the financial system.

ASIC has responsibility for the surveillance, investigation and enforcement of the financial reporting requirements of The Act, including the enforcement of auditor independence and audit quality requirements as required by the auditing standards, as well as audit inspection and information gathering powers under the ASIC Act.

The *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, further enhances ASIC's audit inspection and reporting powers by allowing ASIC to issue an audit deficiency report about specified failures by an individual audit firm and to communicate directly with the audit committee (or board or senior management) about matters identified from review of audit files, subject to certain requirements.

ASIC provides guidance (INFO 196) to assist directors and audit committees in their role in supporting the quality of the external audit of a financial report.²⁴

Australian Prudential Regulatory Authority

APRA is the prudential regulator that oversees banks, credit unions, building societies, life and general insurance, reinsurance companies, private health insurers, friendly societies and superannuation funds (excluding self-managed funds).

APRA formulates, promulgates and enforces prudential policy and practice through Prudential Standards, which are supported by law, practice guides and Guidance Notes.

Audit committees of APRA-regulated entities need to have regard to applicable APRA prudential requirements, for example, for risk management, governance, internal control systems and annual reporting requirements. Some of these requirements are referred to in this publication where they specifically relate to audit committees, for example CPS 510 *Governance*. However the requirements are extensive and can be different for different forms of organisations, such as banks, life insurance companies and superannuation funds.

²⁴ ASIC INFO 196 *Audit Quality – the Role of Directors and Audit Committees*

Therefore, we recommended you refer directly to the APRA website for the details of the requirements and to whom they apply.

Accounting Professional and Ethical Standards Board

The Accounting Professional and Ethical Standards Board (APESB) is an independent, national body that sets the code of ethics and professional standards by which members of Australia's three professional accounting bodies (Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants) abide.

Audit committee members who are members of an Australian professional accounting body must comply with the standards issued by the APESB and, in particular, APES 110 *Code of Ethics for Professional Accountants* (the Code), which includes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Audit committee members should be aware that auditors and other advisers that deal with the audit committee, who are members of an Australian professional accounting body, must comply with the Code, including the requirements to be independent and to comply with Australian Auditing Standards issued by the AUASB, where relevant.

International Professional Practices Framework

The *International Professional Practices Framework* (IPPF) is promulgated by the IIA to provide consistent standards for the internal auditing profession. The IPPF contains the *Core Principles for the Professional Practice of Internal Auditing*, the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* (Standards).

The Standards are a set of principles-based guidance for performance of internal audit work consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organisational and individual levels
- Interpretations, which clarify terms or concepts within the Standards.

The Standards are appropriate for application to internal audit activities. They include guidance on individual objectivity, proficiency and due professional care.

Standards Australia

Where audit committees are responsible for overseeing and monitoring risk management and compliance, joint Australian/New Zealand Standards issued by Standards Australia may be useful.²⁵

AS/NZS ISO 31000: 2009 and SA/SNZ HB 436:2013 provides principles and generic guidance for the design and implementation of risk management plans and frameworks which can be used by any public, private or community enterprise, association, group or individual.

NZS/AS 3806-2006 provides principles and guidance for designing, developing, implementing, maintaining and improving a flexible, responsive, effective and measurable compliance program within an organisation.

²⁵ AS/NZS ISO 31000: 2009 *Risk Management – Principles and guidelines*, SA/SNZ HB 436:2013 *Risk Management – Companion to AS/NZS ISO 31000:2009* and NZS/AS 3806-2006 *Compliance programs*

5. Responsibilities of the audit committee

It is important to clearly define the responsibilities of the audit committee in its charter, which should be formally approved by the board and communicated to shareholders. Ideally, the audit committee's annual work plan is derived from its charter.

Over time, audit committee responsibilities have expanded from a financial focus to an approach focused on entity risks. This has broadened the audit committee mandate and scope of inquiry, including their need to keep abreast of new risks driven by technology, economic instability, health threats, cybercrime, terrorism, increased regulation, safety and other factors. There is also an increasing focus on corporate culture. Therefore, audit committees need to stay attuned to their responsibilities which may need to be revised or expanded by the Board of Directors from time-to-time.

With increased outsourcing of non-critical operations to third parties, audit committees need to consider the entity's overarching governance arrangements. One such risk governance model, referred to by the IIA as well as in the APRA Prudential Practice Guide relating to CPS 220 *Risk Management* is the three lines of defence risk management and assurance model. Further information on this is provided in Appendix 4.

The audit committee needs to have an understanding of all assurance providers, awareness of the type of assurance being issued, nature of reporting within the entity's discrete governance structures, alignment between assurance and high-level risk exposures, consolidated risk and assurance profiles and reporting of assurance activities. The term 'assurance' can mean different things to different organisations/individuals engaged with the audit committee. Appendix 6 explains how these terms are used by external audit practitioners versus internal audit practitioners.

As set out in section 3 above, the key responsibilities of the audit committee are discussed in more detail below.

Corporate reporting

Financial reporting overview

The audit committee plays a key role in reviewing financial information before it is presented to the board for approval and publication, including the financial report and other financial information in an entity's financial reporting cycle, namely the concise financial report (if applicable), half year review and the annual report.

The audit committee may also report to the board on profit announcements, analyst briefings, investor presentations and announcements made under continuous disclosure obligations and other media releases containing financial information about the entity.

It is important to note that the board retains ultimate responsibility for financial reporting and cannot delegate that responsibility to the audit committee, or to management or external advisers. The audit committee will make use of knowledge gained from considering risk management, internal control and compliance activities, and from discussing matters with management, the internal auditor and the external auditor.

The case referred to below highlights that directors should review matters against their knowledge of the company, including knowledge obtained from different or earlier board papers. Further, they should critically review the information given to them against this knowledge about the company. If the information is not consistent with that knowledge they should probe management until they are satisfied.

In the court case *ASIC v Healey* (2011) 196 FCR 291 at 339 and 298 (also known as Centro), Justice Middleton held that:

“... whilst an audit committee has an important role of monitoring and oversight, this is not to the exclusion of the role of a director to consider the financial accounts for him or herself in the way I have attempted to explain. This does not involve a director being familiar with every accounting standard, but sufficiently aware and knowledgeable to understand what is being approved or adopted.”

Justice Middleton further held that:

“... What each director is expected to do is to take a diligent and intelligent interest in the information available to him or her, to understand that information, and apply an enquiring mind to the responsibilities placed upon him or her. Such a responsibility arises in this proceeding in adopting and approving the financial statements. Because of their nature and importance, the directors must understand and focus upon the content of financial statements, and if necessary, make further enquiries if matters revealed in the financial statements call for such enquiries.”

Management representations

When the audit committee is making their assessments and performing their procedures, it considers representations signed by management as one of their procedures in making their assessments. These may include representations on:

- How management selected and applied critical accounting policies and any changes in significant accounting policies, or their application, during the reporting period
- Whether management made a specific assessment of the entity's ability to continue as a going concern and how they made that assessment; if not, the basis for using the going concern assumption in preparing the financial statements and note disclosures
- The methods used to account for significant, complex or unusual transactions, or transactions in emerging areas for which there may be no specific accounting standard, including management's reasoning in determining the appropriateness of those methods
- The process used to determine that all relevant information has been brought to the attention of senior management to enable consideration of whether disclosure is required in the financial report
- Significant estimates and judgements in the financial report and the processes used by management in making those estimates and judgements. Management should comment on the impact of different assumptions, where these could have a significant impact on the financial report
- Other significant matters that do, or may, impact on the financial position of the entity and management's decision on disclosure or otherwise in the financial report
- The processes for identifying related party transactions and the nature, extent and reasonableness of related party transactions identified
- The processes for ensuring and monitoring compliance with laws, regulations and other requirements on external reporting by the entity of financial and non-financial information. Requirements include IFRS, The Act, the ASX listing rules, APRA and, where applicable, the legislation and regulations of other countries in which the entity operates.

The audit committee may review the declarations²⁶ required by The Act of the chief executive officer (CEO) and chief financial officer (CFO) in respect of the financial report and financial records.

²⁶ Section 295(A) of the *Corporations Act 2001*

Financial reporting considerations

For all financial reports, the audit committee needs to consider whether:

- The financial report complies with applicable legislation and accounting standards
- The financial statements and note disclosures present a true and fair view of the entity's financial position and performance, and if not, that additional disclosures are required
- The financial statements and note disclosures have been prepared on the basis that the entity is a going concern, and if not, that they appropriately reflect the entity's inability to continue as a going concern
- Other information in the annual report is consistent with the financial report and other information known to the audit committee. For example, information in the directors' report or other management report/s relating to the entity's operations, financial position, business strategies and future prospects
- There is any information known to them gained in their role as a director of the entity that should be disclosed.

In considering the above, at the end of the audit of the financial report, through discussion and communication with the external auditor, the audit committee considers:

- Significant accounting estimates including understanding how the auditor exercised professional judgement and professional scepticism
- Recently issued regulatory and professional pronouncements to understand the impact on the financial statements
- Uncorrected misstatements identified by the auditor and considers:
 - the nature and extent of unadjusted misstatements
 - why these uncorrected misstatements have not been corrected by management
 - any qualitative issues relating to the uncorrected misstatement
 - whether these uncorrected misstatements indicate indications of fraudulent financial reporting
- Circumstances affecting the form and content of the auditor's report including consideration of any:
 - proposed modifications to the opinion in the auditor's report
 - proposed material uncertainty related to going concern
 - KAMs
 - proposed Emphasis of Matter paragraph or other matters paragraph
 - uncorrected material misstatement of the other information
- Any other matters identified by the auditor including:
 - significant deficiencies in internal controls identified during the audit and indications of fraudulent financial reporting
 - significant matters of non-compliance with laws and regulations
 - significant matters raised and discussed with management during the audit (may or may not be a KAM)
 - events or conditions identified by the auditor in the auditor's assessment of the going concern assumption
 - other matters of governance interest that arose during the audit, for example material misstatements of fact or material inconsistencies in information accompanying the audited financial report.

Based on the review by the audit committee of all available information, including representations, the review and consideration of the financial statements and note disclosures, and other information, the audit committee considers whether it is appropriate to make a recommendation to the board regarding approval of the financial report and the directors' declaration.²⁷

²⁷ The *Corporations Act 2001* in section 295(4) sets out the requirements of the directors' declaration regarding the financial report.

Other external reporting

In relation to other external reporting (such as integrated reports, sustainability reports or specific reporting on energy and greenhouse gas emissions and workforce health safety and wellbeing), the audit committee would typically:

- Review documents and reports to regulators for consistency with the financial report and other information²⁸ known to the audit committee
- Review the reporting of the entity's main corporate governance practices as required under the ASX listing rules for completeness and accuracy
- Review any non-IFRS financial information,²⁹ including the reconciliation between the non-statutory (or underlying) profit and statutory profit, if applicable
- Review any analyst briefings, investor presentations and media releases for consistency with the financial report and compliance with ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information* in respect of communication of non-statutory profit information
- Review the processes established for the purposes of continuous disclosure reporting to the ASX.

Based on its review and consideration of the other external reports, the audit committee should recommend to the board whether the reports should be approved.

External audit

The audit committee has a key role in the entity's relationship with the external auditor and in promoting audit quality. The importance of this role is emphasised in the ASIC guidance³⁰ published to assist directors and audit committees in their role in promoting the quality of the external audit of a financial report. In addition, the IAASB published *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality* which is outlined in Appendix 5 and highlights the role of the audit committee within the Framework.

The audit committee's responsibilities typically include:

Appointment and assessing potential and continuing auditors

Recommending to the board the appointment of an auditor to the board or assessing potential and continuing auditors including understanding the:

- Audit tender or selection process
- Auditor's commitment to audit quality
- Auditor's resources devoted to the audit
- Auditor's reliance on experts and other auditors, (including using the work of other auditors, coverage of components within a group and reliance on internal auditors)
- Accountability for audit quality by the auditor's engagement partner, review partner, specialists and audit team members.

Facilitating the audit process

- The audit committee agrees the audit fee (including any fee variations) and makes a recommendation thereon to the board. In addition, the audit committee may recommend to the board, if appropriate, the extension of the rotation period of the external audit engagement partner subject to certain requirements.³¹

²⁸ Other information could include regular performance reporting by management, encompassing both financial and non-financial performance to assist the audit committee understand the overall control environment

²⁹ See ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information*

³⁰ ASIC information sheet 196 *Audit Quality: The Role of Directors and Audit Committees*

³¹ Under the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, the audit committee of a listed entity may recommend to the board that the rotation period of the audit engagement partner be extended from five up to a maximum of seven years. The recommendation may be endorsed by a resolution passed by members of the audit committee and be in writing, stating

- Facilitating the audit process by supporting the audit and keeping company management and staff accountable, supportive and helpful of the audit process.

Supporting the audit includes understanding that a high quality and comprehensive audit is able to be conducted for the agreed fee and that financial reporting and audit processes have been planned so that an effective quality audit can be conducted within the financial reporting timeframes.

Establishing ongoing communications with the auditor

Establishing ongoing communications with the auditor so as to:

- Address any risk or areas of concern
- Ensure access to directors and audit committees

Ensuring access includes the auditor attending all appropriate audit committee meetings and the auditor meeting with the audit committee separately from management without discussions being shared with management.³²

Australian Auditing Standards include requirements for the external auditor to communicate certain matters to the audit committee.³³ Such communications include written communications provided by the external auditor to the audit committee at the planning and at the end of the audit of the financial report. This communication may include, for example, a discussion of KAMs, audit materiality, the appropriateness of accounting policies adopted by the entity and information about changes to accounting standards, both current and proposed, that may be relevant to the entity's financial report.

Maintaining auditor independence

Maintaining and reviewing auditor independence and objectivity by considering whether the external auditor's relationships with and services to the entity and other relevant organisations might impair, or appear to impair, the external auditor's independence. Some audit committees may establish policies on the extent to which the external auditor can provide other assurance, or non-assurance, services and monitor the application of the policies to consider the possible implications for the auditor's independence.

The independence requirements applying to external auditors are legally enforceable under The Act³⁴ which contains specific provisions that address conflict of interest situations, auditor rotation requirements and identifying and evaluating threats to independence and applying appropriate safeguards.

The term 'independence' can mean different things to different organisations/individuals engaged with the audit committee. Appendix 6 explains how this term is used by external audit practitioners versus internal audit practitioners.

Assessing the quality of audits conducted

Assessing the quality of audits conducted and evaluating the performance of the auditor including considering:

- The auditor's internal quality and standards (reference may be made to the audit firms transparency report lodged with ASIC)
- The audit process (including the auditor's demonstration of professional scepticism)
- The timeliness of communications and usefulness and relevance of issues
- Other information (including the audit firm's audit transparency reports)
- Findings from ASIC's audit inspections and surveillances.

Internal audit

The IIA defines the mission of internal audit as:

the audit committee is satisfied that approval of the extension is consistent with maintaining the quality of the audit and would not give rise to a conflict of interest.

³² The IAASB Publication *A Framework for Audit Quality* suggests at least one meeting annually.

³³ See *Relationships – External Auditor* on page 23 of this guide.

³⁴ Divisions 3,4 and 5 of Part 2M.4 and s307C of the *Corporations Act 2001*

“To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.”³⁵

Internal audit provides the board of directors, audit committee, chief executive officer, senior executives and stakeholders with a view independent of management on whether an entity has an appropriate risk and control environment, while acting as a catalyst for a strong risk and compliance culture.³⁶

The terms ‘independence/independent’ can mean different things to different organisations/individuals engaged with the audit committee. Appendix 6 explains how these terms are used by external audit practitioners versus internal audit practitioners.

Reporting arrangements

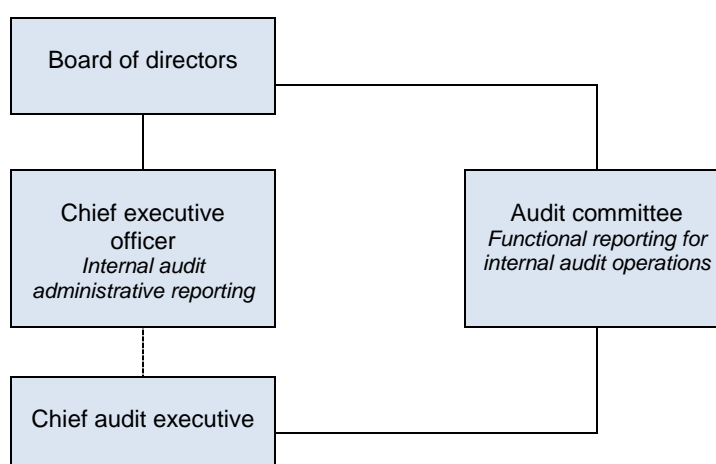
Good practice reporting arrangements for internal audit are:

- Functionally to the audit committee through the chair
- Administratively to the chief executive officer.³⁷

Functional reporting generally involves the audit committee:

- Reviewing and approving the internal audit charter
- Reviewing the internal audit structure, independence and access to senior management, the audit committee and the board
- Approving decisions regarding appointment and replacement of the chief audit executive (CAE)
- Reviewing and approving the strategic internal audit plan, often for a 2-3 year period
- Reviewing and approving the annual internal audit plan and any changes
- Reviewing reports on the results of internal audit engagements, audit-related activities, audit team capability, audit performance and other important matters
- Considering the overall effectiveness of the CAE and the internal audit function
- Making enquiries of the CAE to determine any scope or budget limitations that may impede the execution of internal audit responsibilities
- Meeting privately with the CAE at least once a year without the chief executive officer or other management present.

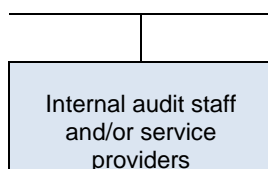
This can be shown diagrammatically as:



³⁵ Source: the ‘International Professional Practices Framework issued by the Institute of Internal Auditors.

³⁶ Not all entities will have an internal audit function.

³⁷ Includes the allocation of internal audit resources and determination of budget, provision of corporate services to internal audit and human resource administration.



Internal audit work is risk-based and encompasses both financial and non-financial operations.

Risk management and internal control

While the board retains overall responsibility for risk management and internal control, it typically delegates elements of this responsibility to the audit committee (or the audit and risk management committee or a separate risk management committee, as applicable).

The risk management and internal control framework within an entity is a key expression of its attitude to the control environment.

Risk occurs when entities try to achieve objectives in an uncertain environment³⁸. It is usually measured in terms of likelihood and consequence. Risk management is an inherent part of the management process and incorporates the principles of corporate governance, accountability, communication and strategic alignment. It should be applied at all levels of an entity including:

- Enterprise-wide (strategic)
- Business unit (operational)
- Project-specific (tactical)
- Internal audit (planning, objectives and scoping).

To manage identified risks, an organisation's internal control framework typically comprises three layers:

- Systems and processes (IT risk, business continuity, security)
- Capability
- Culture (leadership, behaviour, attitudes).

The three most commonly used sources of guidance on the elements of an effective risk management and internal control framework are the:

- Australia/New Zealand Standard on Risk Management (AS/NZS ISO 31000:2009) and accompanying handbooks published by Standards Australia
- Enterprise Risk Management Conceptual Framework (published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO))
- Internal control – Integrated Framework (also published by COSO).

The board retains responsibility for establishing an appropriate “tone at the top” - the corporate environment or culture, which disseminates throughout the entity and may be seen by some as equal to the internal control environment. This tone can be the most important factor contributing to the integrity of the entity's key business processes, including financial reporting.

The board is also responsible for agreeing on the entity's risk appetite and monitoring the strategic risks facing the entity. This should be formally documented in a risk appetite statement from the board that clearly outlines the risks the entity is willing to take or accept in pursuit of its strategic objectives. The purpose of a risk appetite statement is to convey to

³⁸ AS/NZS ISO 31000:2009 *Risk Management – Principles and guidelines* states that ‘Risk’ is the effect of uncertainty on objectives.

the CEO and management the board expectations on how risk is to be managed within the entity.

A risk appetite statement explicitly outlines the risks to be avoided and for which the board has no tolerance. It considers the entity's risk universe across all risk categories, with all business decisions to be made in the context of the approved risk appetite statement.

APRA-regulated entities must comply with *Prudential Standard CPS 220 Risk Management*. Part of the requirements of this standard, relevant to this section, includes the need for the organisation to maintain a:

- Risk management framework appropriate to the size, business mix and complexity of the organisation
- Board-approved risk appetite statement
- Board-approved risk management strategy.

The board is likely to delegate the following risk management related responsibilities to the audit committee:

- Considering the impact of culture on risk management and internal control
- Monitoring changes in the economic and business environment, including considering emerging trends and other factors related to the entity's risk profile
- Reviewing the effectiveness of processes for identifying the entity's material risks and the appropriateness of the risk management procedures to maintain activities within the board's risk appetite
- Reviewing disclosures in the annual corporate governance statement in relation to recognition and management of material business risks
- Considering the adequacy and effectiveness of the internal control and risk management framework by reviewing reports from management, internal audit and external audit, and by monitoring management responses and actions to correct any noted deficiencies
- Assessing adequacy of entity processes to manage insurable risks and the adequacy of insurance cover, and if applicable, the level of self-insurance
- Reviewing the business continuity planning process and being satisfied that material risks are identified and appropriate continuity plans are in place.

Fraud and corruption

The board has a legal responsibility³⁹ to safeguard the entity against corrupt or illegal business activities. The board is likely to delegate to the audit committee responsibility for monitoring the entity's policies and procedures that control or prohibit behaviours indicative of corrupt or illegal activities.

The audit committee may be responsible for overseeing the systems and programs implemented by management for fraud and corruption prevention, deterrence and detection, particularly in the context of financial accounting and reporting.

The existence of fraud and corruption prevention systems and programs is a key expression of the attitude of the board, audit committee and management to minimising the opportunity for fraud and corruption.

Good audit committee practices in overseeing fraud and corruption prevention typically include:

³⁹ These references are wide ranging depending on the company and the industry in which it operates. However broad directors' duty obligations exist in sections 180 – 184 of the *Corporations Act 2001*. In addition, each jurisdiction has different laws (statute and common law) to deal with fraud and corruption. Corporations can be liable under these provisions, and in some circumstances, directors can be liable as principals or accessories.

- Reviewing management's efforts to create and maintain a strong internal control environment, including the design and implementation of anti-fraud and corruption strategies and programs
- Enquiring of management and the external auditor⁴⁰ regarding their assessments of the risk of material misstatement in the financial report due to fraud, including the nature, extent and frequency of such assessments
- Enquiring of management, the internal auditor and the external auditor whether they have knowledge of any actual, suspected or alleged fraud or corruption affecting the entity, and how the entity responded to such instances, including changes made to the control environment

Compliance

Compliance encompasses adherence to policies, plans, procedures, laws, regulations, standards, contracts or other requirements. Non-compliance can have potential financial, non-financial or reputational impacts on an entity.

Compliance continues to be a primary concern for the boards, audit committees and senior management of most entities, with reputation risk pushed to new levels. In addition to the complexity and pace of legislative and regulatory change, coupled with an increase in regulatory scrutiny and enforcement, the public reporting of adverse findings can attract media and social media attention that can rapidly attack an entity's reputation. Consequently, an effective compliance framework may assist protection against reputation risk.

The audit committee often directs internal auditors to assess the effectiveness of the entity's compliance framework including identification, risk assessment, awareness, monitoring, handling breaches, continuous improvement, the compliance register, reporting, and cross-border obligations.

AS/ISO19600:2015 *Compliance management systems – guidelines* provides guidance for establishing, developing, implementing, evaluating, maintaining and improving an effective and responsive compliance management system within an organisation.

Good audit committee practices will often include oversight of compliance programs, including:

- Monitoring the impact of changes in key laws, regulations (for example, work health and safety legislation), accounting standards, internal policies, standards of good corporate governance and other community expectations affecting the entity's operations. This will normally involve receiving reports and briefings from key senior management, and meeting periodically with them.⁴¹
- Reviewing the effectiveness of the entity's systems, policies and practices that relate to compliance with laws, regulations, internal policies and accounting standards, and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance
- Obtaining regular updates from management and the head of compliance about compliance matters that may have a material impact on the entity's financial statements, strategy, operations or reputation, including material breaches of laws, regulations, standards and company policies

⁴⁰ See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*. Although intended for external auditors, this auditing standard contains information in its appendices that may be helpful for audit committee members. For example, it provides an extensive list of factors that indicate an incentive, pressure or opportunity to commit fraud, and examples of circumstances that indicate the possibility of fraud.

⁴¹ In this context, senior management might include the compliance officer, legal counsel, chief financial officer, head of human resources or tax manager.

- Reviewing and monitoring related party transactions
- Reviewing processes and procedures designed to ensure compliance with the ASX listing rules on continuous disclosure
- Approving and reviewing the policies, processes and framework for identifying, analysing and addressing complaints relating to the entity's compliance obligations. This includes both whistleblowing procedures for employees and customer complaint handling processes.

Ethics and organisational culture

Within entities, ethics programs are a key expression of an entity's values. Unethical behaviour can have potential financial, non-financial or reputational impacts on an entity.

Good audit committee practices will often include oversight of ethics/culture programs, including:

- Considering the impact of culture on compliance
- Ensuring a code of conduct is in place, there is an effective implementation process to support its adoption, and the entity has a program for monitoring compliance with the code
- Approving and reviewing the policies, processes and framework for identifying, analysing and addressing complaints relating to the entity's ethical obligations, this may include whistleblowing procedures for employees and customer complaint handling processes
- Staying informed on significant ethical issues, as well as independent investigations and disciplinary action in relation to unethical behaviour.

6. Relationships

It is important to clearly identify those parties that interact with the audit committee and clearly define the relationships that exist.

Board

Role

The audit committee assists the board in fulfilling some of its corporate governance and oversight responsibilities, whereas the role of the board is that of a constituting and governing body.

Responsibilities

The board:

- Establishes the audit committee with an appropriate charter, membership and level of resources to effectively carry out its activities
- Ensures there is an appropriate reporting mechanism in place between the board and the audit committee
- Periodically reviews the performance of the audit committee as a whole, and of each audit committee member. The audit committee performance review can be (and often is) by self-assessment (see the self-assessment tool in Appendix 2), but should preferably be part of a whole of board review.

It is important for the members of the audit committee and the board to recognise that delegation of activities to the audit committee does not absolve individual directors from their responsibilities. Individual directors are obliged to reach their own decisions based on a proper assessment of the information, which includes audit committee reports.

General responsibilities of directors, which extend to audit committee interaction and involvement, typically include:

- Duty to act in good faith in the best interests of the entity
- Duty to act with care and diligence
- Duty to avoid a conflict in the position of a director and/or any interest that a director may have
- A range of duties that prohibit the misuse of information obtained by directors.⁴²

External Auditor

Role

The scope of the external auditor's engagement usually emanates from a regulatory requirement, such as a requirement under The Act, or other relevant legislation, to audit or review the entity's financial report.⁴³

The external auditor must be independent from the entity's governance, internal control and ownership structures. The external auditor gains an understanding of the entity, its environment and its internal controls, makes risk assessments about the financial report, and obtains sufficient appropriate audit evidence to support the auditor's report on the financial report.

External auditors cannot use internal auditors to provide direct assistance in an audit or review conducted in accordance with Australian Auditing Standards.⁴⁴ For a group audit, this prohibition extends to the use of internal auditors to provide direct assistance in an audit or a review of a component, including an overseas component, conducted in accordance with Australian Auditing Standards. This prohibition creates a clear division of responsibility between external and internal audit teams to safeguard against conflicts of interest and supports stakeholders' expectations that external auditors should be free from threats to their independence.

As an independent party with knowledge of the entity's financial affairs, the external auditor can provide the audit committee with valuable, objective insight into aspects of the entity's governance and internal control, including its risk management. In turn, the audit committee aids the effectiveness of the external auditor. The importance of effective two-way communication in the promotion of audit quality is emphasised in Appendix 5.

For the external auditor, communication and consultation with the audit committee helps to facilitate an effective and efficient audit and the communication of matters arising from the audit. External auditors seek a constructive relationship with the audit committee while maintaining their independence, objectivity and an attitude of professional scepticism.

External auditors are required to respond to questions relating to certain aspects of the audit raised by the members of a listed entity at the entity's annual general meeting (AGM).⁴⁵ The relevant matters that members may query include the content of the auditor's report, the conduct of the audit, the accounting policies adopted by the entity and the independence of the auditor.

⁴² See *Duties and Responsibilities of Directors and Officers 21st Edition* by Professor Robert Baxt AO, Australian Institute of Company Directors, 2016.

⁴³ Sections 307, 308, 309 and 314(2)(c) of the *Corporations Act 2001*.

⁴⁴ See ASA 610 *Using the Work of Internal Auditors*

⁴⁵ Not all listed entities are required to hold an annual general meeting, such as listed trusts.

Responsibilities

As set out in Australian Auditing Standards, the external auditor has responsibilities for effective communication with those charged with governance (which may include the audit committee) in an audit of a financial report.

Promoting effective two-way communication

Effective two-way communication⁴⁶ assists:

- The audit committee in fulfilling its responsibility to oversee the financial reporting process
- The auditor in obtaining information relevant to the audit from the audit committee
- Both the audit committee and the auditor in establishing a constructive working relationship.

The auditing standards⁴⁷ provide an overarching framework for the external auditor's communication with those charged with governance and identify some specific matters to be communicated with them.

Additional matters to be communicated are identified in other auditing standards.⁴⁸ The key requirements are listed below:

Establishing whether the preconditions for an audit are present

In establishing whether the preconditions for an audit are present⁴⁹ discussions are needed with management and the audit committee to assist the auditor in:

- Determining whether the financial reporting framework to be applied by management in the preparation of the financial report is acceptable
- Obtaining the agreement of management that it acknowledges and understands its responsibility for preparation of the financial report, for the internal control system related to preparation of the financial report, and for providing access by the auditor to all relevant information and persons for the purposes of obtaining audit evidence.

Agreeing the terms of the audit engagement

- Discussing and agreeing the terms of the audit engagement,⁵⁰ including to whom, when and how to communicate
- Communicating the auditor's responsibilities in relation to the audit.

Establishing and maintaining independence

- Confirming their independence⁵¹ in accordance with ethical and regulatory requirements
- Communicating any relationships that might have a bearing on their independence, including the provision of other assurance and non-assurance services to the entity and relevant external organisations
- Communicating an analysis of fees for audit and non-audit services, together with disclosure of the safeguards the audit firm has in place to protect auditor independence when non-audit services provided are significant
- Notifying the audit committee of any contraventions to the auditor's independence requirements
- Communicating any other safeguards applied to eliminate threats to their independence, such as plans for audit partner rotation.

⁴⁶ See ASA 260 *Communication With Those Charged With Governance*.

⁴⁷ ASA 260 *Communication with Those Charged with Governance*

⁴⁸ See ASA 260, Appendix 1, which lists other auditing standards that require specific matters to be communicated to those charged with governance.

⁴⁹ See ASA 210 *Agreeing the Terms of Audit Engagements*.

⁵⁰ See ASA 210 *Agreeing the Terms of Audit Engagements*.

⁵¹ See ASA 260 *Communication With Those Charged With Governance*.

Discussing elements of audit planning

- Discussing the overall audit strategy, scope and timing,⁵² including any limitations – based on the auditor’s consideration of materiality, high risk areas affecting the financial report and their plans to examine the effectiveness of internal controls
- Discussing proposed co-ordination with the internal audit function, bearing in mind the direct assistance prohibition outlined above
- Discussing the nature and extent of specialised skill or knowledge needed, including the use of auditor’s and management’s experts
- Discussing the auditor’s preliminary views about matters that may require significant auditor’s attention and therefore may be KAMs that are required to be included in the auditor’s report
- Discussing the auditor’s expectations in relation to obtaining the final version of the annual report and the possible implications when other information is obtained after the date of the annual report.⁵³

Identifying matters requiring significant auditor’s attention

- Communicating KAMs with the audit committee⁵⁴ (as representatives of those charged with governance) is required for listed entities. This recognises the important role of the audit committee in overseeing the financial reporting process, and provides the opportunity for the committee to understand the auditor’s decisions in relation to KAMs and how those matters are described in the auditor’s report. It also enables the audit committee to consider the quality of those disclosures in the financial report that are relevant to KAMs, within the context of the communication in the auditor’s report
- Discussing KAMs with the auditor where they are not required to be reported may nonetheless be useful for comparison with the audit committee’s understanding of risk in the preparation of the financial report.

Communicating considerations of group audits

- The group engagement team communicates the following with the audit committee:
 - an overview of the work to be performed on the financial information of the components
 - an overview of the nature of the group engagement team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components
 - instances where the group engagement team’s evaluation of a component auditor gave rise to concerns about the quality of that auditor’s work
 - any limitations on the group audit
 - fraud or suspected fraud involving group or component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial report.

Discussing significant related party relationships and transactions

- Communicating with the audit committee any concerns regarding internal processes for communicating information about related parties to management and the auditors

⁵² See ASA 300 *Planning and Audit of a Financial Report*.

⁵³ See ASA 720 *The Auditor’s Responsibilities Relating to Other Information*

⁵⁴ While the auditor may agree with the entity on preferred lines and forms of communications, the auditor should continue to use judgement to determine whether communication with the audit committee is sufficient and appropriate. The auditor should take into account such things as the nature of the matters, the governance structure, legal requirements and the composition of the audit committee (for example, the extent to which the members of the board are represented on the audit committee).

- Discussing with the audit committee the nature, extent and business rationale of significant related party relationships and transactions,⁵⁵ including those involving actual conflicts of interests.

Enquiring about fraud

- Discussing with the audit committee and others (including management) regarding the exercise of oversight of management's processes for identifying and responding to the risks of fraud and the internal controls that management has established to mitigate these risks
- Enquiring of the audit committee and others (including management and internal audit), whether they have any knowledge of actual, suspected or alleged fraud⁵⁶ affecting the entity
- Communicating with the audit committee on fraud or suspected fraud involving group or component management or employees.

Communicating significant findings from the audit

- Communicating significant findings from the audit⁵⁷ with the audit committee and/or directly to the board⁵⁸
- Communicating views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial report disclosures
- Communicating significant difficulties, if any, encountered during the audit
- Communicating significant matters raised with management during the audit, including any disagreements with management, whether resolved or unresolved, relating to the financial report
- Communicating circumstances that affect the form and content of the auditor's report
- Advising on representations the auditor is seeking from management⁵⁹
- Communicating significant deficiencies in internal controls identified during the audit⁶⁰
- Communicating identified fraud, information that indicates a fraud might exist, or weaknesses in the design or implementation of internal control to prevent, deter, detect and report on fraud
- Communicating significant matters of non-compliance with laws and regulations and the appropriate remedies⁶¹
- Communicating uncorrected misstatements identified by the auditor⁶² to assess the following:
 - the nature and extent of misstatements
 - why these misstatements have not been corrected by management
 - any qualitative issues relating to the misstatements
 - whether these misstatements provide any indication of fraudulent financial reporting

⁵⁵ See ASA 550 *Related Parties*.

⁵⁶ See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

⁵⁷ See ASA 260 *Communication With Those Charged With Governance*.

⁵⁸ While the auditor may agree with the entity on preferred lines and forms of communications, the auditor should continue to use judgement to determine whether communication with the audit committee is sufficient and appropriate. The auditor should take into account such things as the nature of the matters, the governance structure, legal requirements and the composition of the audit committee (for example, the extent to which the members of the board are represented on the audit committee).

⁵⁹ See ASA 580 *Written Representations*.

⁶⁰ See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

⁶¹ See ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

⁶² See ASA 450 *Evaluation of Misstatements Identified during the Audit*.

- Communicating events or conditions identified by the auditor that may cast doubt on the entity's ability to continue as a going concern⁶³
- Communicating matters of governance interest that arose during the audit of the financial report that are relevant to the oversight of financial reporting. Such matters typically include:
 - modifications in audit strategy based on a revised consideration of risks
 - material risks and exposures regarding the financial report
 - industry, regulatory, or other external factors
 - material misstatements of fact or material inconsistencies in information accompanying the audited financial report.

It is highly desirable that the external auditor discusses all issues to be raised at the audit committee meeting with the CEO, CFO and the audit committee chair before the meeting, so that all relevant information has been obtained and all participants in the meeting are fully informed and prepared.

Responding to questions

- Responding in a timely manner to reasonable audit committee questions and communications.

Internal Auditor

Role

Internal audit assists the audit committee in its role with monitoring and oversight which typically falls into two distinct categories:

1. Assurance services
2. Consulting services

The effectiveness of the internal audit function depends to a large extent on the scope of its work and a reporting line that is independent from management.

Internal audit activities should be conducted in a manner consistent with the IPPF, including the *Core Principles for the Professional Practice of Internal Auditing*, the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Internal audit requires professionals with an appropriate level of understanding of the business culture, systems and processes to provide assurance the controls in place are sufficient to manage risks, governance processes are adequate and organisational objectives are met.

Consulting services provide advisory and related client service activities, the nature and scope of which are agreed with management. When performing consulting services, internal audit must not assume management responsibility.

Internal auditors must communicate the results of engagements, and include their objectives and scope, as well as applicable conclusions, recommendations and action plans.

Responsibilities

The scope of internal audit's work can vary between entities, depending on the authority and resources provided to the internal audit function. In some organisations, internal audit may comprise a separate division with autonomy, authority and resources to design an optimal work program. In other organisations, internal auditors may be third parties contracted to examine particular areas of the business or to provide an equivalent function to an in-house internal audit. Consequently, the effectiveness of internal audit will often depend on setting the appropriate scope, budget and reporting lines for their work programs.

⁶³ See ASA 570 *Going Concern*.

The audit committee has an important role in ensuring that all entity risks are considered, so that the internal audit effort is directed to those areas where examination of performance is most needed.

Internal audit responsibilities to the audit committee typically include:

Discussing elements of internal audit planning

- Providing a draft of the risk-based internal audit plan for input and formal approval by the audit committee or those charged with governance. In developing the draft internal audit plan, the CAE should consider all entity risks, including organisational, financial, compliance and strategic risks. The draft plan should detail internal audit objectives, work schedules, staffing requirements, budgets and a description of any limitations placed on internal audit's scope of work
- Providing an internal audit plan, that might also include financial or compliance audits, operational reviews, risk and control self-assessments, system-based audits, performance audits, IT audits and so on, and/or specific one-off assignments. It should evaluate and monitor the adequacy and effectiveness of the internal control systems. The plan should be:
 - providing details of the internal audit staff structure, including staff skills, experience and qualifications
 - considering the activities of other assurance providers, both internal and external to the entity
 - advising on the coordination of the internal audit plan with the external audit plan.
- Discussing any changes to the internal audit plan
- Holding periodic discussions with the chair, and with all audit committee members, without the presence of management.

Communicating on independence

- Advising on internal audit independence of management
- Reporting any non-audit activities provided by internal audit.

Communicating matters arising from internal audit work

- Submitting activity reports, highlighting significant findings, their effect, or potential effect, and recommendations and advising the actions taken, or proposed, by management
- Submitting reports on any major variances from internal audit objectives, work schedule and budget
- Reporting on any identified conflicts of interest
- Advising changes to the risk profile of the entity and the implications of these for the internal audit plan.

Responding to requests

- Performing audits that may be requested by the audit committee
- Providing any other information requested by the audit committee
- Providing assurance to management on the adequacy of governance, risk management, control and compliance, and being available to management to assist with the improvement of processes and control activities.

Engaging with the audit committee on matters associated with governance, risk management, control and other matters

- Internal audit provides a key source of information for members of the audit committee on governance, risk management and internal control, and other matters affecting the entity's operations.

Annual reporting

- Providing an annual report of its work to the audit committee, including an assessment on the effectiveness of the organisation's control system
- Advising the audit committee and management of patterns, trends and systemic issues identified from its work.

7. Developing an effective charter

The charter is the audit committee's blueprint for its operations, and should be developed to meet the needs of the entity, allowing for the entity's objectives, culture and the industry in which it operates.

The charter should cover all key aspects of the audit committee's operations while remaining flexible to enable the committee to respond appropriately to issues that arise.

The audit committee charter is developed and approved by the board.

A wide range of sample audit committee charters are available in the public domain including some issued by professional bodies. A sample audit committee charter has been included in Appendix 1. It is important to note that one size cannot fit all in respect of audit committees, so each audit committee should evolve and develop its own charter suited to itself and the organisation.

Commonly the charter defines and/or outlines the following⁶⁴:

- The audit committee's purpose and objectives
- The audit committee's responsibilities, including:
 - its duty to address matters referred to the audit committee by the board
 - the scope of its activities for:
 - financial reporting oversight
 - internal and external audit evaluation
 - risk management and internal control
 - compliance with laws, regulations, internal policies and industry standards
 - fraud risk mitigation
 - continuous disclosure
 - its responsibility for ensuring procedures are in place for the receipt, retention and treatment of complaints received by the entity regarding accounting, internal accounting controls or auditing matters
- The authority delegated from the board to the audit committee, which might include the committee's right to:
 - obtain outside legal or independent professional advice at the entity's expense
 - institute special investigations
 - recommend the appointment and retention of the external auditor
 - recommend and approve the external audit fee and oversee the work of the external auditor
- Audit committee membership and appointment
- Arrangements for meetings, including flexibility for the audit committee to invite non-members such as external auditors, internal auditors and members of management
- The audit committee's responsibility for reporting on its activity
- How the audit committee performance will be assessed

⁶⁴ Note that protocols applicable to all committees are not included here – such as appointment, conflicts of interest, preparation of agenda, minutes, attendance at meetings, etc.

Audit committee members, the board, management and internal and external auditors need to understand the audit committee's charter, including the audit committee's scope of activities and communication and reporting arrangements.

The charter should be regularly monitored, and reviewed annually to ensure it remains relevant to the entity's needs (for instance, revising reporting requirements to cover board needs for additional information) and reflects current regulatory requirements and audit committee good practice.

8. Membership

The membership of the audit committee is a key determinant of its success.

Audit committee composition

The composition of the audit committee should include a balance of professional skills, knowledge and technical experience, as well as sufficient capacity, independence and objectivity, to discharge its responsibilities as defined in its charter.

The Council recommendations regarding the structure of the audit committee are outlined in Section 4.1.

S&P/ASX 300 entities are required to comply with these recommendations regarding the structure of the audit committee.⁶⁵

The CEO (or managing director) should not be a member of the audit committee, although it is usual for the CEO to be invited to attend audit committee meetings (see *Attendance* on page 36).

The board might appoint an independent person who is not a director of the entity to the audit committee to provide particular expertise.

Selection of audit committee members

Not only is it important to maintain audit committee continuity, but also provide a fresh perspective through succession planning and the selection process.

The following key qualities are desirable when appointing members:

- Individuals should have:
 - an understanding of the industry, the entity, its business and its products and/or services
 - a mindset that is independent of the entity's management
 - strong communication skills, including an ability to offer different perspectives and constructive suggestions
 - high levels of personal integrity and ethics
 - sufficient time available to devote to executing responsibilities
 - financial literacy, including an ability to read or understand financial statements, ask pertinent questions about them, and interpret and evaluate answers.
- The audit committee as a whole should have:
 - at least one member with financial expertise, which may be interpreted broadly as being "a qualified accountant or other financial professional with experience of financial and accounting matters"
 - a mix of skills and experience relevant to discharging responsibilities, including experience in business, financial and legal compliance, risk management and international commercial background and experience, if applicable.

⁶⁵ See ASX Listing Rule 12.7.

Committee members and the audit committee chair should be appointed by the board. A board nomination committee should be convened with the power to interview candidates considered to have the skills, experience and interest in being a member of the audit committee and recommend their appointment.

Independent and non-executive members

It is recommended that the majority of members of the audit committee are independent and non-executive members. However, if the entity is in the S&P/ASX 300 at the beginning of the year, it is a requirement under the Listing Rules that the committee consist solely of non-executive directors, a majority of whom are “independent”.⁶⁶

Independent, non-executive directors are individuals free from any management, business or other relationship that could reasonably be perceived to materially interfere with their ability to act in the best interests of the entity. The “independence” of audit committee members should always be considered in relation to any applicable legislation, or regulation, that defines the requirements of independence for audit committee membership.

Independence is arguably a state of mind, and cannot necessarily be assessed by a person’s relationship with the entity. It is commonplace to examine an audit committee member’s past and current relationships with the entity as indicators of independence, or otherwise.

The Council⁶⁷ identifies the following relationships which may affect the independent status of a director if the director:

- Is a substantial shareholder of the entity or an officer of, or otherwise associated directly with, a substantial shareholder of the entity
- Is employed, or has previously been employed, in an executive capacity by the entity or another group member, and there has not been a period of at least three years between ceasing this employment and serving on the board
- Has, within the last three years, been a principal of a material professional adviser or a material consultant to the entity or another group member, or an employee materially associated with the service provided
- Is, or has been within the last three years, a material supplier or customer of the entity or other group member, or an officer of, or otherwise associated directly or indirectly with, a material supplier or customer
- Has a material, contractual relationship with the entity or another group member other than as a director
- Has close family ties with any person falling within any of the categories described above
- Has been a director of the entity for such a period that his or her independence may have been compromised.

This list is not exhaustive and if one or more of the above is exhibited by a director it is possible that their status as an independent director might be compromised. The test is ultimately whether any relationship might cause the individual to prefer the interests of some other entity over the interests of the company. However in relation to the last point, the guidelines indicate that the mere fact a director has served on the board for a substantial period of time does not mean that a director has become too close to management to be considered independent. It indicates that the board should regularly assess whether that might be the case for any director who has served in that position for more than 10 years.

⁶⁶ See ASX Listing Rule 12.7 and Recommendation 4.1(a) of the ASX Corporate Governance Council’s *Corporate Governance Principles and Recommendations*. Note that in this case an ‘if not, why not’ explanation would be in breach of ASX Listing Rule 12.7.

⁶⁷ See Box 2.3 of the 3rd edition of ASX Corporate Governance Council’s *Corporate Governance Principles and Recommendations*.

Members and potential members of the audit committee need to exercise care to ensure they disclose to the board for its consideration any relationships that could be viewed by other parties as impairing either the individual's, or the audit committee's actual or perceived independence. When deciding what is significant, consideration should be given to the significance of the relationship to both the entity and to the individual.

The board might choose to appoint an individual to the audit committee, despite the existence of relationships identified above, because of the individual's business or other expertise, but only after the board has considered the materiality of the interest, position, association or relationship to determine whether it might interfere, or might reasonably be seen to interfere with the director's capacity to bring an independent judgement to bear on issues before the board and to act in the best interests of the entity and its security holders generally.

The Council recommends⁶⁸ that the listed entity should disclose:

- The names of the directors considered by the board to be independent directors
- If a director has an interest, position, association or relationship of the type described in the listing above [box 2.3] but the board is of the opinion that it does not compromise the independence of the director; the existence of such relationships should be disclosed in the corporate governance statement along with the reasons for considering such a director to be independent
- The length of service of each director.

Audit committee chair

The chair of the audit committee plays a pivotal role in the overall effectiveness of the audit committee. The chair of the audit committee is preferably independent and should not be the chair of the board.⁶⁹ However, if the entity is in the S&P/ASX 300 at the beginning of its financial year, then the chair of the audit committee must be independent and must not be the chair of the board.

The chair is responsible for:

- Promoting effective communications between the audit committee and the board, CEO, CFO, CAE, other senior management and the external auditor
- Ensuring audit committee meetings run smoothly so the views of all audit committee members are heard, adequate time is allowed for discussion of each issue and the agenda and meeting papers properly reflect proceedings.

The board should select an audit committee chair who:

- Has demonstrated strong leadership qualities
- Is knowledgeable of the duties and responsibilities of the position as outlined in the charter
- Has skills and knowledge about the industry, the entity's business, and financial reporting and auditing requirements
- Has strong communication skills, including the ability to promote effective working relationships among audit committee members and with others, such as management and the internal and external auditors.

⁶⁸ See Recommendation 2.3 of the 3rd edition of ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*

⁶⁹ See ASX Listing Rule 12.7 and Recommendation 4.1(a) of the 3rd edition of ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*. Note that in this case an 'if not, why not' explanation would be in breach of ASX Listing Rule 12.7.

The chair's own term of appointment should be specified by the board and should relate to the director's term of appointment to the audit committee. Any deputy chair appointed should be subject to the same process.

Induction of new members

The audit committee's knowledge and proficiency are enhanced when new members are appropriately acquainted with the audit committee's objectives and practices. All new members and existing directors need to be well briefed. Induction can be undertaken in many different ways, ranging from formal orientation programs to informal discussions, including the provision of relevant documentation.

New members need to understand the audit committee's role, objectives and responsibilities, be familiar with its relationships with management and the internal and external auditors, and have a sound knowledge of the entity's operations and the environment in which it operates, including the entity's code of conduct. They also need to understand the time and effort they will need to devote to their audit committee membership.

Relevant information may be provided to new audit committee members, including:

- The audit committee charter
- An overview of business operations and the industry in which the entity operates
- All material previously provided to audit committee members on matters still before the audit committee, including current audit plans and outstanding corrective action from previous audit reports (both external and internal)
- Papers from recent audit committee meetings
- Internal audit charter
- Financial performance information, including the most recent audited financial report
- Risk profile of the entity and a list of business risks
- Risk appetite of the board
- Risk management framework and processes
- Internal control framework and processes
- Key financial reporting policies, including any related party issues
- Legal and regulatory requirements, including external reporting and compliance responsibilities
- Code of conduct for the entity, board and/or the audit committee
- Estimates of the time members need to commit to their audit committee role
- Fraud control framework (and high level details on previous fraud issues/allegations, if any).

All new members should meet with the chair, other audit committee members, senior management, and external and internal auditors as soon as practicable after being appointed.

Ongoing training

It is important that audit committee members keep abreast of current developments in matters that affect their capacity to effectively discharge their duties. Audit committee members may routinely receive focussed information on:

- Important relevant industry issues, trends and developments
- Key financial, and other performance indicators, of the entity detailing the level of achievement of the entity's objectives
- Significant proposed changes in financial reporting and regulatory requirements
- Other matters that might have a significant impact on the risk profile of the entity.

Audit committee members should be encouraged to attend relevant third-party training, conferences and seminars and share information at subsequent audit committee meetings.

Rotation

Periodic rotation of audit committee members is encouraged as it provides fresh perspectives and enhances the perception of audit committee independence.

Rotation will generally depend on the size of the board from which audit committee members are drawn, and the availability of suitable candidates from within and outside the entity.

9. Conducting meetings

How audit committee meetings are conducted will greatly influence the ability of audit committee members to achieve the audit committee's objectives.

Frequency of meetings

A regular schedule of meetings should be designed to enable the audit committee to effectively discharge its responsibilities.

While the number and duration of audit committee meetings will depend on the size and complexity of the audit committee's responsibilities, it is common for the following to occur:

- Audit committees typically meet at least four times a year to coincide with key dates within the financial reporting and audit cycles, and to plan the year and review performance
- There may be a separate meeting to consider the annual financial report and half year review, which may be covered within the normal meeting schedule or in an additional meeting, where necessary. This meeting should allow ample time for detailed consideration of the report,⁷⁰ with the agenda tailored accordingly and not over-burdened with other items. For example, important accounting judgements, KAMs and related decisions may be determined ahead of the year end and at an earlier meeting than the one that considers the annual financial report
- When possible, meetings are arranged so that all audit committee members can attend. The proposed schedule of audit committee meetings may be discussed and agreed well in advance. In planning the schedule of meetings, reference should be made to the meeting schedule of the full board, allowing sufficient time between audit committee and board meetings to action any items and prepare papers and reports to be tabled at board meetings
- The audit committee charter normally empowers the chair to convene a special meeting at the request of the board, an audit committee member, senior management, the external or internal auditor.

Structure of meetings

Normal business practices for committee meetings apply to audit committees.

Well-run audit committee meetings typically include:

- The preparation of a formal, well-structured agenda with reference to the audit committee charter to ensure that the agenda and meeting papers are appropriate
- The internal and external auditors are invited to contribute to the agenda
- The chair reviews and approves the agenda before it is issued to audit committee members and other parties authorised by the audit committee
- The agenda and meeting papers are distributed before the meeting, allowing sufficient time for members to read them carefully. As a guide, papers should be distributed at least one week before the meeting. However, where there is a large volume of papers, or

⁷⁰ Time should be allowed for the audit committee to consider any changes that have been made to the financial report since the audit committee papers were distributed. Management may provide the audit committee with a detailed list of all such changes.

papers involve complex matters, the audit committee may require them to be distributed more than one week before the meeting to enable members to carefully review and understand the content of papers

In ASIC v Healey (2011) 196 FCR 291, notwithstanding a complex corporate reporting structure, multiple sets of financial statements requiring approval and imminent reporting deadlines, the ruling confirmed the proposition that members of the audit committee and other directors have a duty to read the financial statements and check them. Timing issues and information overload cannot be used as defences in avoiding this responsibility.

- Inclusion of the annual work plan or calendar of events, cross-referenced to the charter, in meeting papers may be a useful method in covering off compliance with the charter (see Appendix 7 for an example)
- Efficient running of the meeting is assisted by:
 - ensuring the meeting starts and finishes on time, while taking as long as necessary to adequately consider agenda items
 - members agreeing to the priority of, and the time to be devoted to, each item at the commencement of each meeting
 - meeting processes requiring members to declare any actual, perceived or potential conflicts of interest each year, and at the beginning of each meeting to strengthen the audit committee's independence. Members consider past employment, consultancy arrangements and related party issues when considering conflicts of interest
 - establishing clear decision-making processes and voting protocols.
- The minutes are usually administered as follows:
 - minutes are complete, clear and concise, providing a record of proceedings, including the issues, outcomes and actions with clear responsibilities and timelines attached
 - draft minutes are provided to the chair within a week of the meeting for clearance and distributed to audit committee members within two weeks of the meeting
 - within two weeks of the meeting, the audit committee secretariat provides senior management with a brief summary of issues dealt with at each meeting, including details of actions to be taken with assigned responsibilities and timelines
 - the minutes are circulated to the board with the papers of the next board meeting after the audit committee meeting
 - the chair should brief the board on significant issues
 - the minutes are placed in the minute book within one month of the meeting and are signed by the chair prior to or at the subsequent audit committee meeting.

Attendance

Regarding attendance at audit committee meetings, the following matters should be considered:

- Attendance of non-members is by invitation only. Audit committees should always reserve the right to meet alone, without non-members, including management, in attendance. This enables the audit committee to approach its tasks objectively and to maintain both actual and perceived independence
- The CEO, CFO and other relevant staff are generally invited to attend meetings to participate in discussion of particular agenda items. Their presence can provide an opportunity to resolve issues swiftly and efficiently
- The internal auditor and external auditor are generally invited to attend relevant parts of each meeting. Where necessary, the chair might decide that they should not attend for certain agenda items
- The audit committee should meet separately, at least annually, with both the internal auditor and the external auditor to discuss issues of mutual interest, without management present.

The chair of the audit committee is likely to have meetings with key executives and advisors outside the audit committee meetings to facilitate ongoing awareness of issues and activities as they arise.

10. Reporting by the audit committee

To the board

The formality, detail and frequency of audit committee reports to the board vary. The audit committee refers to its charter when preparing a report.

Ideally, the audit committee should formally report to the board at the board meeting following each audit committee meeting, providing a summary of the audit committee's work and results.

The report should typically cover any of the following areas, as are relevant to the matters dealt with at the meeting, such as:

- The audit committee minutes,⁷¹ including details of members present
- Any formal resolutions of the audit committee
- Assessment of management processes supporting external reporting
- Procedures for selection and appointment / replacement of the external auditor
- Information about the audit processes and the results of work completed by the internal and external auditors as well as an assessment thereof
- Any determination by the audit committee about the external auditor's independence
- The annual review of the audit committee charter and whether the audit committee has achieved the responsibilities set out in the charter
- Any recommendations requiring board actions and/or approval
- Audit recommendations for corrective action and status report
- Information about instances of actual, suspected or alleged fraud, if any
- Information about whistleblowing by employees or other parties, if any
- Any concerns about the entity's ability to continue as a going concern
- Recommendations on whether to extend the rotation period for the external audit engagement partner beyond five years to a maximum of seven years⁷²
- Information about the annual transparency report published by the external auditor, if applicable⁷³
- Information about an audit deficiency report published by ASIC on its website, if applicable

Under the *Corporations Legislation Amendment (Audit Enhancement) Act 2012* an audit deficiency is where ASIC reasonably believes that there is a significant weakness, in the auditor's quality control system or a significant weakness in the conduct of the audit that may be detrimental to the overall quality of the audit, as a result of a failure by the auditor to comply with:

⁷¹ APES GN 41 *Management Representations* prepared and issued by the Accounting Professional and Ethical Standards Board, provides guidance that a Member in Business who is at the audit committee level should consider taking reasonable steps to ensure that key decisions made at those meetings are appropriately reflected in the minutes of the applicable meeting.

⁷² See footnote 18

⁷³ Under the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, an individual auditor, an audit firm or an authorised audit company conducting audits of ten or more entities of certain specified categories is required to publish an annual transparency report. The disclosures in the transparency report will include the names of relevant entities audited, information about the auditor's governance structure and independence practices, and other information.

- auditing standards
- the auditor independence requirements of the *Corporations Act 2001*
- any applicable code of professional conduct
- provisions of the *Corporations Act 2001* dealing with the conduct of audits.

- Information about any communications received directly from ASIC regarding significant matters (such as an audit client's accounting or disclosure practices) identified while exercising its functions and powers in relation to audit (mainly its surveillance and inspection activities)⁷⁴
- Information about correspondence from other regulators or stakeholders, if any (for example, from APRA in relation to APRA-regulated entities)
- Other matters the audit committee believes need to be reported to the board on the audit committee activities.

To the shareholders

The audit committee reports to shareholders through the Board, usually via the annual report. The annual report of the company would typically include information on the audit committee's role and responsibilities, structure and membership. This information would be included as part of the wider corporate governance information in the annual report.

Improving the communication channels to investors highlights the importance of the active role that audit committees play in promoting greater transparency in reporting.

The following material would typically be included in the corporate governance section of the annual report:

- A summary of the role of the audit committee
- Details of the names and qualifications of those appointed to the audit committee, or, where the audit committee has not been formed, those who fulfil the functions of an audit committee
- The number of meetings of the audit committee and the names of the attendees.

To other stakeholders

The following information may be publicly available on an entity's website in a clearly marked corporate governance section:

- The audit committee charter (including a description of the role and responsibilities of the audit committee)
- A description of the audit committee's oversight role for the entity's governance, risk management and internal control
- Names of audit committee members, professional background and qualifications
- Information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partner
- Information on procedures for the selection and appointment of the CAE.

⁷⁴ The *Corporations Legislation Amendment (Audit Enhancement) Act 2012* gives ASIC the power to communicate directly with the audit committee, other directors or senior management of an entity in relation to significant matters identified by ASIC during the course of the exercise of its statutory functions in relation to audit.

11. Assessing performance

Assessing the audit committee's performance

Good practice on corporate governance emphasises the need for boards and board committees to demonstrate a high level of professionalism, including a regular assessment of ways in which performance can be improved.

An assessment of audit committee performance by the board should be undertaken as part of any periodic review of overall board performance, although a high performing audit committee is also likely to consider on an annual basis how it can improve its performance in the year to come.

Matters for consideration in any review of performance include:

- Identifying and agreeing to the criteria by which the performance of the audit committee will be assessed
- Assessing the effectiveness of the audit committee as a whole and the performance of individual audit committee members
- Identifying the process for implementing action plans developed in response to areas identified for improvement
- Assessing compliance with the audit committee's charter.

A performance assessment may be carried out by a third party independent of the board or an audit committee may elect to utilise a self-assessment approach to performance, with findings reported to the board. A self-assessment guide for audit committees is provided in Appendix 2.

Audit committees may also wish to take advantage of opportunities to benchmark their organisational procedures and activities with audit committees in similar entities.

Evaluation of individual audit committee members

Evaluation of individual audit committee member performance may be carried out by a third party, by the chair of the audit committee (possibly in conjunction with the board chair) or by self-assessment by individual committee members.

Any assessment would typically cover issues such as whether the member has demonstrated:

- A good understanding of, and commitment to, the audit committee's role and responsibilities
- Objectivity and independence
- An ability and willingness to take difficult but constructive stands at meetings when necessary
- A good understanding of the entity's business
- A sound understanding of the entity's financial reporting issues and obligations
- A good understanding of the entity's risk management and internal control processes
- Participation in activities to keep their business, industry, financial and regulatory knowledge current
- Preparation for, and participation in, audit committee meetings.

A self-assessment questionnaire to assist with the evaluation of a member's performance and contribution to the audit committee is included in Appendix 2.

Areas of additional focus arising out of performance assessments should be formally communicated to the board.

12. Further reading

A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality, February 2014, International Federation of Accountants

Assessing the performance of the Audit Committee – a checklist, January 2014, Ernst & Young

Audit Committee Institute Questions Series, October 2016, KPMG

Audit Committee Effectiveness—What Works Best, 4th ed., June 2011, sponsored by The Institute of Internal Auditors Research Foundation and prepared by PricewaterhouseCoopers LLP

Corporate Governance Principles and Recommendations 3rd edition 2014, ASX Corporate Governance Council, Australia

Duties and Responsibilities of Directors and Officers 21st Edition by Professor Robert Baxt AO, published by the Australian Institute of Company Directors in 2016

EcoDa – PwC Guidance for audit committees, June 2016, PwC

Governance in focus: Audit Committee Effectiveness, February 2015, The Deloitte Academy

International Professional Practices Framework, 2016, The Institute of Internal Auditors Inc.

Public Sector Audit Committees, March 2015, Australian National Audit Office

The Audit Committee Handbook, 5th ed., March 2010, Louis Braiotto, Jr., R. Trent Gazzaway, Robert Colson, Sridhar Ramamoorti, USA

Walk the line: Discussion and insights with leading audit committee members, February 2012, The Institute of Chartered Accountants Australia, Financial Reporting Council (UK) and The Institute of Chartered Accountants of Scotland

Appendix 1

Sample audit committee charter

The following is one example of an audit committee charter and captures many of the good practices used today. No sample charter encompasses all activities that might be appropriate to a particular audit committee, nor will all activities identified in a sample charter be relevant to every committee. Each committee should tailor this charter to their needs and governing rules.

The audit committee's annual work plan may be developed having regard to, and being cross-referenced to, its charter to ensure that the audit committee acts according to its authority and fulfils its responsibilities.

Audit committee charter – XYZ Limited

Purpose

The audit committee is appointed by the board of directors to assist the board in fulfilling its corporate governance and oversight responsibilities in relation to corporate reporting processes, including the financial reporting process, risk management and internal control, external audit, internal audit and compliance (including the code of conduct).

Authority

The board authorises the audit committee, within its scope of responsibilities, to perform the activities identified within this charter

Responsibilities

The audit committee will carry out the following responsibilities:

Corporate Reporting

- Review the half year (if relevant) and annual financial statements presented by management, together with reports and opinions from the external auditor
- Review significant accounting and reporting issues and assess the appropriateness of accounting policies and methods chosen by management, particularly those relating to significant accounting estimates and judgements and the assessment of going concern
- Review recent regulatory and professional pronouncements and understand their impact on the financial statements
- Review the results of the audit with the external auditor, including significant adjustments, uncorrected misstatements and any difficulties encountered or unresolved disagreements with management
- Review the appropriateness of disclosures in the financial statements and financial reporting to stakeholders, particularly in regards to estimates and judgements
- Review all matters required to be communicated to the audit committee under Australian Auditing Standards with management and the external auditor, such as key audit matters for listed companies, significant internal control deficiencies, indications of fraud or corruption and non-compliance with laws or regulations
- Review management representations, including the CEO and CFO declarations regarding the financial report and financial records
- Provide a recommendation to the board whether the financial report should be approved, based on review of the financial statements, note disclosures and other information,
- Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the entity and its operations, and is unbiased

- Review management's process for ensuring that information contained in analyst briefings, investor presentations and press announcements is consistent with published financial information, and is balanced and transparent.

External audit

- Assess the quality and effectiveness of the audit conducted and evaluate performance of the auditor
- Provide a recommendation to the board on the selection, appointment, re-appointment or replacement of the external auditor and rotation of the engagement partner
- Review with the external auditor the scope and terms of the audit and the audit fee including a review of non-audit services provided by the external auditor
- Review the audit plan for coverage of material risks and financial reporting requirements
- Monitor and review auditor independence and objectivity
- Establish ongoing communications with the auditors and ensure access to directors and the audit committee
- Review reports from the external auditors (including auditor's reports, closing reports and management letters)
- Discuss with the external auditors matters relating to the conduct of the audit, including any difficulties encountered, any restrictions on scope of activities or access to information, significant disagreements with management and the adequacy of management response.

Internal audit

- Assess the overall effectiveness and evaluate performance of the CAE and the internal audit function
- Recommend to the board on the appointment and replacement of the CAE
- Review and approve the internal audit charter
- Review the internal audit structure, independence and access to senior management, the Committee and the board
- Review and approve the strategic internal audit plan, often for a 2-3 year period to assess whether it addresses the business risks of the entity
- Review and approve the annual internal audit plan and any significant changes made to the plan
- Review reports of results of internal audit engagements, audit-related activities, team capability, audit performance and other important matters
- Enquire of the CAE to determine any scope or budget limitations that may impede the execution of internal audit responsibilities.

Risk management, fraud and internal control

- Consider the impact of the entity's culture on risk management and internal control
- Monitor changes in the economic and business environment, including consideration of emerging trends and other factors related to the entity's risk profile
- Review the effectiveness of processes for identifying the entity's risks and the appropriateness of the risk management procedures to maintain activities within the Board's risk appetite
- Review disclosures in the annual corporate governance statement in relation to the recognition and management of business risks
- Consider the adequacy and effectiveness of the internal control and risk management framework by reviewing reports from management, internal audit and external audit, and by monitoring management responses and actions to correct any noted deficiencies
- Understand the processes management has implemented for managing insurable risks and, if applicable, self-insurance, including assessing the adequacy of insurance cover

- Review the business continuity planning process and be satisfied that material risks are identified and appropriate business continuity plans are in place
- Review management's anti-fraud/corruption strategies and programs
- Enquire of management and the external auditor regarding their assessments of the risk of material misstatement in the financial report due to fraud
- Enquire of management, the internal auditor and the external auditor whether they are aware of any actual, suspected or alleged fraud or corruption affecting the entity and how they responded to such instances.

Compliance and ethics

- Consider the impact of the entity's culture on compliance processes
- Monitor the impact of changes in key laws, regulations, internal policies and accounting standards affecting the entity's operations
- Review the effectiveness of the entity's systems, policies and practices that relate to compliance with laws, regulations, internal policies and accounting standards, and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance
- Obtain regular updates from management and the head of compliance about compliance and ethical matters that may have a material impact on the entity's financial statements, strategy, operations or reputation, including material breaches of laws, regulations, standards and company policies
- Review and monitor related party transactions
- Review processes and procedures designed to ensure compliance with the ASX listing rules on continuous disclosure
- Review and, where applicable, approve the policies, processes and framework for identifying, analysing and addressing complaints (including whistleblowing) and review material complaints and their resolution
- Review the entity's process for communicating the code of conduct to staff and assess the effectiveness of, and compliance with the code
- Discuss with management whether all regulatory compliance matters of the entity have been considered in the preparation of the financial statements, such as compliance with accounting standards and the requirement for the financial statements to reflect a 'true and fair' view.

Other responsibilities

Perform other activities related to this charter as requested by the board.

Membership

The audit committee will consist of [insert number (at least three)] non-executive members of the board of directors, the majority being independent.

The board, on the recommendation of its nominating committee (where applicable), will appoint audit committee members and the audit committee chair who will be independent and not the chair of the Board.

Composition of the committee will be reviewed annually by the board (or nominating committee if applicable) to ensure the appropriate balance of skills, knowledge and experience.

Each audit committee member must be financially literate. At least one member must have accounting or related financial expertise.

The Company Secretary of the Board will be the Secretary of this Committee.

Meetings

The audit committee will meet [insert number (at least four)] times a year or more frequently as necessary.

A quorum for a committee meeting will be a majority of committee members.

An agenda and meeting papers will be prepared and provided in advance to members, along with appropriate briefing materials.

Minutes of meetings will be prepared and circulated to audit committee members and all board members.

Meeting attendance by non-members

All directors may attend Committee meetings, subject to exclusion as deemed appropriate by the Committee Chair from time to time.

The CEO, CFO, CAE shall normally be invited to attend committee meetings.

The external auditor is usually invited to attend all meetings of the Committee.

The Committee may ask management to present at Committee meetings on issues relevant to the Committee's duties and responsibilities.

The Committee should meet privately with the following persons or parties at least annually in separate sessions to discuss any matters that the Committee or these parties believe should be discussed privately with the Committee:

- CAE
- External auditor
- Head of risk management
- Head of compliance and legal counsel

Reporting

The committee will report regularly to the board about audit committee activities and make appropriate recommendations.

Review

The committee will conduct an annual review of its performance and effectiveness. This review process will include review of the terms of this Charter.

Appendix 2

Self-assessment guide for audit committees

This guide has been provided to illustrate the types of considerations against which the audit committee might assess its performance collectively. Similar considerations may be applied to the assessment of the performance of individual members of the audit committee.

The guide includes a large number of considerations and should be tailored by each audit committee to meet its own requirements. The audit committee may complete the guide as a whole or individually, and then collate individual responses. The chair of the audit committee and members may decide to weight certain aspects of the self-assessment guide more than others. The audit committee may also seek input from non-member attendees and separately assess the information received.

The results of the self-assessment should be used by the audit committee for discussion to identify areas for improvement and a summary of agreed action items should be provided to the chair of the board.

We suggest the responses to the statements below are rated using a rating scale, such as the Likert Scale. A Likert-type scale assumes that the strength/intensity of experience is linear, i.e. on a continuum from strongly agree to strong disagree, and makes the assumption that attitudes can be measured.

Likert scale⁷⁵ examples include the following:

- Agreement – Strongly agree/Agree/Undecided/Disagree/Strongly disagree
- Frequency – Very frequently/Frequently/Occasionally/Rarely/Never
- Importance – Very important/Important/Moderately important/Of little importance/Unimportant
- Likelihood – About always true/Usually true/Occasionally true/Usually not true/Almost never true

The audit committee's self-assessment approach should be consistent with the committee's charter. For this reason, the considerations listed below reflect the structure and content of the sample charter provided in Appendix 1.

Assessing Audit Committee Performance

In evaluating the performance of the audit committee, the following would typically be considered.

Authority

The Audit Committee has obtained authority from the board to perform the activities in its charter.

Responsibilities

Corporate reporting

- Reviewed the financial statements presented by management, together with reports and opinions from the external auditor
- Reviewed significant accounting and reporting issues and assessed the appropriateness of accounting policies and methods chosen by management, particularly those relating to significant accounting estimates and judgements and the assessment of going concern

⁷⁵ www.simplypsychology.org/likert-scale.html

- Reviewed recent regulatory and professional pronouncements and gained an understanding of their impact on the financial report
- Reviewed the results of the audit, including significant adjustments, uncorrected misstatements and any difficulties encountered or unresolved disagreements with management
- Reviewed the appropriateness of disclosure in the financial statements and reporting to stakeholders, particularly in regards to estimates and judgements
- Reviewed with management and the external auditor all matters required to be communicated to the audit committee under Australian Auditing Standards, such as key audit matters for listed companies, significant internal control deficiencies, indications of fraud or corruption and non-compliance with laws or regulations
- Reviewed all representation letters signed by management including the CEO and CFO declarations regarding the financial report and financial records
- Reviewed the financial statements, note disclosures and other information and recommended to the board whether the financial report should be approved
- Reviewed other sections of the annual report before its release, for consistency with members' knowledge about the entity and its operations, is unbiased
- Reviewed management's process for ensuring that information contained in analyst briefings, investor presentations and press announcements was consistent with published financial information, and was balanced and transparent.

External audit

- Assessed the quality and effectiveness of the audit conducted and evaluated the performance of the auditor
- Recommended to the board on the selection, appointment, re-appointment or replacement of the external auditor and rotation of engagement partner
- Reviewed the scope and terms of the external audit and the audit fee including a review of non-audit services provided by the external auditor
- Reviewed the audit plan for coverage of material risks and financial reporting requirements
- Monitored and reviewed auditor independence and objectivity
- Established effective ongoing communications with the auditors and ensured access to directors and the audit committee
- Reviewed reports from the external auditors (including auditor's report, closing report and management letters)
- Discussed with the external auditors matters relating to the conduct of the audit, any difficulties countered, any restrictions on scope of activities or access to information, significant disagreements with management and the adequacy of management response.

Internal audit

- Assessed the overall effectiveness and evaluated performance of the CAE and the internal audit function
- Provided recommendations to the board on the appointment and replacement of the CAE
- Reviewed and approved the internal audit charter
- Reviewed the internal audit structure, independence and access of senior management to the Committee and the board
- Reviewed and approved the strategic internal audit plan
- Reviewed and approved the annual internal audit plan and any significant changes
- Reviewed reports on the results of internal audit engagements, audit-related activities, team capability, audit performance and other important matters
- Enquired of the CAE to determine the scope of budget limitations that could impede the execution of internal audit responsibilities.

Risk management, fraud and internal control

- Considered the impact of the entity's culture on risk management and internal control
- Monitored changes in the economic and business environment, and considered emerging trends and other facts related to the entity's risk profile
- Reviewed the effectiveness of processes for identifying the entity's risks and the appropriateness of the risk management procedures to maintain activities within the Board's risk appetite
- Reviewed disclosure in the annual corporate governance statement in relation to the recognition and management of business risks
- Considered the adequacy and effectiveness of the internal control and risk management framework from the review of reports from management, internal audit and external audit, and the review of management responses and actions to correct any noted deficiencies
- Reviewed the processes management has implemented for managing insurable risks and, where applicable, self-assurance, and assessed the adequacy of insurance cover
- Reviewed the business continuity planning process and were satisfied that risks were identified and appropriate business continuity plans are in place
- Reviewed management's anti-fraud and corruption strategies and programs
- Enquired of management and the external auditor regarding their assessments of the risk of material misstatement in the financial report due to fraud
- Enquired of management, the internal auditor and the external auditor whether they have any knowledge of actual, suspected or alleged fraud or corruption affecting the entity and how they responded.

Compliance and ethics

- Considered the impact of the entity's culture on compliance processes
- Reviewed the effectiveness of management's systems for monitoring compliance with law, regulations, internal policies and accounting standards, and the results of management's investigations and follow-up of any instances of non-compliance
- Obtained regular updates from management and the head of compliance about compliance and ethical matters that may have a material impact on the entity's financial statements, strategy, operations or reputation, including material breaches of laws, regulations, standards and company policies
- Reviewed and monitored related party transactions
- Reviewed processes and procedures designed to ensure compliance with the ASX listing rules on continuous disclosure
- Reviewed and approved (where applicable) the policies, processes and framework for identifying, analysing and addressing complaints (including whistleblowing) and reviewed material complaints and their resolution
- Reviewed the entity's process for communicating the code of conduct to staff and assessed the effectiveness of, and compliance with, the code
- Discussed with management whether all regulatory compliance matters of the entity were considered in the preparation of the financial statements, such as compliance with accounting standards and the requirement for the financial statements to reflect a 'true and fair' view.

Membership

- The size of the audit committee is appropriate to the entity and the responsibilities in the audit committee charter
- All audit committee members are non-executive directors
- The majority of audit committee members are independent
- Composition is reviewed annually to ensure the appropriate balance of skills, knowledge and experience

- All audit committee members are financially literate and able to understand financial statements; with at least one member with accounting or related financial expertise.

Meetings

- The audit committee meets regularly throughout the year and the number of meetings is appropriate for the nature of the entity and the responsibilities of the audit committee
- Sufficient member attendance at all meetings
- The agenda and meeting papers are provided well in advance of meetings
- Minutes are taken and appropriately circulated to committee members in a timely manner, and to the Board
- Sufficient opportunity is provided to discuss confidential matters privately with relevant senior staff – including the CAE, head of risk management, head of compliance and legal counsel
- Sufficient opportunity is provided to engage with the external auditors, including a separate session to discuss private matters at least annually.

Reporting

The Audit Committee reports regularly to the board on their activities and makes recommendations where appropriate.

Review

The Audit Committee evaluates their performance and effectiveness, as a whole and for each member, at least once a year.

Overall

- What has been done well on the Audit Committee this year?
- What has not been done well on the Audit Committee this year?
- What are three areas for improvement for the Audit Committee operations and processes going forward?

Appendix 3

Management representation letter

Internal management representations to those charged with governance

Management Representation letters are commonly used by those charged with governance to assist them in discharging their obligations to external parties. Such representations may include:

- Financial Reporting Certifications including Internal Control Questionnaires;
- Declarations provided to the board or audit committee of local or foreign jurisdictions in accordance with the respective jurisdiction's regulations;⁷⁶ or
- Representations in respect of continuous disclosure obligations to enable disclosures to the market.

Section 8 of *APES GN 41 Management Representations* issued by the APESB provides guidance in relation to management representation considerations at the audit committee level.

External management representations to the external auditor

The external auditor requests written representations from management with appropriate responsibilities for the financial report.⁷⁷ The following list is provided to assist audit committees to understand the types of representations included in a representation letter prepared and signed by management. It includes selected matters that are commonly included and may not include all representations provided by management to the external auditor. It is provided for information purposes only and is not definitive.

Management would ordinarily represent, or confirm, to the external auditor that:

Regarding the financial report

- Management has fulfilled its responsibilities for the preparation of the financial report in accordance with [the applicable reporting framework]
- All transactions have been recorded in the accounting records and are reflected in the financial report
- Significant assumptions used by management in making accounting estimates, including those measured at fair value, are reasonable
- Related party relationships and transactions have been appropriately accounted for and disclosed
- All events subsequent to the date of the financial report required to be adjusted or disclosed have been adjusted or disclosed
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial report as a whole. (A list of the uncorrected misstatements may be attached to the representation letter)

Regarding the information provided

- Management has provided the auditor with:
 - access to all information of which they are aware that is relevant to the preparation of the financial report such as records, documentation and other matters

⁷⁶ See Section 295(A) of the *Corporations Act 2001*

⁷⁷ See ASA 580 *Written Representations*

- additional information that the auditor has requested for the purpose of the audit
 - unrestricted access to persons within the entity from whom the auditor determined it necessary to obtain audit evidence
 - all information required to be provided by law or regulations.
- Management has disclosed to the auditor:
 - the results of their assessment of the risk that the financial report may be materially misstated as a result of fraud
 - all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial report communicated by employees, former employees, analysts, regulators or others
 - all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial report
 - all known actual or possible litigation and claims whose effects should be considered when preparing the financial report; and accounted for and disclosed in accordance with [the applicable financial reporting framework]
 - the identity of the entity's related parties and all the related party relationships and transactions of which they are aware
 - all the documents that they expect to issue that may comprise other information.

Regarding other matters

Management acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent, deter, detect and report on fraud.

Appendix 4

Role of the audit committee within the governance environment of the organisation

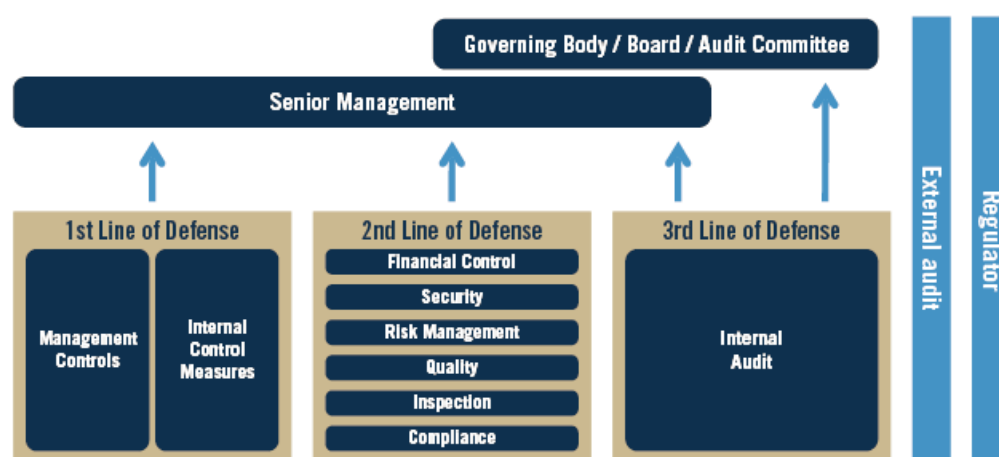
The IIA lists the four pillars of governance as the audit committee, executive management, internal audit and external audit. With this perspective in mind, the audit committee has an active role to play to satisfy itself there is a strong governance environment covering the entity.

The 3 Lines of Defence model is used by many entities to define their control and risk management environment to provide assurance to the board of directors, audit committee, chief executive officer, senior executives and stakeholders about effective governance:

- The 1st line of defence *owns and manages risk*. It initiates risk and is responsible for managing the risks, together with making sure there are mechanisms in place to demonstrate controls are working effectively.
- The 2nd line of defence *monitors risk*. It monitors reviews and tests effectiveness of first line controls and management of risks.
- The 3rd line of defence *assures risk is managed*. It independently⁷⁸ evaluates and gives an opinion on the adequacy and effectiveness of both the 1st line and 2nd line risk management approaches. It is a form of assurance independent ⁷⁹of management.

While the approach will be different for every entity, the concept can generally be illustrated as shown in the following diagram. If the 3 Lines of Defence are assessed as operating effectively, the audit committee can have a higher level of confidence the entity is well-governed.

The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

⁷⁸ Note that 'independently' has different definitions in respect of internal audit versus external audit – refer Appendix 6

⁷⁹ Note that 'independent' has different definitions in respect of internal audit versus external audit – refer Appendix 6

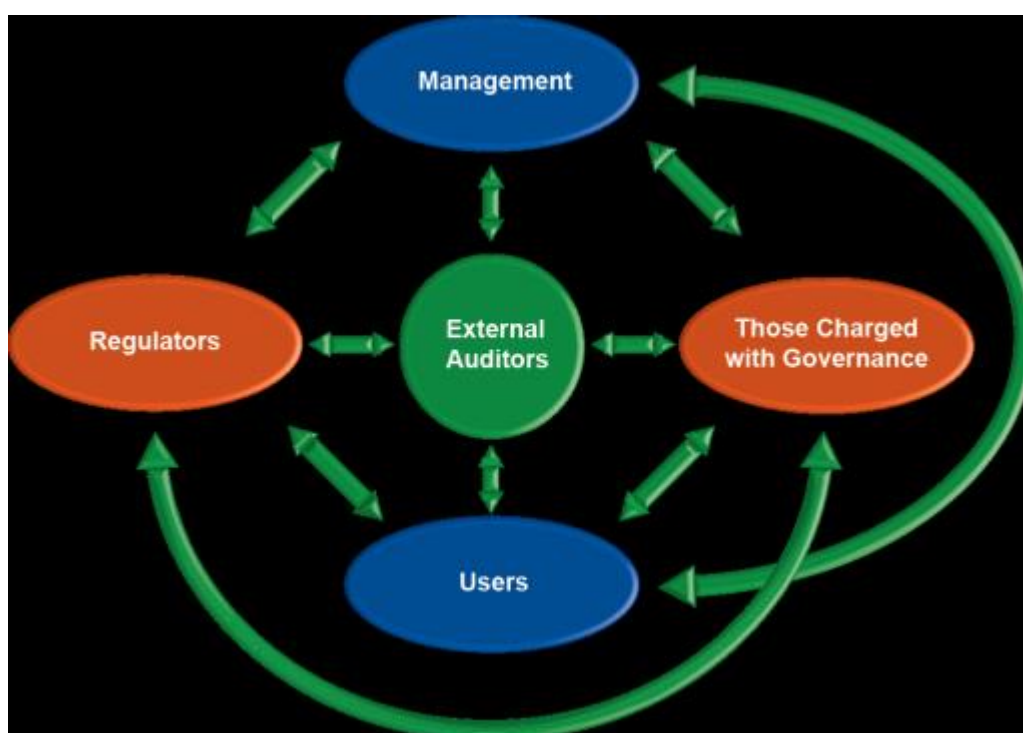
Appendix 5

Interactions with the Audit Committee within the IAASB Audit Quality Framework

The IAASB's Framework for Audit Quality sets out the key elements that contribute to quality audits. The framework recognises that while the primary responsibility for performing quality audits rests with auditors, the framework recognises that audit quality is best achieved in an environment where there is strong support from other participants in the financial reporting supply chain.

Audit Committees as key players in the financial reporting supply chain need to consider their involvement in improving overall audit quality. Audit committees consider whether:

- they have challenged both management and auditors sufficiently to be confident that all material financial reporting risks have been considered
- the financial statements properly account for and disclose significant transactions and events
- they have been sufficiently sceptical and challenged auditors and management in relation to choices of accounting policies, assessment of fraud and contentious items such as impairment models
- the audit fees are commensurate with the scale and complexity of the entity to enable a quality audit to be undertaken
- independence issues have been appropriately considered and resolved.



IAASB A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality

Appendix 6

Key definitional differences between external audit and internal audit

External audit and internal audit often use the same terms when communicating with audit committees and the board. However, the meaning of such terms is often fundamentally different within the context of their specific activity. This appendix sets out some commonly used terms that may have different meanings.

Commonly used term	External audit usage	Internal Audit usage ⁸⁰
Assurance engagement/services	An engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. ⁸¹ There are levels of assurance provided by assurance engagements/services namely limited or reasonable assurance. Reasonable assurance provides the greatest degree of assurance to users.	An engagement involving objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.
Independence/Independent	Ensuring an objective mindset, avoiding appearance and/or perception issues and avoiding conflicts of interest occurring. ⁸² Practitioners are required to comply with this definition. ⁸³ Professional services firms and the members of an external audit engagement must be independent of the client, considering such factors as the scope of services the firm provides to the client, as well as the employment history and personal financial holdings of the engagement team and others in the firm.	The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. This refers to organisational independence or the hierarchical and reporting independence of the internal auditors from those whose work they are reviewing.

⁸⁰ *International Professional Practices Framework*

⁸¹ *AUASB Glossary*

⁸² *APES 110 Code of Ethics*

⁸³ *APES 110 Code of Ethics*

Commonly used term	External audit usage	Internal Audit usage⁸⁴
Internal audit	The internal audit function means ⁸⁵ a function of an entity that performs assurance and consulting services designed to evaluate and improve the effectiveness of an entity's governance, risk management and internal control processes.	Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
Fraud	<p>An intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage.⁸⁶</p> <p>External audit will (a) identify and assess the risks of material misstatement of the financial report due to fraud; (b) obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud; and (c) respond appropriately to fraud or suspected fraud identified during the audit.</p>	<p>Any illegal act characterised by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.</p> <p>Internal audit is directly concerned with the prevention of fraud in any activity undertaken.</p>

⁸⁴ *International Professional Practices Framework*

⁸⁵ *AUASB Glossary*

⁸⁶ *AUASB Glossary*

Appendix 7

Example calendar of events

Inclusion of the annual work plan or calendar of events, cross-referenced to the charter, in meeting papers may be a useful method in covering off compliance with the charter. Below is an example based on a 30 June year end, with interim reporting period at 31 December. It is based on four meetings per year and lodging of reports with the regulator close to deadline date. This should be tailored to the requirements in your charter, and your expected reporting deadlines.

[Company Name] Limited
Audit & Risk Management Committee Calendar

Audit committee responsibility	Meeting month					
	Feb		Jun		Aug	Dec
1 Corporate Reporting						
Advise on Changes in Standards, ASIC Focus areas, etc.	X		X		X	X
Review Significant Accounting Policies, Estimates and Judgements	X				X	
Review Preliminary Period End Issues paper			X			X
Review Period End Issues Paper	X				X	
Review Format of Management Questionnaires			X			
Receive Completed Management Questionnaires					X	
Review Financial Reports	X				X	
Review Annual Report, including non-IFRS profit communication					X	
Review ESG or other External Reports	X				X	
2 External Audit						
Review Letter of Appointment/Rotation arrangements						X
Review Scope of Fees and Audit Plan and possible KAMs						X
Review Reports to the Audit Committee (including the Management Letter)	X				X	X
Assess Quality and Effectiveness of the Audit						X
Assess Other Services for Independence	X				X	
Review Audit Independence Policy			X			
Receive Declaration of Independence	X				X	
Meet without Management	X				X	
3 Internal Audit						
Review Charter, Structure and Resourcing			X			

Approve Internal Audit Plan			X				
Audit committee responsibility	Meeting month						
	Feb		Jun		Aug		Dec
3 Internal Audit (continued)							
Review Internal Audit Reports and follow-up implementation of recommendations	X		X		X		X
Assess Overall Effectiveness and Performance							X
Meet without Management	X				X		
OR if no internal audit function exists							
Consider the need for an IA function			X				
4 Risk Management, Internal Controls and Fraud							
Receive Report on Internal Controls			X				
Review Register of Internal Control Weaknesses			X				
Review Risk Management Policy							X
Review Risk Management Annual Plan							X
Review Risk Register			X				X
Review Risk Management/Compliance Reporting	X		X		X		X
Review Internal Controls & Risk Management Statement					X		
Review management's anti-fraud/ corruption strategies and programs	X						
Meet without Management			X				
5 Compliance and Ethics							
Review Code of Conduct and communication processes					X		
Review Related Party Transactions	X				X		
Review Corporate Governance Statement					X		
Review Treasury Policy					X		
Review Continuous Disclosure Policy							X
Review Share Trading Policy							X
Review Shareholder Communications Policy							X
Review Director Independence					X		
Review Complaints Policies, Processes and Framework	X						
Review Compliance with Corporate Governance Policies			X				
Meet without Management (includes compliance and legal counsel)			X				
6 Committee Performance and Reporting							
Review Committee Charter							X
Assess Performance and Effectiveness of Committee			X				
Prepare Annual Report to Board					X		
Discuss Trends & Issues	X		X		X		X
Meeting Dates							
	--th		--th		--th		--th

Glossary of terms

APRA-regulated entities

Entities that are regulated by the Australian Prudential Regulation Authority (APRA), including banks, building societies and credit unions (authorised deposit-taking institutions), life and general insurance and reinsurance companies, friendly societies and superannuation funds (excluding self-managed funds).

Assurance engagement

Refer to Appendix 6

Audit engagement partner

The partner or other person in the audit firm who is responsible for the audit engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Business risks

All risks to the organisation including operational, financial, compliance and strategic risks.

Chief audit executive (CAE)

A person in a senior position responsible for effectively managing internal audit in accordance with the internal audit charter and the IPPF.

Concise financial report

A report for a financial year prepared under Chapter 2M of the *Corporations Act 2001* in accordance with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

Continuous disclosure obligations

Continuous disclosure is the timely advising of information to keep the market informed of events and developments as they occur. Under the ASX Listing Rules, once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell the ASX that information.

Corruption

Corruption can be defined as abuse of entrusted power for private gain.

Direct assistance

The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.⁸⁷

External auditor

An individual auditor, an audit firm or an authorised audit company providing external audit services.

Financial report⁸⁸

An annual financial report or a half-year financial report prepared under Chapter 2M of the *Corporations Act 2001*. An annual financial report contains the financial statements, notes to the financial statements and the directors' declaration about the financial statements and notes. The half-year financial report contains the financial statements and notes to the financial statements.

⁸⁷ See ASA 610 *Using the Work of Internal Auditors*

⁸⁸ Section 295 and section 303 of the *Corporations Act 2001*

Financial reporting declarations

A management representation provided by the CEO and CFO to Those Charged With Governance in relation to an entity's Financial Statements.⁸⁹

Financial statements

A complete set of financial statements comprises⁹⁰:

1. A statement of financial position as at the end of the period
2. A statement of comprehensive income for the period
3. A statement of changes in equity for the period
4. A statement of cash flows for the period
5. Notes, comprising a summary of significant accounting policies and other explanatory information
6. A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Fraud

Refer to Appendix 6

Independence

Refer to Appendix 6

Internal audit

Refer to Appendix 6

Internal auditor

The individual/s who perform the internal audit services.

Internal control⁹¹

The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.

International Financial Reporting Standards (IFRS)

Standards for accounting and financial reporting issued by the International Accounting Standards Board (IASB).

Key audit matter (KAM)

Matters, which in the auditor's professional judgement, are of most significance in the audit of the financial report of the current reporting period. Reporting of KAMs by the auditor in the auditor's report is only required for general purpose financial reports of listed entities or where required by law or regulation.⁹²

Management representation

A written statement provided by management of an entity to confirm certain matters represented by them in the financial report, or in relation to the preparation of the financial report, or to support other audit evidence.

⁸⁹ APES GN41 *Management Representations*

⁹⁰ AASB 101 *Presentation of Financial Statements*

⁹¹ AUASB *Glossary*

⁹² See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

Misstatement

A difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.⁹³

Risk appetite

The level of risk that the entity is prepared to accept.

Risk profile

The description of the entity's set of risks.

Risk management⁹⁴

A coordinated set of activities and methods that is used to direct an organisation and to control the many risks that can affect its ability to achieve objectives. It also can be used to mean the architecture that is used to manage risk. This architecture includes risk management principles, a risk management framework, and a risk management process.

Those charged with governance⁹⁵

The person/s or organisation/s (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process and therefore may include the audit committee.

Uncorrected misstatements

Misstatements that the auditor has accumulated during the audit and that have not been corrected.⁹⁶

List of Acronyms

AASB	Australian Accounting Standards Board
AICD	Australian Institute of Company Directors
APESB	Accounting Professional and Ethical Standards Board
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUASB	Auditing and Assurance Standards Board (Australian)
CAE	Chief Audit Executive
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COSO	Committee of Sponsoring Organisations of the Treadway Commission
IAASB	The International Auditing and Assurance Standards Board
IFRS	International Financial Reporting Standards
IIA	The Institute of Internal Auditors Inc.
IIA-A	Institute of Internal Auditors-Australia
IPPF	International Professional Practices Framework
KAM	Key Audit Matter

⁹³ AUASB Glossary

⁹⁴ AS/NZS ISO 31000: 2009 *Risk Management – Principles and guidelines*

⁹⁵ AUASB Glossary

⁹⁶ AUASB Glossary

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19 April 2017

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

Dear Matt,

AUASB Submission on IAASB Discussion Paper – Exploring the Demand for Agreed-Up Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB’s Discussion Paper *Exploring the Demand for Agreed-Up Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards* (DP).

The AUASB is supportive of this DP, particularly in light of the increasing demand for agreed-upon procedures engagements globally. The DP builds on the Australian Standard on Related Services, ASRS 4400 *Agreed-Up Procedures Engagements to Report Factual Findings* and the AUASB has had significant input into this paper through the prior AUASB Executive Director’s involvement in the AUPs IAASB working group. We are very interested in this project and are happy to offer our assistance to the task force if needed.

In formulating its response, the AUASB has sought input from its constituents in several ways. The first was targeted input from assurance providers from medium and large audit firms, audit regulators, professional accounting bodies, directors and academics. The second was by an open invitation to provide comments placed on the AUASB website; and the third was by way of subsequent formal discussions by the AUASB members at recent board meetings.

Our matters of particular importance for the IAASB’s consideration are elaborated on further in the detailed submission attached.

Should you have any queries regarding this submission, please do not hesitate to contact Rene Herman (rh Herman@auasb.gov.au).

Yours sincerely,

Roger Simnett
Chairman



AUASB Submission on IAASB Discussion Paper – Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International

Q1 and Q2

The Role of Professional Judgment and Professional Scepticism in an AUP Engagement

Results from the Working Group’s outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?

The Role of Professional Judgment and Professional Scepticism in an AUP Engagement

Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?

Applying judgement requires a level of subjectivity, so the AUASB considers that it is not be appropriate for the practitioner to exercise professional judgement when conducting agreed-upon procedures.

One of the differentiating factors between an agreed-upon procedures engagement and an assurance engagement is the extent of assurance practitioner’s professional judgement exercised in selecting procedures. In an agreed-upon procedures engagement, professional judgement may be exercised in assisting the engaging party to identify procedures when agreeing the terms of the engagement. However, in an assurance engagement, professional judgement should always be applied in selecting and conducting the assurance procedures themselves.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, paragraph A11 states: *In an agreed-upon procedures engagement, as the assurance practitioner does not express a conclusion, it is the engaging party’s responsibility to determine the procedures which will provide sufficient appropriate evidence to support their own or intended users’ conclusions. It is only appropriate for the assurance practitioner to select the procedures if they will be assessing the evidence to support a conclusion provided in an assurance engagement.*

While a user may place reliance on the factual findings of an assurance practitioner in an agreed-upon procedures engagement by virtue of the practitioner’s professional skill in conducting the agreed-upon procedures, this reliance does not amount to the provision of assurance. In contrast, for an assurance engagement the practitioner exercises their professional judgement to determine the procedures necessary to gather sufficient appropriate evidence on which to base a conclusion, which provides assurance to the intended user.

One of the most significant attributes of an agreed-upon procedures engagement is the lack of subjectivity in both the procedures and the factual findings. Applying judgement requires a level of subjectivity, so the AUASB considers that it would not be appropriate for the practitioner to exercise professional judgement when conducting agreed-upon procedures.

Q3

The Independence of the Professional Accountant

What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?

The AUASB is of the view that the assurance practitioner, when carrying out procedures of an assurance nature and reporting factual findings, needs to either be independent or to have agreed modified independence requirements with the engaging party and both agreed and disclosed those modified independence arrangements with intended users.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* requires the assurance practitioner to maintain independence equivalent to the independence requirements applicable to Other Assurance Engagements and to disclose in their report if modified independence requirements are agreed.

ASRS 4400, paragraph 17 *When conducting an agreed-upon procedures engagement, the assurance practitioner shall comply with ethical requirements equivalent to the ethical requirements applicable to Other Assurance Engagements*, including those pertaining to independence, unless the engaging party has explicitly agreed to modified independence requirements in the terms of the engagement. If modified independence requirements have been agreed in the terms of the engagement, the level of independence applied shall be described in the report of factual findings.*

Q4

Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report

What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology mean? Would your views change if the AUP report is restricted?

The AUASB is supportive of guidance on what constitutes unclear or misleading terminology, however notes that the practitioner's report needs to be in sufficient detail to enable the users to draw their own conclusions. Guidance could be in the way of examples. The AUASB considers that prohibiting terminology could make the standard too prescriptive.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* paragraph 47, touches on this issue *"The report of factual findings for an agreed-upon procedures engagement shall be clearly distinguished from an assurance report in that it shall not contain: (a); (b) inappropriate use of the terms "assurance", "audit", "review", "opinion" or "conclusion".*

Q5 and Q6

AUP Engagements on Non-Financial Information

What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?

AUP Engagements on Non-Financial Information

Are there any other matters that should be considered if the scope is clarified to include non-financial information?

The AUASB agrees with clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information. An example of a non-financial AUP engagement may be a controls engagement to meet contractual obligations

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* is not limited to "financial information". This standard includes requirements for the assurance practitioner to only accept the engagement if those persons who are to perform the engagement collectively have the capabilities and competence to perform the procedures;

* For ethical requirements specifically relating to Other Assurance Engagements, refer to APES 110 *Code of Ethics for Professional Accountants* (as referenced in ASA 102), section 291 Independence - Other Assurance Engagements, issued by the Accounting Professional & Ethical Standards Board (APESB).

and to satisfy themselves that the engagement team and any experts collectively have competence, capabilities and resources to perform the agreed-upon procedures. **Q7**

Using the Work of an Expert

Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?

The AUASB supports the working group's view that ISRS 4400 should be enhanced for the use of experts in AUP engagements.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* requires the assurance practitioner to satisfy themselves that the engagement team and any experts engaged who are not part of the engagement team to collectively have competence, capabilities and resources to perform the agreed-upon procedures; and to evaluate the adequacy of their work, including their objectivity and technical competence in conducting the procedures, whether the nature, timing and extent of procedures conducted agrees with procedures in the terms of the engagement and whether the factual findings communicated detail adequately the result of the procedures conducted.

Q8

Format of the AUP Report

What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report? We would be particularly interested in receiving Illustrative reports that you believe communicate factual findings well

The AUASB is supportive of improvements to the illustrative auditor's report, however the format of illustrative reports should not be prescribed, but should rather be examples only incorporating the elements identified as required by the standard. If law or regulation prescribes the format of an agreed-upon procedures report, the practitioner would need to understand that each element identified as required by the standard is included in a prescribed report.

For ease of communication, the Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, includes an example report presenting factual findings in a table format, containing procedures performed, factual findings and errors/exceptions identified. The example report can be found in Appendix 4 of [ASRS 4400](#) on the AUASB website.

Q9, Q10 and Q11

AUP Report Restrictions – To Whom the AUP Report Should be Restricted

Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views

AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report

In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report

Are there any other approaches that the Working Group should consider

The AUASB has clearly made a distinction between **use** of an AUP report and **distribution** of such a report, this distinction was deliberately included in the requirements of ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* by the AUASB. The purpose of the distinction is not to prevent distribution of a report per se, but to deter use of that report by those other than the intended users which are identified in the terms of engagement. Reliance on that report is then effectively restricted to the intended users identified, even if the report is distributed to other parties.

ASRS 4400 is clear about restricting use of an AUP report in order to bridge an expectation gap that may arise between the information contained in an AUP report and extent of the reliance which the user places on that report. As an AUP report does not provide a conclusion, no assurance can be taken from the report and the factual findings reported need to be considered in combination with other information in order for users to draw their own conclusions with respect to the subject matter.

The relevant requirements of ASRS 4400 are:

- “42. Use of the report shall be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results.
43. The report of factual findings for an agreed-upon procedures engagement shall contain: (Ref: Para. A18-A19)
- (n) a statement that use of the report is restricted to those parties identified in the report, who have agreed to the procedures to be performed or were identified in the terms of the engagement;”

It is important to note that classes of users can be anticipated in the engagement letter and report, rather than necessarily identified individually at the time of issuing the report. This is explained in ASRS 4400 paragraph A12, and is appropriate where “the assurance practitioner is satisfied that those users will understand the purpose for which the report of factual findings is intended to be used”. Any amendments to the standard would need to consider the growing use of on-line reports and hence the increased distribution of such reports.

Based on the above, the AUASB is supportive of Option c of paragraph 44 of the discussion paper.

Q12

Recommendations Made in Conjunction with AUP Engagements

Do you agree with the Working Group’s view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?

The AUASB does not support the inclusion of recommendations in an AUP report. Providing recommendations based on a report on factual findings is not consistent with the nature of an AUP engagement, and therefore is not an appropriate service to provide. An AUP report is a report on factual findings based on procedures agreed to by the practitioner and the engaging party. The AUASB questions how recommendations fit with a report on factual findings, particularly given the nature of the engagement and its limitations, including the limitations on applying professional judgement. The AUASB believes that including recommendations goes beyond the scope of presenting factual findings and will lead to confusion about the nature of the engagement and the assurance provided by the engagement. Further, if recommendations are sought, the AUASB questions whether an AUP engagement would be fit for the user’s purpose and whether perhaps an alternative form of assurance would be more appropriate.

Any observations or recommendations must be very clearly separated from the report on factual findings.

Q13

Other Issues relating to ISRS 4400

Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.

The AUASB has no further input to provide.

Q14

Multi-Scope Engagements

What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

Multi-Scope Engagements

Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements? Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware will be welcome and will help to inform further deliberations.

With the increase in demand for multi-scope engagements, the AUASB believes guidance is necessary in this area, particularly around reporting. To this end, the AUASB in June 2015 issued a guidance statement, [GS 022 Grant Acquisitions and Multi-Scope Engagements](#), to assist auditors in exercising professional judgement in applying the auditing standards to a selection of practical application issues that may arise in this area. The IAASB may find this guidance beneficial in the development of international guidance in this area.

Owing to the age of the extant ISRS 4400, and the increase in demand for such engagements, the AUASB agrees that a revision to ISRS 4400 be prioritised over guidance on multi-scope engagements.