



**Subject:** Agenda for the 99<sup>th</sup> meeting of the AUASB  
**Venue:** ASIC, Level 5, 100 Market Street, Sydney NSW 2000  
**Time:** Wednesday 7 March 2018, 9.00am – 5.00pm

\* NB: Agenda items 1, 2 and 8 are closed sessions

Time	Agenda Item No.
9.00am	1. Preliminary Session*
9:45am	2. Audit Quality Plan Update*
10:30am	Break
10:45am	3. Australian Financial Reporting Framework Project
11:15am	4. AUASB Technical Work Program Update
1:00pm	Lunch
1:45pm	5. International Matters
3:30pm	Break
3:45pm	6. Revision of ASA 102 : <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>
4:15pm	7. Other Business
4:30pm	8. Review*
5:00pm	9. Close

NOTE: The running order and time allocated to agenda items is subject to change prior to and during the course of the meeting: It is advisable to visit the website prior to 7 March 2018 to confirm whether the anticipated running order remains as indicated above:

Those wishing to attend the public sessions of the meeting are requested to register in advance by sending an email to [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)



High level priorities	Current Priorities & KPIs	Status	Comments
Issue Australian Auditing and Assurance Standards	<ul style="list-style-type: none"> <li>→ Issue all IAASB related Australian equivalent Exposure Drafts on a timely basis (within 3 months of PIOB clearance or within 1 month of AUASB approval, as appropriate).</li> <li>→ Develop and issue Australian Auditing and Assurance Standards (for 2017-18, ASA 540 <i>Auditing Accounting Estimates and Related Disclosures</i>) following the release of their equivalent ISA, ensuring all Australian legislative and regulatory requirements are considered, including changes required via application of the 'compelling reason' test.</li> <li>→ Coordinate and develop the AUASB's response to existing and planned IAASB exposure drafts due for release (for 2017-18, ISA 315, ISQC 1, ISA 220 &amp; ISA 600).</li> <li>→ Develop high quality responses to other IAASB pronouncements or invitations to comment by the due date as they are released.</li> <li>→ Conduct post-implementation reviews of IAASB equivalent issued AUASB Standards, where deemed necessary.</li> </ul>		<ul style="list-style-type: none"> <li>• Amending standard ASA 2017-2 (changes to ASA 250 and consequential amendments to incorporate new requirements addressing non-compliance with laws and regulations) now completed and lodged with the FRLI.</li> <li>• Current major IAASB projects monitored and analysed at each AUASB meeting and as part of AUASB Chair and/or Technical Director attending IAASB Meetings in accordance with the AUASB International Strategy (refer below).</li> <li>• Currently developing a new 'AUASB International Strategy' to ensure our input on IAASB and other international activities is appropriately targeted and effective. The strategy will formalise how the AUASB Board and Staff engage with the IAASB and other global standard setting bodies, as well as how we work with and contribute to other National Standards Setters (either directly or via the IAASB NSS forum).</li> <li>• Currently negotiating with the IAASB to have an AUASB Technical Group member assist the IAASB as a taskforce member for the revised Group Audits standard (ISA 600).</li> </ul>



High level priorities	Current Priorities & KPIs	Status	Comments
Develop, update and maintain Australian specific Standards and/or Guidance Statements	<ul style="list-style-type: none"> <li>→ Develop and issue Australian specific Standards (for 2017-18, ASAE 3500 <i>Performance Engagements</i>) within 1 month of AUASB approval, in accordance with AUASB legislative drafting and registration requirements.</li> <li>→ Review and revise out of date Guidance Statements (for 2017-18, GS 010 &amp; GS 019, others to be reviewed 2018-2020).</li> <li>→ Review full suite of AUASB pronouncements to determine necessity and timing of other required updates.</li> <li>→ Conduct post-implementation reviews of Australian specific AUASB Standards, where deemed necessary.</li> </ul>	●	<ul style="list-style-type: none"> <li>• Revised ASAE 3500 <i>Performance Engagements</i> released in October 2017.</li> <li>• Papers to develop revised ASA 102 to ensure updated Code of Ethics is reflected in ASA's presented at November 2017 and March 2018 meetings.</li> <li>• Plans to review a number of current Australian specific Standards and/or Guidance Statements (ASAE 3450, GS 010 and GS 019) currently under consideration by AUASB technical staff.</li> <li>• Project to develop accounting and auditing guidance encouraging improved recognition and disclosures relating to the impact of climate change about to kick off (NB: joint project with AASB, ASIC and FRC).</li> </ul>



High level priorities	Current Priorities & KPIs	Status	Comments
Monitor the Assurance Environment	<ul style="list-style-type: none"> <li>→ Conduct yearly AUASB Agenda Consultation Forums in various locations, either face to face or electronically, (for 2017-18 in late 2017) and update AUASB Workplan as required based on relevant feedback.</li> <li>→ Hold quarterly meetings with CPA Australia, and CA ANZ professional accounting bodies to discuss trends in assurance environment and identify impact for AUASB Agenda and Workplan.</li> <li>→ Ensure AUASB attendance and presentations at a number of research events (in 2017-18, including AFAANZ Conference and co-ordinating with the AFAANZ Auditing and Assurance Special Interest Group, and holding the AUASB / UNSW Audit Research Roundtable in October 2017).</li> <li>→ Develop and implement AUASB Research Strategy (for 2017-18, develop by March 2018).</li> <li>→ Assess and respond to implementation issues (for 2017-18, those identified in the June 2017 ASIC Inspection Report) in connection with the strategic project on 'Coordination and cooperation with Regulators'.</li> </ul>		<ul style="list-style-type: none"> <li>• Combined AUASB / UNSW Audit Roundtable in October 2017 successfully completed with over 50 auditing and assurance experts from the profession, regulators and academia attending and providing input on the four most immediate AUASB strategic priorities.</li> <li>• November 2017 AUASB Agenda Consultation Forums held in Sydney, Melbourne, Adelaide, Perth and Brisbane, with a wide array of stakeholders invited to attend and participate in roundtable discussions that inform the AUASB's current and future technical work program. Feedback from consultation forums posted on AUASB website and being incorporated into revised AUASB Technical Work Program for 2018.</li> <li>• Regular formal quarterly meetings held with the professional bodies and ASIC have not occurred recently due to consistent interaction with these stakeholders on the MG response and FRC Audit Quality Plan over the last 4 months. Regular meetings to be scheduled by AUASB Board Secretary for 2018 this month.</li> <li>• Draft AUASB Research Strategy to be considered at the April 2018 AUASB meeting.</li> <li>• Latest ASIC Inspection implementation issues being discussed with ASIC staff and Large Audit firms.</li> </ul>



High level priorities	Current Priorities & KPIs	Status	Comments
Build, maintain and enhance key international relationships	<ul style="list-style-type: none"> <li>→ AUASB to be represented at all IAASB meetings.</li> <li>→ Arrange for AUASB review of relevant IAASB board papers on a timely basis and share feedback on key matters with regional IAASB members before each IAASB meeting.</li> <li>→ Attend and present relevant topics at regional and global IAASB NSS meetings</li> <li>→ Increase our awareness of and influence with IFAC SMP Committee activity given the high level of SMP/SME exposure in Australia and NZ</li> <li>→ Attend and contribute to other IAASB or International Standard Setting forums as appropriate</li> <li>→ Review and contribute as appropriate to other global initiatives, such as IIRC and GRI, on assurance issues.</li> </ul>		<ul style="list-style-type: none"> <li>• AUASB Chair and/or Technical Director attended IAASB meetings in September, October and December 2017. AUASB Chair attending March 2018 IAASB meeting in Amsterdam.</li> <li>• Current major IAASB projects monitored and analysed at each AUASB meeting and as part of AUASB Chair and/or Technical Director attending IAASB Meetings in accordance with the AUASB International Strategy (refer below).</li> <li>• Currently developing a new 'AUASB International Strategy' to ensure our input on IAASB and other international activities is appropriately targeted and effective. The strategy will formalise how the AUASB Board and Staff engage with the IAASB and other global standard setting bodies, as well as how we work with and contribute to other National Standards Setters (either directly or via the IAASB NSS forum).</li> <li>• Currently working with the IAASB to provide assistance organising the global NSS meeting in May 2018 and a regional National Standards Setters meeting aligned to the World Congress of Accountants in November 2018.</li> <li>• Response to Monitoring Group Consultation Paper sent in February 2018.</li> <li>• AUASB member Jo Cain appointed to IAASB EER Project Advisory Panel.</li> </ul>



High level priorities	Current Priorities & KPIs	Status	Comments
Maintain harmonisation of auditing and assurance standards in Australia and New Zealand	<ul style="list-style-type: none"> <li>→ AUASB Chair and/or Technical Director to attend all NZAuASB meetings.</li> <li>→ Ensure standards and guidance (in 2017-18, ASA 540) are issued in accordance with AU/NZ harmonisation requirements.</li> <li>→ Contribute to and work in parallel on a number of NZAuASB projects, specifically Auditor Reporting FAQs, the NZ FMA Report on Auditor Reporting and the Audit of Service Performance Information standard.</li> <li>→ Work collaboratively with NZAuASB Technical Staff to ensure co-operation and co-ordination between the AUASB and NZAuASB's activities (e.g. joint research programs and joint contributions on key focus areas, such as Assurance requirements for NFP's and Charities).</li> </ul>		<ul style="list-style-type: none"> <li>• In December 2017 and February 2018 the AUASB Chair has attended the last two NZAuASB meetings. The AUASB Technical Director will attend April 2018 NZAuASB meeting.</li> <li>• In September an AUASB staff member was seconded to work with the NZAuASB on a project evaluating the rollout of new Auditor Reporting requirements in New Zealand. The resulting report produced with the NZ FMA was released in November 2018.</li> <li>• AUASB Technical Staff provided a submission on the <i>Audit of Service Performance Information ED</i> to the NZAuASB in December 2017 and detailed feedback through the Chair on comments received from all stakeholders at the February 2018 NZAuASB meeting.</li> <li>• The development of an NZ equivalent of ASAE 3450 <i>Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information</i> is currently being evaluated. When it progresses an AUASB Technical Staff member will assist the NZAuASB on this project by evaluating and analysing current use of the standard in Australia.</li> <li>• AUASB and NZAuASB Chairs and Technical Directors to explore additional opportunities to collaborate on International and Regional initiatives, including NSS meetings and Global EER Project.</li> </ul>



High level priorities	Current Priorities & KPIs	Status	Comments
Complete a number of strategic projects addressing current areas of auditing and assurance thought leadership and emerging issues	<ul style="list-style-type: none"> <li>→ Scope and implement strategic thought leadership projects in the following areas: <ul style="list-style-type: none"> <li>○ Auditor Reporting Implementation</li> <li>○ Coordination and cooperation with Regulators</li> <li>○ Assurance over Emerging Forms of External Reporting (EER)</li> <li>○ Auditing and Assurance issues in the Charities and NFP sector</li> <li>○ Public Sector Auditing and Assurance Issues</li> <li>○ Consideration of matters related to small and medium practices (SMPs) and audits of small- and medium-sized entities (SMEs)</li> <li>○ Data Analytics/Digitisation of the Audit</li> <li>○ The Auditor of the Future</li> </ul> </li> <li>→ With the AASB, update the 'Alignment of Reporting and Auditing Frameworks' review completed by the University of Adelaide and CA ANZ to ensure it reflects current audit and assurance requirements, and consult with appropriate policy makers and regulators.</li> <li>→ Develop and maintain contact with other key national standard setters (e.g. Canada, France, Germany, Netherlands, United Kingdom, United States and South Africa) and identify opportunities to collaborate on key international auditing and assurance focus areas.</li> <li>→ Monitor key international regulator developments (including IOSCO, PCAOB and IFIAR) and consider impact for the local auditing and assurance environment.</li> <li>→ Work with relevant local and international stakeholders to influence and support emerging forms of assurance (e.g. IIRC).</li> </ul>	●	<ul style="list-style-type: none"> <li>• AUASB staff completed and presented project plans on the first four of the strategic projects outlined in the AUASB 2017-21 Corporate Plan at the September and November 2017 AUASB meetings. Further updates to be provided at March and April AUASB meetings.</li> <li>• New draft plans for Public Sector audit issues and Data Analytics/Use of Technology in the Audit to be discussed at the March AUASB meeting.</li> <li>• An AUASB Technical staff member has assisted the FRC develop their current Audit Quality Plan.</li> <li>• An AUASB Technical staff member has assisted the AASB complete the assurance elements of their research reports and consultation papers on Financial Reporting Requirements for Charities/NFPs and Public Sector agencies.</li> <li>• AUASB Technical Staff are assisting the AASB on their projects to review fair value measurement in the public sector and the assurance elements of their research reports and consultation papers on Financial Reporting Requirements for 'For Profit' entities.</li> </ul>





High level priorities	Current Priorities & KPIs	Status	Comments
Achieve a high level of stakeholder satisfaction through increased engagement	<ul style="list-style-type: none"> <li>→ Hold quarterly meetings with key stakeholders (CPA Australia, CA ANZ, APESB, ASIC) and ensure regular contact with other stakeholders (ACAG, ACNC, CER, APRA, AICD &amp; IPA) as required to: <ul style="list-style-type: none"> <li>○ gather timely and relevant feedback on AUASB activities; and</li> <li>○ ensure the AUASB Workplan is responsive to stakeholder needs.</li> </ul> </li> <li>→ Attend and present at regular professional and regulatory forums (e.g. ASIC Standing Committee, Emerging Accounting and Auditing, Issues Discussion Group, BLRF etc.).</li> <li>→ AUASB Board members or staff to present at a number of auditing or assurance related events/conferences (e.g. CA ANZ Audit Conference).</li> <li>→ Author or contribute to multiple articles on major auditing and assurance developments for CPA Australia and CA ANZ professional bulletins and other publication outlets.</li> <li>→ Complete quarterly reports for the FRC and obtain positive feedback from FRC members on AUASB activities.</li> <li>→ Develop and distribute a regular AUASB Update Newsletter (at least quarterly).</li> <li>→ Conduct an AUASB Stakeholder satisfaction survey in the second half of 2017-18.</li> <li>→ Create and maintain details of AUASB stakeholders in the new AASB/AUASB Stakeholder Database.</li> <li>→ Contribute to the design and development of the new AASB/AUASB website.</li> <li>→ In conjunction with the AASB/AUASB Communications Manager, implement initiatives to monitor and grow stakeholder engagement, measured via increased media mentions, social media activity and level of participation at AUASB events.</li> <li>→ Make all AUASB meeting board papers available on the AUASB website a week in advance and highlights/podcast available within 2 working days after each meeting.</li> </ul>		<ul style="list-style-type: none"> <li>• Regular meetings held with the professional bodies and ASIC have not occurred recently due to consistent interaction with these stakeholders on the MG response and FRC Audit Quality Plan. Regular meetings to be scheduled by AUASB Board Secretary for 2018 this month.</li> <li>• AUASB-UNSW Roundtable attended by over 50 auditing/assurance experts from the profession, regulators and academia</li> <li>• AUASB Update Newsletters issued in October 2017 and February 2018.</li> <li>• Meetings held with incoming chair of the Australian Public Policy Committee on how the AUASB can assist the APPC on Audit quality activities and RegTech issues.</li> <li>• Updated AUASB stakeholder engagement database near completion.</li> <li>• AUASB Chair presented on Audit Quality matters at recent ASIC Accounting and Auditing Standing committee meetings.</li> <li>• AUASB staff member co-presented session on ASAE 3500 Performance Engagements at the Canberra CPA Congress.</li> <li>• AUASB Technical Director presented at APESB NOCLAR sessions in Sept 2017.</li> <li>• Working with AUASB Communications Manager to increase social media publications on Twitter &amp; LinkedIn, associated with recent AUASB events and publications.</li> <li>• Joint AASB/AUASB 2016-17 Annual Report lodged on time with responsible minister</li> </ul>





High level priorities	Current Priorities & KPIs	Status	Comments
Conduct awareness initiatives and promote the development of education initiatives by others	<ul style="list-style-type: none"> <li>→ Record and release AUASB podcasts and/or webcasts on all major audit and assurance pronouncements (e.g. ASA 540, Auditor Reporting).</li> <li>→ Engage with the CA ANZ and CPA Australia to support the currency and appropriateness of auditing and assurance professional program course materials.</li> <li>→ AUASB Board members or staff to present at a number of auditing or assurance related events/conferences (e.g. CA ANZ Audit Conference).</li> <li>→ Author or contribute to multiple articles on major auditing and assurance developments for CPA Australia and CA ANZ professional bulletins.</li> <li>→ Identify opportunities to present guest lectures or be represented on course advisory panels for auditing and assurance topics at major tertiary institutions.</li> <li>→ Partner with respected auditing and assurance academics on AUASB strategic projects and research activities, for example on Auditor Reporting implementation.</li> </ul>	●	<ul style="list-style-type: none"> <li>• Podcast with highlights released following all 2017 AUASB meetings.</li> <li>• AUASB Chair participated in a AFR Trust Roundtable in February 2018.</li> <li>• AUASB Technical Group to submit 2 articles to the CA ANZ 'Perspectives' series in 2018.</li> <li>• Various initiatives underway to partner with respected academics on research projects relating to Auditor Reporting Implementation.</li> <li>• AUASB Chair presented to Parliamentary Joint Committee on Corporations and Financial Services in February 2018.</li> <li>• AUASB-UNSW Roundtable promoting education initiatives and research attended by over 50 auditing/assurance experts from the profession, regulators and academia held in October 2017.</li> </ul>



High level priorities	Current Priorities & KPIs	Status	Comments
Analyse regulator inspection findings to identify AUASB actions that help improve audit quality and the consistency of audit execution	<ul style="list-style-type: none"> <li>→ Increased and timelier engagement with ASIC and other regulators responsible for audit and assurance inspections.</li> <li>→ Assess and respond to implementation issues (for 2017-18, those identified in the June 2017 ASIC Inspection Report) and identify opportunities to create additional AUASB guidance to address findings.</li> <li>→ Hold quarterly meetings with ASIC and meet at least annually with other regulators (APRA, CER) to discuss audit inspection developments and identify opportunities for AUASB staff involvement.</li> <li>→ In conjunction with the NZAuASB, issue new and revised Auditor Reporting FAQs based on stakeholder feedback and issues noted by AUASB staff.</li> <li>→ Develop and issue AUASB Bulletins to provide guidance to Stakeholders as required on AUASB Pronouncements and topical/emerging auditing and assurance issues and in conjunction with the release of all major AUASB standards and guidance statements.</li> <li>→ Monitor global audit inspection developments and trends and consider impact for Australian auditing and assurance environment.</li> </ul>		<ul style="list-style-type: none"> <li>• An AUASB Technical staff member has assisted the FRC develop their current Audit Quality Plan.</li> <li>• Review of ASIC Inspection Report findings currently being performed as part of 'Working Effectively with Regulators' strategic project. The AUASB Chair and Technical Group staff have held and are regularly holding meetings with ASIC Executive Director to discuss ASIC Inspection implementation issues.</li> <li>• Auditor Reporting FAQs on AUASB website being updated regularly.</li> <li>• AUASB Bulletins released on 'The new enhanced Auditor's Report – responding to questions at AGMs' in October 2017 and 'Auditor review reports – the impact of the new auditor reporting requirements' in July 2017.</li> </ul>

Key:

	Outstanding/incomplete/major delays
	Partially completed/in progress/minor delays
	In progress / substantially completed / on track

## Strategic Project Outline

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Project Title: Data Analytics  
Project ID: 2018  
Team member responsible: Rene Herman

### I. Background

1. Data analytics consists of tools that extract, validate and analyse large volumes of data, quickly. The tools are applied to complete populations, 100% of the transactions, i.e. 'full data sets', and they can be used to support judgements, draw conclusions or provide direction for further investigation.
2. There are significant challenges being faced by practitioners, in particular in understanding how audit evidence derived from the use of data analytics is compliant with the current suite of auditing standards. Stakeholders are concerned that the lack of guidance and clarity on this matter is impacting the efficiency and effectiveness of the audit process.
3. Feedback from the 2017 AUASB consultative meetings highlights that stakeholders want practical guidance on how the use of data analytics can improve audit quality and efficiency while still being compliant with the AUASB suite of standards.
4. The IAASB has a current data analytics project and working group, however, based on stakeholder feedback, there is a more immediate need for the AUASB to consider how to best to meet the needs of our domestic market.
5. The [AUASB submitted a response](#) to the IAASB on their [Request for Input](#) – the AUASB submission was high level with no immediate actions for the AUASB. The AUASB response and IAASB request for input has been included as a hyperlink for background information.

### II. Input Requested from AUASB

6. The AUASB technical group is seeking input from the AUASB in relation to the following:
  - a) Appetite for a more immediate publication (format TBD) – refer paragraph 13 below
  - b) Appetite for the AUASB as a NSS to step ahead of the IAASB in terms of guidance to assurance practitioners – refer paragraph 14 below
  - c) Dependent upon response to a) and b) above, AUASB practitioner members to nominate representatives from their respective firms to meet with AUASB technical staff in order to inform:
    - how DA is being used on external audit engagements;
    - walk through live examples;
    - demonstrate how the auditing standards are impacting the use of DA or fit into the auditing standards; and
    - type of guidance/input needed from the AUASB
  - d) Other information the technical group needs to consider in developing this strategic project plan, including how to engage the Regulator, education needs/concerns.

### III. Scope

7. Meeting with Australian stakeholders to understand:
  - a) current issues with specific practical examples;

- b) using these examples, work through the practical implications of how the existing suite of standards is impacting the use of data analytics on external audit engagements; and
- c) how the AUASB can assist stakeholders in understanding the use of data analytics in the external audit process.

#### **IV. Project objectives, public interest benefits, and link to corporate strategy**

##### **Project Objectives**

8. The project objectives are for the AUASB to:
  - a) understand the issues and challenges in using data analytics in external audit engagements as identified by our stakeholders and included in the [AUASB submission](#)<sup>\*</sup>;
  - b) determine the best way to address the issues identified above; and
  - c) seek to actively influence the IAASB in the future direction of the IAASB data analytics project.

##### **Public interest benefits**

9. The public interest benefits of this proposal is to:
  - a) improve the efficiency of the audit process thereby meeting stakeholder expectations regarding the use of technology in audit engagements; and
  - b) contribute to the enhanced quality (e.g by deepening the auditor's understanding of the entity, facilitating audit testing on higher risk areas, and aiding the exercise of professional skepticism) and consistency of audit practice across engagements, and strengthen public confidence in the audit and assurance profession.

##### **Link to Corporate Strategy**

10. This project contributes to the following strategic objectives:
  - a) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships.
  - b) Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.
  - c) Monitor and respond to emerging issues impacting the development of auditing and assurance standards and guidance, including changing technologies.
  - d) Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance.

#### **V. Outreach activities**

11. Further outreach will be undertaken with a representative sample of stakeholders:
  - a) External audit providers from big 6
  - b) Professional accounting bodies: CAANZ, CPA Australia
  - c) Public sector auditors (QAO and VAGO)
  - d) Regulator – ASIC

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<sup>\*</sup> AUASB Submission on IAASB request for Input, Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics to the IAASB

## 12. Aims/outputs of outreach:

- a) Identify current issues with specific practical examples; and using these examples, work through the practical implications of how the existing suite of standards is impacting the use of data analytics on external audit engagements.
- b) Identify issues identified through ASIC inspection reports relating to the use of data analytics on external audits and understanding how inspectors assess the use of data analytics.
- c) Understand how the AUASB can assist stakeholders in understanding the use of data analytics in the external audit process.
- d) Provide feedback and assistance on how the AUASB can be proactive internationally with the IAASB.
- e) Revisit the key challenges identified in the AUASBs submission to the [IAASB Request for Input](#) to confirm that these are still relevant.
- f) Identify current research and thinking by academics in the data analytics field and leverage off this where appropriate.

## VI. Outputs from project

13. Issuing a publication (format to be determined) alerting our stakeholders to some of the issues attributed to the use of data analytics in external audit engagements, providing links to several research papers, and acknowledging that this matter is on our work agenda and is on the IAASB work agenda. AUASB could consider a QA video similar to that of the [IAASB DA video](#) (hyperlinked to page)
14. Issuing of principles based guidance to practitioners as considered necessary to support the quality and consistency of application of data analytics within the existing suite of auditing standards.
15. Information and evidence to support the IAASB as they assess proposed/potential future changes to the suite of standards as a result of the use of data analytics.

## VII. Way forward

16. TBD – aim of AUASB session.

## VIII. Liaison with other standard setters

17. Further environment scanning, analysis and knowledge building on data analytics initiatives in other jurisdictions. Through these processes, identify potential partners from other jurisdictions working in this area.

## IX. Education

18. TBD based on outputs of the project.

## X. Research / initiatives to date

19. The following applicable research paper / initiative has already been identified as a paper that the AUASB could leverage off:
  - a) [Financial Reporting Council Audit Quality Thematic Review The Use of Data Analytics in the Audit of Financial Statements](#) . Page 8 of the publication provides a summary of findings.

## AUASB Strategic Project Outline

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Project Title: Public Sector Audit Issues  
Team member responsible: Matthew Zappulla  
AUASB Sponsor: Julie Crisp

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### I. Background

1. With the exception of the development of ASAE 3500 *Performance Engagements* the AUASB has not addressed many initiatives that enhance audit and assurance consistency and quality in relation to audits performed on public sector entities.
2. In December 2015 the Australasian Council of Auditors-General (ACAG) sent a letter to the AUASB identifying issues currently impacting public sector audits. This letter was tabled at the June 2016 AUASB meeting however, due to changes in personnel and other priorities, was never acted upon by the AUASB Technical Group. Addressing the issues raised in this communication is long overdue and we have committed to the ACAG Auditing Standards Committee (ASC) that we will address these issues as part of the AUASB's 2017-18 work plan.
3. In June 2017 a letter was tabled with the FRC querying how current aspects of the auditing framework apply to public sector audits (e.g. issues relating to the 'Lack of contestability of public sector auditing'). Whilst the many of the conclusions about audit in the public sector in this paper are not supported by hard evidence the AUASB needs to consider the impact of these issues raised and address any perceptions – right or wrong – which may exist.
4. The AUASB has received anecdotal evidence that certain Auditor-General offices have concerns about applying ASAE 3500 *Performance Engagements* as it has limitations that are not perceived to exist in equivalent INTOSAI standards.

### II. Scope

5. Work with ACAG and other public sector auditing representatives and users to
  - a) confirm our understanding of the public sector audit issues raised; and
  - b) identify how the issues raised about public sector audits can be best addressed within the existing Australian assurance framework.

### III. Project objectives, public interest benefits and link to corporate strategy:

#### Project Objectives

6. For the AUASB to develop and issue new guidance that is specifically targeted to address the needs of public sector auditors.

#### Public interest benefits

7. The public interest benefits of this proposal are to:
  - a) improve audit quality in the public sector;
  - b) address issues currently raised as concerns by public sector auditors and users of audited financial statements in the public sector ; and
  - c) ensure the needs of public sector auditors are captured and addressed in our feedback on IAASB projects.



## **Link to Corporate Strategy:**

8. This project aligns to the following AUASB strategic objectives:
- a) Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users. Use IAASB Standards – where they exist, modified as necessary – or develop Australian-specific standards and guidance.
  - b) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships.
  - c) Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.
  - d) Influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial reporting.
  - e) Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance.

## **IV. Proposed Actions and Outcomes**

### *Immediate term*

- (a) Address issues raised in the ACAG Public Sector Audit Issues Paper, with a view to producing guidance targeted for public sector auditors in the following areas:
  - (i) Terms of Engagement
  - (ii) Engagement Leader
  - (iii) Going Concern
  - (iv) Group Audits
  - (v) KAM reporting in the Public Sector (specifically implementation issues and scoping/application matters)
  - (vi) Implementation issues associated with ASAE 3500 *Performance Engagements*
- (b) Assess the need to create a specific Public Sector Project Advisory Group, comprised of nominated ACAG ASC members and other public sector audit specialists
- (c) Identify if a specific response is necessary to address public sector audit issues identified in correspondence to the FRC by engaging with relevant parties (both preparers and auditors) in the public sector to establish the credibility of the matters being raised and what is an appropriate responses to the these matters.
- (d) Ensure AUASB input into all IAASB projects includes consideration of the public sector by performing outreach with public sector auditors.
- (e) Identify opportunities to work with and assist public sector auditors in relation to government reporting that requires the use of assurance standards and guidance for external reporting beyond financial reporting.

### *Medium term*

- (f) Consider our involvement in a proposed ANU research project focused on “Do public sector audit reports influence the usefulness of public sector financial statements?”.

## **V. Stakeholders**

- Auditors-General (in particular the ACAG ASC Chair, Maxine Lay)
- ACAG ASC Representatives
- Other Public Sector Auditors
- Treasury agencies and other central agencies overseeing Public Sector financial reporting and accountability

## Strategic Project Outline

Project Title: Audit Quality – Prescribed Reports  
Team member responsible: Rene Herman

### I. Background

1. The AUASB has committed in their strategic plan to promote initiatives that enhance audit and assurance consistency and quality.
2. The quality of financial reports is critical to confident and informed markets and investors. The objective of the independent audit is to provide confidence in the quality of financial reports<sup>#</sup>. Improving audit quality and the consistency of audit execution and auditor reporting is essential to continued confidence in the independent assurance provided by auditors.
3. The AUASB is alert to a level of inconsistency of assurance reporting by issuers of prescribed reports. These prescribed reports may be legally binding (cannot change, must follow word for word) or just preferred; and the prescribed wording may be on the entire report or on the opinion only. Such inconsistencies may stem from a lack of understanding of issuers as to the types of assurance and this may lead to user expectation gaps that in turn results in diminishing audit quality.
4. APRA requires APRA regulated industry entities to have additional assurance over and above the financial report, on annual returns and controls. APRA prescribes the level of issuance and the format of reporting. It is critical that the AUASB remains involved in the wording of the prescribed APRA assurance report requirements so as to ensure the said requirements meet AUASB standards and accordingly can fulfil user needs.

### II. Scope

5. The following regulators fall inside the scope of this project proposal:

<i>Regulator</i>	<i>Context</i>	<i>Why</i>
ASIC	Issuer of prescribed reports eg: FS 71 AFSL	To facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.
APRA	Prudential regulator (financial institutions) – prescribed assurance reports	To facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.
ATO	Regulator of SMSFs	To assist with the audit quality of SMSF audits and to facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.
Clean Energy Regulator	Prescribed assurance reports*	To facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.

6. The following regulators fall outside the scope of this project proposal:

ACNC – dealt with under the reporting frameworks and charities project. ACCC, FIRB, ASX – no direct assurance needs/impacts identified, other government bodies setting auditing and assurance as covered under the reporting framework strategic project.

<sup>#</sup> Includes other assurance engagements.

\* Assurance reporting is in the scope of this strategic project, the conduct of assurance is covered by the emerging forms of external reporting strategic project.

### III. Project objectives, public interest benefits and link to corporate strategy:

#### Project Objectives

7. For the AUASB to understand and be appropriately involved in and responding to audit and assurance prescribed reports\* issued by ASIC, APRA, ATO, CER#, and others as the need arises, so that appropriate levels of assurance, suitable to user needs, are provided with a consistent application of the auditing standards.

#### Public interest benefits

8. The public interest benefits of this proposal are to:
  - a) promote and improve audit quality, the IAASBs Audit Quality Framework, recognises the importance that key interactions with stakeholders has on audit quality – regulators and auditors are identified as being stakeholders within the financial reporting supply chain; and to
  - b) build trust and credibility as “the” audit and assurance standard setter; and to address the issue that prescribed reports: do not always meet AUASB standards and diminish audit quality and credibility.

#### Link to Corporate Strategy:

9. Audit quality contributes to stakeholder confidence in the Australian economy including its capital markets and trust in auditing an assurance. Engagement with issuers of prescribed reports meets the following strategic objectives:
  - a) Attain significant levels of key stakeholder engagement through collaboration, partnership and outreach; and
  - b) Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance

### IV. Way forward

10. The AUASB technical group proposes the following short and medium term steps:

#### *Short term:*

- a) On a real time/as need arises, engage with issuers of prescribed reports to introduce the AUASB, explain the role of the AUASB, provide support and input to issuers with reference to assurance needs and prescribed reports.
- b) Consideration of the NZAuASB Draft guidance for prescribers of assurance engagements and whether the AUASB would consider similar such guidance

#### *Medium term:*

- c) AUASB Chair to engage with Treasury as to best course of action for all regulators issuing prescribed reports that reference the AUASB standards, to come through the AUASB for consultation.
11. AUASB technical group outreach activities to date:
    - a) December 2017: Consultation with Gas Markets Reform Group advisors McGrathNicol on their October 2017 *Consultation Paper Draft Financial Reporting Guidelines for Non-Scheme Pipelines*
    - b) October 2017: Consultation with APRA in relation to the Approved Audit Form for Registered Superannuation Entities.

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\* Assurance needs and requirements of government agencies is partly dealt with under the reporting frameworks and charities strategic project.

# At a later stage of the project, the scope of government agencies may be expanded as needs arise.



# AUASB Board Meeting Summary Paper

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AGENDA ITEM NO. **4**

Meeting Date: 7 March 2018

Subject: AUASB Technical Work Program Update

Date Prepared: 1 March 2018

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☒ Action Required

☐ For Information Purposes Only

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## Agenda Item Objectives

To provide an update to the AUASB on the 2017-18 Technical Work Program and Strategic Priority projects.

## Background

1. At the July 2017 AUASB meeting the AUASB gave their feedback on priorities for the 2017-18 AUASB Corporate Plan and Technical Workplan. The eight areas of focus the AUASB concluded upon were:
  - (a) Auditor Reporting Implementation
  - (b) Coordination and cooperation with Regulators
  - (c) Assurance over Emerging Forms of External Reporting (EER)
  - (d) Auditing and Assurance issues in the Charities and NFP sector
  - (e) Public Sector Auditing and Assurance Issues
  - (f) Consideration of matters related to small and medium practices (SMPs) and audits of small- and medium-sized entities (SMEs)
  - (g) Data Analytics/Digitisation of the Audit
  - (h) The Auditor of the Future
2. Consequently these topics were captured in the 2017-18 AUASB Corporate Plan finalised on 31 August 2017.
3. The AUASB Technical Group then prepared a Draft 2017-18 Technical Work Program and presented it to the AUASB for consideration in September 2017. This Technical Work Program was then subject to feedback from constituents at the AUASB/UNSW Audit Roundtable in October 2017 and then a series of AUASB Consultation Forums held in November 2017.
4. Additional to the Technical Work Program, Strategic Project Plans were prepared for the first four projects and these were presented to the AUASB at the September 2017 meeting, with updates provided at the November 2017 AUASB meeting.

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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.*

### **Matters to consider**

1. The AUASB Technical Group has produced a status update of the AUASB Technical Work program for the AUASB to review (Refer **Agenda Item 4(a)**). The format of this update aligns to the reporting we are required to present to the FRC to ensure consistency and reduce duplication. This is the first time this update has been provided to the board and the intention is to provide this update at the first meeting following the end of each quarter, as well as a full year report at the first meeting after the end of financial year which will be used as the basis for our AUASB Annual Report.
2. Following feedback from stakeholders at our AUASB Consultation Forums that the two Strategic Projects relating to Data Analytics and Public Sector Audit Issues should be given a higher priority the AUASB Technical Group has produced Draft Strategic Project Plans for these topics (Refer **Agenda Items 4(b)(i) & 4(b)(ii)**). These are being presented to the AUASB for the first time at this meeting. AUASB project sponsors still need to be identified and confirmed for these two projects.
3. Feedback from AUASB members at the November 2017 AUASB noted the AUASB Technical Group should split the previous Strategic Project on 'Coordination and cooperation with Regulators' into two separate strategic projects addressing audit quality matters and our work on prescribed reports. The revised Strategic Project on Audit Quality – Working Collaboratively with the Financial Reporting Regulator, Practitioners, and Others in the Financial Reporting Supply Chain is presented in connection with the previous Agenda Item on our Audit Quality Plan (Refer **Agenda Item 2(b)**). Consequently the separated and revised Strategic Project on Prescribed Reports is available at **Agenda Items 4(b)(iii)**.
4. Verbal updates on each of the other Strategic Project Plans will be provided by the AUASB Technical Group at the March 2018 AUASB meeting, with more time allocated to update AUASB members on these other Strategic Project Plans at the April 2018 AUASB meeting.

### **AUASB Technical Group Recommendations**

1. Provide feedback to the AUASB Technical Group on the Q2 update of the 2017/18 AUASB Technical Work Program and new and updated Strategic Project Plans presented at Agenda Item 4(b).
2. An AUASB member to nominate to the Project sponsor for each of the two new Strategic Projects relating to Data Analytics and Public Sector Audit Issues.

### **Material Presented**

Agenda Item 4	AUASB Board Meeting Summary Paper
Agenda Item 4(a)	2017/18 AUASB Technical Work Program – Q2 Update for AUASB, March 2018
Agenda Item 4(b)(i)	Strategic Project Plan - Data Analytics (Draft)
Agenda Item 4(b)(ii)	Strategic Project Plan - Public Sector Audit Issues (Draft)
Agenda Item 4(b)(iii)	Strategic Project Plan - Prescribed Reports (Updated)

**DATE:** January 2018

**TO:** External Reporting Board  
New Zealand Auditing and Assurance Standards Board (NZAuASB)  
Australian Auditing and Assurance Standards Board (AUASB)  
Chartered Accountants Australia and New Zealand (CA ANZ)

**FROM:** Lyn Provost, IAASB member  
Sylvia van Dyk, Technical advisor

**SUBJECT:** Report on IAASB Dec 2017 Meeting

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## Introduction

1. This report provides an overview of the International Auditing and Assurance Standards Board (IAASB) meeting held in New York on 11-15 December 2017.
2. The full meeting papers can be accessed [here](#).

## ISA 540

As noted in our report on the October meeting, a first read of the proposed redrafted standard was planned for the December meeting, including consideration of the remainder of the issues arising from comment letters and the new and revised application material. We were not surprised to hear that the timeline has changed and that the aim is now for a full read of the standard at the March meeting, and approval at the June meeting. Key stakeholder outreach is planned before and after the March meeting.

Key points discussed were scalability, the term reasonable, professional scepticism and the approach to the application material.

### *Scalability*

There was overall agreement and support for the Task Force's changes, especially regarding the removal of the low/not low threshold, and the introduction of scalability in various ways. The drafting and overall approach is now much clearer, but we consider scalability is still a work in progress, and that there is still room for improvement to rewrite in plain English.

Overall suggestions for improvement include better alignment of the description of the spectrum of risk and work effort with ISA 315 and ISA 330, and examples to demonstrate scalability.

### *The term reasonable*

There was still concerns raised by some members about the use of the term reasonable rather than adequate (as used in the accounting standards) in respect of



evaluating disclosures, and the need to consider consistency throughout the standards. The Task Force Chair agreed to consider it further and whether it needed to be explained better.

#### *Professional scepticism*

There was general support for the way professional scepticism has been addressed in the updated draft. However, some members asked for clarification of some of the words used. The Task Force Chair noted that further work needs to be done, including how to consider management bias. The Task Force will be liaising further with the Professional Scepticism Working Group. It is worth noting here that Lyn has agreed to be the Chair of the Professional Scepticism Working Group in the absence of the current Chair while he is undergoing medical treatment. She looks forward to being involved in this important topic.

#### *Approach to the application material*

The Board received a presentation on the analysis of the responses received, which clearly was a huge task. We were impressed with the amount of work and the systematic process used in analysing responses to the application material, but found ourselves still drowning in the detail. It was interesting to note that 3 paragraphs in the standard accounted for 2/3 of the application material. A lot of the material is also educational in style. It was also interesting to note that some respondents asked for more guidance and examples. We wonder if it is a case of wanting appropriate guidance, not necessarily more.

The Board was overall supportive of the process used by the Task Force, but noted that the proof would be in the writing, recognising the different views, making it simpler and shorter.

We volunteered to work through the application material and provided the Task Force just before XMAS with a summary of what we believe could be deleted, and what we considered to be more educational in style. We look forward to seeing the updated draft at the March meeting.

#### *First read of standard*

Revised requirements were presented to the Board after the first reading of the standard, which received much support. The Task Force is not expecting significant changes to the requirements going forward, but some changes are possible as the Task Force progresses the application material. The Task Force agreed that further work is also needed to clarify the auditor's procedures when management has not appropriately understood and addressed estimation uncertainty.

Lyn raised the question of due diligence and the potential of re-exposing the standard, given the significant changes to the draft. The Chair noted the procedure is first to approve the standard, and then to consider whether re-exposure is needed. Our view is contrary to that of the Task Force at this time that changes made is a restructure of the standard rather than fundamental changes to the standard itself.

## ISA 315 (Revised)

The Task Force Chair provided an update on the project, noting feedback received from the SMP committee has been positive about the overall direction but that it still has concerns around scalability and application for SMPs.

This was the first read of the full standard. There was broad support for the general direction of the proposed changes, but the overall feedback was that the flow of the standard is complex, and that more consideration should be given to scalability. The Board agreed that scalability should be presented through the requirements and application material in context of the auditor's consideration of risk thereby eliminating the need for "considerations for smaller entities."

Other key comments were as follows.

- There was support for the incorporation the spectrum of risk concept in the standard but further consideration is needed about how it can be explained earlier in the standard. Also, the spectrum of inherent risk and the relationship to the spectrum of risk of material misstatement needs to be clarified.
- There was support for the proposed changes to definitions but further consideration needed of controls definition, specifically how to include the concept of informal policies. There was also some concern about the use of 'reasonable possibility' when defining relevant assertions as it may not clarify the threshold.
- There was a good discussion about whether to include fraud risk in the Qualitative inherent risk factors (QIRFs), with most of the members continuing to support that. However, further consideration is needed about the interaction of the 'susceptibility to fraud' QIRF with ISA 240<sup>1</sup> and the fraud risk factors, and about quantitative aspects in areas where QIRFs are used.
- More consideration is needed about the description of the 'business model' in obtaining and understanding of the entity.
- There is an urgent need to consider including data analytics in the risk assessment procedures.
- Some concerns were raised about how to operationalise some of the concepts in the risk assessment, and that the spectrum of risk needs to be explained better.
- Further clarification is needed about what controls are 'relevant to the audit', including when the auditor needs to evaluate the design and determine the effectiveness of controls.

The Board will consider a second read of the full standard at the March meeting, and the targeted approval date of the ED is June 2018.

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<sup>1</sup> ISA 240, *The Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements*

## Quality Control (at the engagement level) ISA 220

At the June 2017 meeting the Board asked the Task Force to go back to the drawing board, and to consider what the problem is with ISA 220 that needs to be fixed. Overall the Board was very supportive and complimentary of the comprehensive changes that had been made to the standard since the June meeting. Feedback included:

- There is a need to consider the use of 'sufficient' and 'appropriate' throughout the standard, how the actions in ISA 220 contribute to audit quality and how the concept of policies and procedures links to the concept of 'response' at the firm level in proposed ISQC1.
- Overall support for the proposals in respect of the objective that clarify that the engagement partner(EP) is responsible and accountable for audit quality, but to reconsider to whom the requirements of the ISA should be directed (i.e. the auditor, EP or the engagement team).
- More clarity is needed on the concept of 'manage and achieve' quality. The Board agreed that quality is more than just compliance with the standard, and that the Task Force need to consider if the objective implies a compliance activity. However, the Board cautioned to be careful and to be clear about what beyond compliance means.
- Consider whether the definitions of network and engagement team remain appropriate, including IESBA considerations.
- Consider whether situations where the signing partner is different from the engagement partner should be addressed within this standard or elsewhere.
- Overall support for the direction on leadership responsibility, but to clarify what managing and achieving quality means. Also, consider elevating related select application material.
- Clarify what the EP is expected to do to be satisfied that the firms policies and procedures on ethical requirements have been followed.
- Think about whether to include concepts of commercial considerations, long association, auditor rotation and how they relate to acceptance and continuance decisions.
- Consider whether additional actions are needed when the EP is not comfortable with the firm's acceptance and continuance of a client.
- Think about how best to emphasise the importance that engagement team members have the time available to perform the engagement, and the appropriate nature of resources.
- Clarify what actions can be delegated in the performance of the engagement
- Overall support for the stand back provision in the standard but to consider whether it should be a conforming amendment to ISA 700<sup>2</sup>.

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<sup>2</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

The Board will do a full first read of the standard at the June meeting.

### **Quality Control (Firm level) ISQC1**

Following feedback at the June meeting on how the scalability of the standard could be improved, and various outreach undertaken, the Quality Control Task Force (QCTF) reorganised the standard with a simpler and clearer structure, and introduced a new section in the introduction clarifying upfront how the standard may be applied by different firms.

The overall feedback from the SMP Committee and the Board is that the standard is scalable, but that new ways should be explored to emphasise scalability. For example, to explore development of accompanying guidance to be issued with the ED that addresses how the standard applies to a spectrum of firms. Field testing should be conducted to see how operable the standard is, and if it can be applied by a sole practitioner.

Further key feedback included:

#### *Deficiencies, major deficiencies, introduction, objective, definitions*

- Clarify concepts of deficiency and major deficiency, as well as shortcomings.
- Develop a framework to evaluate results of monitoring and other information to determine if there are deficiencies or a major deficiency.
- Clarify what happens when a major deficiency exists, and what is communicated to firm leadership and others.
- Reduce the introductory paragraphs.
- Better clarify the objective of the system versus the objective of the firm.
- Various proposed enhancements to definitions.

#### *Components*

- Overall support for the 8 components, but to clarify the interrelationships between the components.
- Consider reorganising governance and leadership, and the appropriate prominence of components.
- Rephrase the component objectives as objective statements.
- On balance, support for the structure of each component.
- Quality management process - reconsider threshold for quality risks – not practical and may result in too many risks being identified. Differentiate between the identification of the risks and assessment of their severity.
- Governance and leadership- include explicit reference to public interest, and clarify who are relevant stakeholders.
- Information and communication - more emphasis on two-way communication.
- Support for appointing individual responsible for independence, and not to broaden to have a chief ethics person. Balance the emphasis on various aspects of relevant ethical requirements.
- Acceptance and continuance – address circumstances when the firm does not have a choice in acceptance and continuance, for example in some public sectors.
- Resources – refine financial resource and technology resource, and enhance so that there is a forward-looking focus.

- Engagement performance – retain engagement quality control review in this component, but improve the link to the component objective.
- Monitoring and remediation – clarify how the objective of the standard to obtain reasonable assurance relates to monitoring and remediation. Consider if there should be an annual stand back. Improve emphasis on undertaking root cause analysis on engagements that went well.

#### *Networks and Third-Party Service Providers*

- Support for overall direction, but need to do more on professional scepticism.
- Include requirements for third party service providers, maybe in resources component.
- Address security issues in relation to use of third party service providers.

### **EER Project**

At the October meeting the Board considered and unanimously approved the project proposal to develop new non-authoritative guidance to address the Ten Key Challenges, identified by the IAASB, which arise in the performance of assurance engagements over EER in applying ISAE 3000 (Revised)<sup>3</sup>.

The Board received an update on the Task Force discussions since the October meeting, including

- which of the Ten Key challenges identified by the IAASB will be addressed in Phase 1 of the project;
- planned research agenda;
- detailed project plan and timing of meetings; and
- draft call for nominations to a Project Advisory Panel (this was finalised and released in January – applications close on 2 February)

A proposal on the Form and structure of the guidance will be presented to the Board at the March 2018 meeting. It is likely to be organised by reference to either the Key Challenges or to the requirements in ISAE 3000.

The key challenges to be tackled first are:

- Evaluating suitability of criteria
- Materiality
- Building assertions
- Maturity in governance and internal control
- Narrative and future oriented information.

To project has been very effectively visually depicted as an 'EER Assurance house':

- The roof is communicating effectively in the audit report.
- The pillars are the key challenges.
- The foundation consists of determining the scope of an EER engagement, exercising professional scepticism and professional judgement, and obtaining the competence necessary to perform the engagement.

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<sup>3</sup> International Standard on Assurance Engagements ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

The planned research agenda includes research on:

- EER frameworks
- Assurance standards and guidance
- Assurance reports and EER reports
- What do users want

Members all highlighted they were very satisfied with the structural elements of the project, with compliments on the progress.

### **Professional scepticism**

The Board discussed the Professional Scepticism Subgroup's conclusions and recommendations related to different "mindset" concepts of professional scepticism, and the use of words in the ISAs in this respect.

The Board broadly agreed that the current concept of the attitude of professional scepticism involving a "questioning mind" in the definition of professional scepticism continues to be appropriate and it is therefore in the public interest that it be retained, rather than being replaced by other concepts suggested by some respondents to the ITC, such as "doubting mindset" or "challenging mind(set)".

The Board further agreed that the definition could potentially be more precise, and discussed what the next steps could be. The PIOB member noted the importance of working jointly with IESBA to get a common understanding so it can consistently feed into other standards development. The IAASB Professional Scepticism Subgroup will liaise as needed with the Professional Scepticism Joint Working Group.

### **Data Analytics Update**

The Board received an update on the activities of the Data Analytics Working Group(DAWG), which included a feedback statement and video on the feedback received on the ITC. No additional information was provided to that received at the October meeting. The DAWG is planning to continue conference calls and dialogue and further outreach activities. It is also working on developing case studies of use of Data Analytics for the ISA 315 Task Force.

### **Group Audit Update**

The Board received a presentation about the interconnections between ISA 600<sup>4</sup> and other ongoing projects, and how the Task Force is monitoring the activities of the other task forces, providing input and considering implications of changes in the other standards on ISA 600.

### **Next meeting**

The next meeting will be held 12-16 March 2018 in Amsterdam.

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<sup>4</sup> ISA 600 *Special Considerations – Audits of Group Financial Statements( Including the Work of Component Auditors)*





# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**           **5(b)**  
**Meeting Date:**               7 March 2018  
**Subject:**                     AUASB International Strategy  
**Date Prepared:**             1 March 2018  
**Prepared by:**               Matthew Zappulla

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☒ **Action Required**

☐ **For Information Purposes Only**

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## Agenda Item Objectives

1. For AUASB members to review and provide additional feedback on the AUASB International Strategy described below.

### **I. Background**

2. This 'AUASB International Strategy' captures the outputs from Board members on this topic and highlights other activities the AUASB and its Technical Group staff intend to undertake to ensure the AUASB's influence and engagement on International auditing and assurance matters supports its mandate and domestic agenda.
3. From 2010 to 2016 the AUASB had direct access to the IAASB via the former AUASB Chair also being a member of the IAASB. Since we no longer have an AUASB member sitting on the International Board, we need to agree on how we best manage the AUASB's and the AUASB Technical Group's time and resources to influence the global auditing and assurance agenda.
4. At the September 2017 AUASB meeting Board members considered how the AUASB best manages its time and resources to influence the global auditing and assurance agenda.
5. Meetings between the AUASB Chair and AUASB members as part of the annual AUASB member feedback process highlighted that a number of AUASB members would like more of the AUASB's agenda dedicated to international matters. In particular there was some concern expressed that the way the Board is currently requested to review and provide feedback on IAASB board papers and agenda needs to be revisited.
6. At the December 2017 AUASB Teleconference AUASB members were presented with a draft version of this international strategy and feedback was requested. Feedback was provided by AUASB members at the meeting and subsequent to the meeting via email, with all feedback incorporated into this version of the document presented for consideration in March 2018.

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## **II. The AUASB's International Mandate and Current Strategy**

7. The AUASB has an obligation to be actively engaged in International auditing and assurance matters by virtue of the following legislative and oversight requirements:
  - (a) Under section 227B(1)(d) of the ASIC Act, the AUASB's functions include a requirement to "participate in and contribute to the development of a single set of auditing standards for world-wide use".
  - (b) The Financial Reporting Council requires the AUASB to use auditing standards issued by the IAASB as a base from which to develop local Auditing and Assurance standards.
8. Consequently the AUASB has adopted as part of its current vision, mission and strategy the following elements that specifically address our International mandate:
  - (a) Contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use (Mission);
  - (b) Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users, using IAASB Standards, where they exist, modified as necessary (Strategic Objective 1); and
  - (c) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships (Strategic Objective 3).
9. Other elements of the AUASB vision, mission and strategy also contain activities relevant to the AUASB's International mandate, such as engaging with other international stakeholders to influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial reporting (Strategic Objective 5).
10. In addition, the protocol for cooperation agreed between the NZ External Reporting Board (XRB) and the FRC, AASB and AUASB Chairs requires the AUASB, inter alia, to use its best endeavours to achieve the following outcomes:
  - (a) Minimise the differences between auditing and assurance standards issued in Australia and New Zealand;
  - (b) To the maximum extent possible, the AUASB and NZAuASB present similar positions at international forums; and
  - (c) Maximise the contribution to, and thus the influence of the AUASB and the NZAuASB upon the IAASB.

## **III. Feedback on current AUASB International Engagement Initiatives**

11. At its September 2017 meeting the AUASB discussed the best ways the AUASB and the Technical Group should engage and influence international matters. The key points raised were:
  - (a) The AUASB needs to acknowledge the limited amount of capacity we have to directly influence all matters on the IAASB agenda. Therefore we need to focus on influencing the topics where we can have the greatest impact or those that are the most important to the AUASB Agenda.
  - (b) Agreement that instead of all AUASB members and staff reviewing all IAASB agendas and papers a lead AUASB member and AUASB Technical Group staff member is allocated to each IAASB project or other international initiative. Ideally the AUASB board and staff member allocated to each International project should be a Subject Matter Expert on the

topic and have sufficient capacity to review necessary materials (e.g. IAASB board papers) in advance of AUASB meetings.

- (c) Emphasis should be placed on AUASB Members and Technical Group staff building relationships with international and other National Standard Setters all levels, including with whom we should strategically align with on specific topics.
  - (d) Greater engagement with other National Standard Setters, at the combined global level and directly via bilateral relationships on specific projects, was encouraged.
  - (e) The AUASB Technical Group staff were asked to consider how National Standard Setters in other jurisdictions engage on International issues and whether some of these methods should be adopted.
12. At the December 2017 Teleconference AUASB members gave the following additional feedback:
- (a) The main objective of our international strategy should be to ‘influence’ international developments.
  - (b) The key ways we provide influence are through:
    - (i) Communications with the IAASB prior to and when attending IAASB meetings; and
    - (ii) Providing direct feedback to IAASB members (particularly the Australasian IAASB members) on International projects.
  - (c) We need to be very focused on what our key issues/priorities are and ‘pick winners’ – i.e. the projects for which we are really concerned about and the key issues in each projects we have concerns about.
  - (d) There was broad agreement that it is not possible or required that all board members review the IAASB papers. Instead board members should be able to rely on updates from staff and the allocated subject matter expert board member for each IAASB project to provide feedback to the board at each meeting. (NB: This does not preclude AUASB members from reviewing all the IAASB papers they wish to, and all IAASB board papers will continue to be provided to AUASB members for this purpose)
13. The NZAuASB Chair also highlighted in his feedback a number of opportunities where he believes the AUASB and NZAuASB can better collaborate to create synergies and increase influence from a regional perspective.

#### **IV. Updated AUASB International Strategy**

- 14. In response to this feedback the AUASB Technical Group has developed an updated AUASB International Strategy for consideration at the March 2018 AUASB meeting. A copy of the strategy is contained in **Appendix 1** and consists of standard tasks the AUASB performs in relation to the IAASB’s regular activities, as well as other internationally focused tasks that the AUASB may undertake on a less regular or project specific basis.
- 15. To facilitate the above strategy the schedule for AUASB meetings in 2018 has been aligned with 2018 IAASB meeting dates, being a week beforehand so additional AUASB meetings/teleconferences devoted to IAASB matters should no longer be required.
- 16. The AUASB Technical Director will discuss opportunities to collaborate with the NZAuASB members and staff at a future visit to New Zealand in April 2018.

**AUASB Technical Group’s recommendation and action required by the AUASB**

17. AUASB members are requested to review and provide feedback on the updated AUASB International Strategy.

***Part B – NZAuASB***

1. Refer paragraph 10 above which describes the AUASB’s requirement to collaborate with the NZAuASB on our International Strategy and also Appendix 2 below includes our existing efforts to collaborate with the NZAuASB on International matters.

***Part C – “Compelling Reasons” Assessment***

1. N/A

**Material Presented**

Appendix 1	AUASB International Strategy (February 2018)
Appendix 2	Example IAASB Project Summary



## AUASB International Strategy (February 2018)

*Team member responsible: Matthew Zappulla*

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### Background

1. The AUASB has an obligation to be actively engaged in International auditing and assurance matters by virtue of the following legislative and oversight requirements:
  - (a) Under section 227B(1)(d) of the ASIC Act, the AUASB's functions include a requirement to "participate in and contribute to the development of a single set of auditing standards for world-wide use".
  - (b) The Financial Reporting Council requires the AUASB to use auditing standards issued by the IAASB as a base from which to develop local Auditing and Assurance standards.
2. Consequently the AUASB has adopted as part of its current vision, mission and strategy the following elements that specifically address our International mandate:
  - (a) Contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use (Mission);
  - (b) Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users, using IAASB Standards, where they exist, modified as necessary (Strategic Objective 1); and
  - (c) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships (Strategic Objective 3).
3. The objective of the AUASB International Strategy is to operationalise the internationally focused aspects of AUASB's functions and strategic objectives and outline the methods the AUASB apply to influence the International standard setting agenda in accordance with our mandate.
4. The strategy consists of both regular international functions undertaken by AUASB members and Technical Group staff to ensure adequate analysis and input into regular IAASB activities and other operational or strategic tasks that support our engagement on international standard-setting issues.

### AUASB International Functions

5. As part of its technical work program the AUASB will perform the following tasks in relation to the IAASB's regular activities:
  - (a) The AUASB Chair and AUASB Technical Director to coordinate a process to ensure the AUASB provide regular feedback on the IAASB's strategy and work plan as requested.
  - (b) The AUASB Chair and AUASB Technical Director will monitor the development and release of IAASB board meeting agendas and other relevant communications and ensure these are adequately addressed in AUASB meetings.
  - (c) For each major IAASB project an AUASB Board member and AUASB Technical Group member with the appropriate knowledge, expertise and capacity will be identified. The designated AUASB Technical Group member for each project will initially review, make

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## APPENDIX 1 – AUASB International Strategy

available and provide comments on the relevant IAASB papers as soon as practically possible to the relevant AUASB member.

- (d) For each major IAASB project an **‘IAASB Project Summary Template’** (Refer Appendix 2) will be updated prior to and presented in the board papers at each AUASB meeting that precedes an IAASB meeting. AUASB members are asked to provide feedback on the format and design of this template (which has been updated with information for ISA 540 for demonstration purposes). The template not only provides a summary of the key issues in the IAASB papers but also a recommendation of the activities to best influence the direction of the IAASB project as a result of the AUASB’s analysis, as well as a summary of the next steps or other actions required.
- (e) A summary of the AUASB’s feedback on these major IAASB projects will be prepared by the AUASB Technical Director after each AUASB meeting and supplied to the AUASB Chair and other AUASB representatives attending each IAASB meeting as observers, as well as the Australasian IAASB members (currently Fiona Campbell and Lyn Provost).
- (f) Following each IAASB meeting, feedback will be provided to AUASB members by the AUASB Chair and other AUASB representatives who attended as observers, as well as the notes/highlights from the IAASB meeting being included in the AUASB board papers.
- (g) The Australasian IAASB members have a standing invitation to attend AUASB meeting as official guests/observers and provide feedback comments on IAASB matters to the AUASB. Specifically the AUASB Chair will ensure that the Australasian IAASB members attend at least one AUASB meeting to provide an update on IAASB developments each year. Similar presentations from IFAC representatives will also be sought and encouraged where relevant.
- (h) Any significant IAASB matters which arise outside of the normal IAASB meeting process will be communicated to AUASB members on an as required basis by the AUASB Chair or AUASB Technical Director.

### Other Current AUASB International Strategic Projects

#### *Global regulatory matters*

- Monitor the outcome of responses to the Monitoring Group Consultation Paper on Global auditing and assurance standard setting
- Regularly engage with ASIC on global regulatory matters (e.g. IFIAR, IOSCO) impacting on the auditing and assurance profession

#### *IFAC/IAASB engagement*

- In collaboration with the FRC, develop a strategy to have more Australian representation on the IAASB by having another Australian identified and appointed as a new IAASB member
- Identify opportunities to have more Australian representatives who are advocates for the AUASB appointed to IFAC Committees and Working Groups
- Develop and foster direct relationships with IAASB members who are Taskforce leaders on specific topics Australia has a key interest in (e.g. EER, AUP)
- Identify opportunities for AUASB members or staff to contribute to IAASB Taskforces
- Assist IAASB staff in organising global and regional IAASB National Standard Setters Forums
- Share relevant Thought Leadership associated with AUASB Strategic Projects with the IAASB
- Identify opportunities to contribute to global and regional audit and assurance events and conferences (e.g. World Congress of Accountants in Sydney in November 2018)
- Consider opportunities for staff secondments or joint project work with the IAASB

## APPENDIX 1 – AUASB International Strategy

### *Engagement with other National Standard Setters*

- In conjunction with the NZAuASB development a network of regional (i.e. AsiaPac) National Audit and Assurance Standard Setters
- Identify opportunities to conduct bilateral and multilateral projects with other NSS's (e.g. Auditor Reporting with NZ and Canada; EER with South Africa)
- Share relevant Thought Leadership associated with AUASB Strategic Projects with other National Standard Setters
- Consider opportunities for staff secondments or joint project work with other National Standard Setters

### *Other*

- Build relationships and influence with other significant International stakeholder groups relevant to the Auditing and Assurance profession (e.g. IIRC, WBCSD, Climate Change TF)
- Support Quality Academic Research by Australian Universities which enhances Australia's reputation as a leader in Auditing and Assurance
- Have AUASB members and staff attend and present on Strategic Projects at relevant International conferences

## APPENDIX 2 – IAASB Project Summary Template

### IAASB Project - Accounting Estimates - ISA 540

**NB: AUASB Technical Group Feedback (views may not be representative of the AUASB)**

Project Objective	AUASB SMEs
<p>(i) Propose revisions to ISA 540, establishing more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures. It is anticipated that these revisions would also seek to emphasize the importance of the appropriate application of professional scepticism when auditing accounting estimates.</p> <p>(ii) Determine whether non-authoritative guidance and support tools, such as International Auditing Practice Notes, Staff publications, project updates or other materials, should be developed in the future to address special audit considerations relevant to financial institutions to supplement the revisions to ISA 540 and oversee the development of the guidance material considered necessary.</p>	Ashley / Rene
AUASB Key Points	
<p><b>Overall comments</b></p> <p>The AUASB technical group considers that most of the AUASBs concerns raised on exposure of ISA 540 around scalability, use of the 3 “buckets” of complexity, judgement and estimation uncertainly as the drivers determining the nature and extent of audit procedures; and issues around auditor’s/management’s range have been addressed by the IAASB. The technical group still considers that the standard is long and complicated, but this is as a result of the nature of the subject matter.</p> <p>While scalability has been considered and addressed, the technical group considers that SMEs may still encounter difficulties when implementing the standard. There is considerable content to digest, and possibly work programs will need extensive rework. The technical group consider there is increased audit effort &amp; documentation even for simple estimates – this has been reflected in agenda item 2D, examples that illustrate scalability.</p> <p>The March IAASB meeting papers are silent on due process around issuance of the standard or discussion around re-exposure.</p> <p>Proposed Effective Date: Periods ending on or after 15 December 2019</p>	
Key Points from the AUASB response to ED ISA 540 and IAASB summary of discussions	
<ol style="list-style-type: none"> <li>1. AUASB did not support IR low/not-low and general scalability of ED seen as an issue <ol style="list-style-type: none"> <li>a. IR low/non-low dropped; use of wording to indicate conditionality (eg: para 10: the degree relevant in the circumstances; para 13: the degree to which); procedures responsive to <i>reasons</i> for ROMM; explicitly stating the greater the reliance, the more persuasive the audit evidence (para 16).</li> <li>b. Introduction of spectrum of risk – see para 3/540 and additional application material (AM) inserted: A71-A71B and A11-A10 (lifted from draft ISA 315)</li> <li>c. Application material and examples to demonstrate scalability – AM A94 included to demonstrate how the extent of further procedures may be impacted. Agenda item 2D – walked through example demonstrating scalability – will be included as an appendix to ISA 540</li> <li>d. Understanding business - scalability subheading and AM to demonstrate scalability now included A8A, A8B, A10</li> </ol> </li> <li>2. AUASB did not support the concepts of complexity, judgement and estimation uncertainly as the drivers determining the nature and extent of audit procedures. <ol style="list-style-type: none"> <li>a. The 3 concepts of complexity, judgement (term post ED changed to subjectivity) and estimation uncertainly have been retained but not as the driver of audit procedures, but rather as key to risk assessment and identification and assessment of risk of material misstatement.</li> </ol> </li> <li>3. In relation to auditors range/point estimate, concerns around: <ol style="list-style-type: none"> <li>a. Designation of responsibilities between auditor and management <ul style="list-style-type: none"> <li>• Designation of responsibilities: developing an auditor’s range now brought under the heading of evaluating management’s point estimate. Application material included to demonstrate when to develop point estimate/range A126C - A129B</li> </ul> </li> </ol> </li> </ol>	

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## APPENDIX 2 – IAASB Project Summary Template

- b. Auditor's range not always within materiality
  - Application material inserted to deal with scenarios where not always within materiality. (para A134)

### **Changes to ED ISA 540 since December IAASB meeting (reflected in March meeting papers):**

Since the December IAASB meeting, there have not been many changes to the requirements of ISA 540. Most of the changes relate to changes in application material. The changes since the December meeting are mainly:

2. Tidying up of AM, tightening up of AM, additional AM and examples (on issues that had been raised by the AUASB on ED) are:
  - a. Agenda item 2D – example to illustrate scalability
  - b. AM demonstrating how to apply scalability in the risk assessment phase (paras A8A and A10)
  - c. AM where auditor prepares a range when management hasn't properly understood or addressed estimation uncertainty (paras A126A-A126B)
  - d. AM when it's appropriate to develop point estimate/range (paras A126C-A129B)
  - e. AM – where range may exceed materiality (para A134)
  - f. Tighten up of application of professional scepticism - Additional application material now included to demonstrate that auditors are not expected to specifically search for contradictory evidence (para A92E)
3. Consequential changes to other standards (ISA 200, ISA 230, ISA 260, ISA 500)
4. Several additional requirements included in ISA 540:
  - a. At the risk assessment stage, there is a new requirement to understand controls relating to management's process for making estimates (par 10(ia))
  - b. Separate assessment of IR and CR (para 13)
  - c. Clarification of the auditor's role where management has not appropriately understood and addressed estimation uncertainty (para 17F)
  - d. Clarification of the requirements where an auditor develops their own point estimate/range (para 18C)
  - e. Uplift in documentation requirements (para 27)

### **Other significant actions noted in March 2018 papers – this was not a major area of concern in the AUASB submission on ED ISA 540:**

1. Documentation (para 27):
  - a) Increase in requirements to document:
    - key elements of understanding entity and system of IC
    - reasons for the separate assessment of IR and CR
    - auditor's rationale for testing approach
    - auditor's response where management has not understood and addressed estimation uncertainty
  - b) Increase in application material
    - Para A158A – additional matters that may be documented where a complex model is used
    - Tighten up of application of professional scepticism – para A158B – documentation supporting evidence of the exercise of PS

### **AUASB influencing activities**

AUASB Technical Director to prepare briefing notes for distribution to Australasian IAASB members and AUASB Chair.

### **Next steps / milestones for this project**

No further information noted in the meeting papers.

**IAASB Project - Accounting Estimates - ISA 540**

**AUASB Technical Group Feedback (views may not be representative of the AUASB)**

Project Objective	AUASB SMEs
<p>(i) Propose revisions to ISA 540, establishing more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures. It is anticipated that these revisions would also seek to emphasize the importance of the appropriate application of professional scepticism when auditing accounting estimates.</p> <p>(ii) Determine whether non-authoritative guidance and support tools, such as International Auditing Practice Notes, Staff publications, project updates or other materials, should be developed in the future to address special audit considerations relevant to financial institutions to supplement the revisions to ISA 540 and oversee the development of the guidance material considered necessary.</p>	<p>Ashley / Rene</p>
<b>AUASB Key Points</b>	
<p><b>Overall comments</b></p> <p>The AUASB technical group considers that most of the AUASBs concerns raised on exposure of ISA 540 around: scalability, use of the three ‘buckets’ of complexity, judgement and estimation uncertainly as the drivers determining the nature and extent of audit procedures, and issues around auditor’s/management’s range, have been addressed by the IAASB. The Technical Group still considers that the standard is long and complicated, but this is as a result of the nature of the subject matter.</p> <p>While scalability has been considered and addressed, the technical group considers that SMEs may still encounter difficulties when implementing the standard. There is considerable content to digest, and possibly audit work programs will need extensive rework. The Technical Group consider there to be uplift in audit effort and documentation requirements even for simple estimates – this has been reflected in agenda item 2D, examples that illustrate scalability.</p> <p>The March IAASB meeting papers are silent on due process around issuance of the standard or discussion around re-exposure.</p> <p>Proposed Effective Date: Periods ending on or after 15 December 2019.</p>	
<b>Key Points from the AUASB response to ED ISA 540 and IAASB summary of discussions</b>	
<ol style="list-style-type: none"> <li>1. AUASB did not support Inherent Risk (IR) low/not-low and general scalability of ED seen as an issue: <ol style="list-style-type: none"> <li>a. IR low/non-low dropped; use of wording to indicate conditionality (eg: para 10: the degree relevant in the circumstances; para 13: the degree to which); procedures responsive to <i>reasons</i> for Risk of Material Misstatement (ROMM); explicitly stating the greater the reliance, the more persuasive the audit evidence (para 16).</li> <li>b. Introduction of spectrum of risk – see para 3/540 and additional application material (AM) inserted: A71-A71B and A11-A10 (lifted from draft ISA 315).</li> <li>c. Application material and examples to demonstrate scalability – AM A94 included to demonstrate how the extent of further procedures may be impacted. Agenda item 2D – walked through example demonstrating scalability – will be included as an appendix to ISA 540.</li> <li>d. Understanding business – scalability subheading and AM to demonstrate scalability now included A8A, A8B and A10.</li> </ol> </li> <li>2. AUASB did not support the concepts of complexity, judgement and estimation uncertainly as the drivers determining the nature and extent of audit procedures. <ol style="list-style-type: none"> <li>a. The three concepts of complexity, judgement (term post ED changed to subjectivity) and estimation uncertainly have been retained but not as the driver of audit procedures, but rather as key to risk assessment and identification and assessment of ROMM.</li> </ol> </li> <li>3. In relation to auditors range/point estimate, concerns around: <ol style="list-style-type: none"> <li>a. Designation of responsibilities between auditor and management <ul style="list-style-type: none"> <li>• Designation of responsibilities: developing an auditor’s range now brought under the heading of evaluating management’s point estimate. Application material included to demonstrate when to develop point estimate/range A126C-A129B</li> </ul> </li> </ol> </li> </ol>	

- b. Auditor's range not always within materiality
  - Application material inserted to deal with scenarios where not always within materiality. (para A134).

**Changes to ED ISA 540 since December IAASB meeting (reflected in March meeting papers):**

Since the December IAASB meeting, there have not been many changes to the requirements of ISA 540. Most of the changes relate to changes in application material (AM). The changes since the December meeting are mainly:

2. Tidying up and tightening of AM, additional AM and examples (on issues that had been raised by the AUASB on ED):
  - a. Agenda item 2D – example to illustrate scalability
  - b. AM – demonstrating how to apply scalability in the risk assessment phase (paras A8A and A10)
  - c. AM – where auditor prepares a range when management hasn't properly understood or addressed estimation uncertainty (paras A126A-A126B)
  - d. AM – when it's appropriate to develop point estimate/range (paras A126C-A129B)
  - e. AM – where range may exceed materiality (para A134)
  - f. Tighten up of application of professional scepticism – additional application material now included to demonstrate that auditors are not expected to specifically search for contradictory evidence (para A92E).
3. Consequential changes to other standards (ISA 200, ISA 230, ISA 260 and ISA 500)
4. Several additional requirements included in ISA 540:
  - a. At the risk assessment stage, there is a new requirement to understand controls relating to management's process for making estimates (para 10(i))
  - b. Separate assessment of IR and CR (para 13)
  - c. Clarification of the auditor's role where management has not appropriately understood and addressed estimation uncertainty (para 17F)
  - d. Clarification of the requirements where an auditor develops their own point estimate/range (para 18C)
  - e. Uplift in documentation requirements (para 27).

**Other significant actions noted in March 2018 papers – this was not a major area of concern in the AUASB submission on ED ISA 540:**

1. Documentation (para 27):
  - a) Increase in requirements to document:
    - key elements of understanding entity and system of IC
    - reasons for the separate assessment of IR and CR
    - auditor's rationale for testing approach
    - auditor's response where management has not understood and addressed estimation uncertainty
  - b) Increase in application material
    - Para A158A – additional matters that may be documented where a complex model is used
    - Tighten up of application of professional scepticism – para A158B – documentation supporting evidence of the exercise of PS

**AUASB influencing activities**

AUASB Technical Director to prepare briefing notes for distribution to Australasian IAASB members and AUASB Chair.

**Next steps / milestones for this project**

No further information noted in the meeting papers.

**IAASB Project – ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment***

**AUASB Technical Group Feedback to the AUASB for discussion at its meeting on 7 March 2018**

<b>Project Objective</b>	<b>AUASB SMEs</b>
<p>The objectives of the project are to:</p> <p>(a) Propose revisions to ISA 315 (Revised), establishing more robust requirements and appropriately detailed guidance to drive auditors to perform appropriate risk assessment procedures in a manner commensurate with the size and nature of the entity. It is anticipated that these revisions will focus on enhancing the auditor’s approach to understanding the entity, its environment (including its internal control) and risk assessment activities in light of the changing environment.</p> <p>(b) Determine whether and how ISA 315 (Revised), in its organization and structure, can be modified to promote a more effective risk assessment.</p> <p>(c) Propose consequential amendments to other standards that may be necessary as a result of revisions to ISA 315 (Revised) (such as ISA 220, ISA 240, ISA 330 ISA 540 and ISA 600).</p> <p>(d) Determine what non-authoritative guidance and support tools should be developed by the IAASB, or others, to supplement revisions to ISA 315 (Revised) thereby aiding its effective implementation. Non-authoritative guidance and support tools may include International Auditing Practice Notes (IAPNs), Staff publications, project updates, or illustrations / examples to provide assistance on how ISA 315 (Revised) could be applied, in particular to address concerns by auditors of SMEs.</p>	<p>Justin Reid / Anne Waters</p>
<p>Background and overall comments:</p> <ul style="list-style-type: none"> <li>• The ISA 315 Task Force are presenting the second draft of the proposed amendments to ISA 315 at the IAASB March 2018 meeting.</li> <li>• The IAASB broadly supported the proposals in the first draft discussed at its meeting in December 2017 and asked for further consideration on various matters including: <ul style="list-style-type: none"> <li>○ definitions of “controls” and “relevant assertions”</li> <li>○ the introduction of the term “business model” and its interactions with current requirements of the standard</li> <li>○ the use of “sufficient and appropriate” as it relates to potential confusion with “sufficient appropriate audit evidence”</li> <li>○ further consideration of how fraud can be included as qualitative inherent risk factor, and the link to ISA 240</li> <li>○ spectrum of risk could be better explained earlier in the standard.</li> </ul> </li> </ul>	

- The AUASB have been monitoring the development of the proposed amendments to ISA 315, and at its teleconference on 5 December 2017 discussed that based on the review of the papers being discussed at the December 2017 IAASB meeting:
  - There were no significant concerns with the status or direction of ISA 315
  - The impact of application for SME's, Data Analytics and Public Sector is still being determined and will be presented at the March 2018 IAASB meeting.
  - The ISA 315 taskforce has separated the 'understanding' required from the identification of 'controls relevant to the audit,' as some components may not necessarily have 'controls relevant to the audit', which has been clarified to be those controls that meet certain criteria outlined in paragraph 21 (e.g. that are relevant to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; that are relevant to a significant risk; are over journal entries; etc).
  - The requirements to identify and assess the risks of material misstatement, including inherent and control risks, including the introduction of the concept of a 'spectrum of inherent risk' have been made clearer.

#### **AUASB Key Points from review of March 2018 IAASB papers**

##### **Overall comments**

- There are extensive redrafting and restructuring changes to the proposed standard as a result of the comments received. The Task Force has provided an extensive analysis of all the changes since the previous version and the rationale for decisions made to assist the IAASB with its consideration of the draft standard.
- Whilst no concerns with the overall direction of the standard there are a few matters highlighted below: The following is a summary of the changes and matters to discuss with the AUASB:
  - New introductory paragraphs to provide context and the interaction with ISA 200 and ISA 330 have been added which are a good addition.
  - Changes to and new definitions ie. controls, general IT controls and application controls relevant asserts, significant risks.
    - ◆ Qualitative Inherent Risk Factors changed to Inherent Risk Factors (IRF). IRF now incorporates qualitative and quantitative factors before consideration of controls. Impact is that IRF now includes the size of the class of transaction, account balance or disclosure relative to performance materiality.
    - ◆ Within the definition of IRF, fraud is now replaced with management bias as the Task Force believe this is consistent with the concept of IRF.
    - ◆ New definition of reasonable possibility raises a concern that low risk material balances may become significant which will increase work effort where not considered necessary.
      - ◇ Significant class of transaction, account balance or disclosure is where there is a relevant assertion. Definition of relevant assertions is when there is a reasonable possibility of a material misstatement. Reasonable possibility defined as where the likelihood of a material misstatement is more than remote. Remote is lower than reasonable.
    - ◆ Definitions of class of transaction and account balances as there is a risk auditors

will disaggregate items.

- The Task Force have redrafted and re-ordered requirements and related application material. There are no significant issues except refer new requirement 30A for discussion:
  - ◆ Restructured the requirements under a new section that addresses “Controls Relevant to the Audit”.
  - ◆ Includes requirements related to dealing with any identified deficiencies consistent with ISA 265 and 330.
  - ◆ Introducing a requirement in paragraph 18A to evaluate the design of the information system and to determine if it has been placed into operation. This is distinct from the evaluation of individual controls over the information system required by paragraph 21B.
  - ◆ Restructured and clarification of requirements relevant to IT including reinstated requirement for the identification of risk arising from IT (paragraph 21). The requirements relevant to IT raise no concerns however are still being refined including and application material is still being drafted.
  - ◆ Identifying and Assessing the Risks of Material Misstatement – clarified that when the operating effectiveness of controls are not tested the auditor shall assess controls risk at the maximum.
  - ◆ Added a new requirement (30A) in relation to classes of transactions, account balances and disclosures that are not significant, but are quantitatively or qualitatively material. Is this necessary given the existing requirement in ASA 330 paragraph 18? The Task Force have added this to ISA 315 to require auditors to consider the risk of the item, not just the size. Also the Task Force recommend that ASA 330 paragraph 18 is amended to:

Irrespective of the assessed risk of material misstatement, the auditor shall design and perform substantive procedures for each class of transactions, account balance and disclosure that is quantitatively or qualitatively material.
  - ◆ Additional application material to assist with scalability. Principle is that scalability applies to all sized entities and the important factor is complexity. The Task Force plan to add more to the application material.
  - ◆ Some application material on how “automated tools and techniques” ie. data analytics are used in the risk assessment process is included however the ISA 315 Task Force plans to continue working with the DAWG to further enhance this prior to June.
  - ◆ Appendices:
    - ◇ 1. *Considerations for understanding the Entity and its Business Model* – New appendix but content was in application material in the December version.
    - ◇ 2. *Events and Conditions That May Indicate Risk of Material Misstatement* - Is in the extant but has been expanded.
    - ◇ *Understanding the Entity’s System of Internal Control* – appendix 1 in

extant and has been updated.
<b>Next steps / still to be completed</b> <ul style="list-style-type: none"> <li>• The following is still in development: <ul style="list-style-type: none"> <li>○ the application material relating to public sector will be updated after planned outreach in March 2018.</li> <li>○ the scalability of the standard as it further refines the proposed changes.</li> <li>○ the application material related to information technology considerations as well as general IT controls.</li> <li>○ further consideration of automated tools and techniques ie. data analytics however likely to require further amendments.</li> </ul> </li> <li>• Conforming amendments will be presented at the June 2018 IAASB meeting, except for those relating to ISA 330 paragraph 18 which are included in agenda item 3.</li> <li>• The ISA 315 and 540 Task Forces are working together as both projects progress and to minimise conforming amendments.</li> </ul>
<b>AUASB influencing activities</b>
AUASB Technical Director to prepare briefing notes for distribution to Australasian IAASB members and AUASB Chair.
<b>Next steps / milestones for this project</b>
<ul style="list-style-type: none"> <li>• The Task Force are planning on presenting a draft ED for approval at the June 2018 IAASB meeting.</li> </ul>

**ASA 102**  
(March 2018)

**Auditing Standard ASA 102**  
***Compliance with Ethical Requirements***  
***when Performing Audits, Reviews and***  
***Other Assurance Engagements***

Issued by the Auditing and Assurance Standards Board



**Australian Government**

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**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](http://www.auasb.gov.au)

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## PREFACE

### Reasons for Issuing ASA 102

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

ASA 102 is an Auditing Standard made under the *Corporations Act 2001* for Australian legislative purposes. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102. Under ASA 102 the auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board Limited (December 2010 incorporating all amendments to May 2017), which are to be taken into account in determining whether relevant ethical requirements have been met. The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

The requirement and application and other explanatory material in ASA 102 have been drawn from several standards of the International Auditing and Assurance Standards Board (IAASB).

The AUASB has made ASA 102 in a format that is consistent with the other Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality control in compliance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* by 1 January 2010.

### Main Features

This Auditing Standard establishes requirements and provides application and other explanatory material regarding the responsibilities of auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

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## **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements (reissued March 2018)* 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.

Dated: 7 March 2018

R Simnett  
Chair – AUASB

## **Auditing Standard ASA 102**

### ***Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements***

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## **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).

However, the requirement and application and other explanatory material in this Auditing Standard have been drawn from ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*, ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* and ISA 220 *Quality Control for an Audit of Financial Statements*, as issued by the IAASB, as listed in the following table:

<b>ASA 102</b>	<b>International Standards</b>
Paragraph 6 (requirement)	ISA 200 paragraph 14 ISA 220 paragraphs 9-11 ISQC 1 paragraph 20
Paragraph A1	ISA 200 paragraph A16
Paragraph A2	ISA 200 paragraph A17
Paragraph A3	ISQC 1 paragraph A7 ISA 200 paragraph A17 ISA 220 paragraph A4
Paragraph A4	ISQC 1 paragraph A8
Paragraph A5	ISA 200 paragraph A18
Paragraph A6	ISQC 1 paragraph A9
Paragraph A7	ISQC 1 paragraph A10 ISA 220 paragraph A5

Compliance with this Auditing Standard, together with other Australian Auditing Standards, enables compliance with the ISAs and ISQC 1.

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## **AUDITING STANDARD ASA 102**

### ***Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements***

#### **Application**

1. This Auditing Standard applies to:
  - (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
  - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
  - (c) an audit or review of other financial information;
  - (d) other assurance engagements; and
  - (e) a firm required to comply with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

#### **Operative Date**

2. This Auditing Standard is operative for engagements with financial reporting periods commencing on or after 8 March 2018<sup>1</sup>.

#### **Introduction**

##### **Scope of this Auditing Standard**

3. This Auditing Standard includes a requirement for auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

#### **Objective**

4. The objective of the auditor, assurance practitioner, engagement quality control reviewer and firm is to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

#### **Definition(s)**

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
  - (a) Assurance practitioner means assurance practitioner as defined in ASQC 1.
  - (b) Auditor means auditor as defined in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

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<sup>1</sup> Subject to FRLI approval.

## **Auditing Standard ASA 102**

### ***Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements***

- 
- (c) Engagement quality control reviewer means engagement quality control reviewer as defined in ASQC 1.
  - (d) Firm means firm as defined in ASQC 1.
  - (e) Relevant ethical requirements means ethical requirements that apply to the auditor, assurance practitioner, engagement quality control reviewer and firm. In Australia, these include the applicable requirements of APES 110 *Code of Ethics for Professional Accountants*, issued by the Accounting Professional & Ethical Standards Board Limited (December 2010 incorporating all amendments to May 2017), the applicable provisions of the *Corporations Act 2001* and other applicable law or regulation.

## **Requirements**

### **Compliance with Relevant Ethical Requirements** (Ref: Para. A1-A7)

6. The auditor, assurance practitioner, engagement quality control reviewer, and firm shall comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

\* \* \*

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## **Application and Other Explanatory Material**

### **Compliance with Relevant Ethical Requirements** (Ref: Para. 6)

- A1. The auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants*, issued by the Accounting Professional & Ethical Standards Board Limited (December 2010 incorporating all amendments to May 2017), which are to be taken into account in determining whether relevant ethical requirements referred to in paragraph 6 of this Auditing Standard have been met. In relation to audits and reviews undertaken in accordance with the *Corporations Act 2001*, the provisions of Division 3 Part 2M.4 of the Act may also apply.
- A2. APES 110 establishes the fundamental principles of professional ethics and provides a conceptual framework for applying those principles.
- A3. The fundamental principles of professional ethics, as described in APES 110, include:
- (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behaviour.
- A4. APES 110 illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.
- A5. In the case of an audit engagement, it is in the public interest and required by APES 110, that the auditor be independent of the entity subject to the audit. APES 110 describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.
- A6. The fundamental principles in APES 110 are reinforced in particular by:
- (a) The leadership of the firm;
  - (b) Education and training;
  - (c) Monitoring; and
  - (d) A process for dealing with non-compliance.
- A7. The definition of terms in APES 110 may differ from the definitions of those terms in Australian Auditing Standards including terms defined in ASQC 1, ASA 200 and ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.



**Auditing Standard ASA 102**

***Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements***

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In complying with the requirements of this Auditing Standard, the definitions used in APES 110 apply in so far as is necessary to interpret the ethical requirements of ASQC 1, ASA 200 and ASA 220.

Draft

**ASA 102**  
( ~~October 2009~~ March 2018)

# **Auditing Standard ASA 102**

## ***Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements***

Issued by the Auditing and Assurance Standards Board



**Australian Government**

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**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](http://www.auasb.gov.au)

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## PREFACE

### ***Reasons for Issuing ASA 102 ~~Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements~~***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

ASA 102 is an Auditing Standard made under the *Corporations Act 2001* for Australian legislative purposes. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102. Under ASA 102 the auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional & ~~and~~ Ethical Standards Board Limited (December 2010 incorporating all amendments to May 2017 February 2008), which are to be taken into account in determining whether relevant ethical requirements have been met. The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

The requirement and application and other explanatory material in ASA 102 have been drawn from several standards of the International Auditing and Assurance Standards Board (IAASB).

The AUASB has made ASA 102 in a format that is consistent with the other Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality control in compliance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* by 1 January 2010.

### **Main Features**

This Auditing Standard establishes requirements and provides application and other explanatory material regarding the responsibilities of auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

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## **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements (reissued March 2018)* 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.

Dated: 8 March 2018

R Simnett  
Chair – AUASB

~~Dated: 27 October 2009~~

~~M H Kelsall  
Chairman – AUASB~~

## **Auditing Standard ASA 102**

### ***Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements***

---

#### **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).

However, the requirement and application and other explanatory material in this Auditing Standard have been drawn from ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*, ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* and ISA 220 *Quality Control for an Audit of Financial Statements*, as issued by the IAASB, as listed in the following table:

<b>ASA 102</b>	<b>International Standards</b>
Paragraph 6 (requirement)	ISA 200 paragraph 14 ISA 220 paragraphs 9-11 ISQC 1 paragraph 20
Paragraph A1	ISA 200 paragraph <del>A14</del> <u>A16</u>
Paragraph A2	ISA 200 paragraph <del>A15</del> <u>A17</u>
Paragraph A3	ISQC 1 paragraph A7 ISA 200 paragraph <del>A15</del> <u>A17</u> ISA 220 paragraph A4
Paragraph A4	ISQC 1 paragraph A8
Paragraph A5	ISA 200 paragraph <del>A16</del> <u>A18</u>
Paragraph A6	ISQC 1 paragraph A9
Paragraph A7	ISQC 1 paragraph A10 ISA 220 paragraph A5

Compliance with this Auditing Standard, together with other Australian Auditing Standards, enables compliance with the ISAs and ISQC 1.

## **AUDITING STANDARD ASA 102**

### ***Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements***

#### **Application**

1. This Auditing Standard applies to:
  - (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
  - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
  - (c) an audit or review of other financial information;
  - (d) other assurance engagements; and
  - (e) a firm required to comply with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

#### **Operative Date**

2. This Auditing Standard is operative for engagements with financial reporting periods commencing on or after 8 March 2018 ~~8 March 2018 and for firms required to establish systems of quality control in compliance with ASQC 1 by 1 January 2010.~~

#### **Introduction**

##### **Scope of this Auditing Standard**

3. This Auditing Standard includes a requirement for auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

#### **Objective**

4. The objective of the auditor, assurance practitioner, engagement quality control reviewer and firm is to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

#### **Definition(s)**

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
  - (a) Assurance practitioner means assurance practitioner as defined in ASQC 1 ~~a person or an organisation, whether in public practice, industry, commerce or the public sector, providing assurance services<sup>+</sup>~~.

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<sup>+</sup> See ASQC 1.



## Auditing Standard ASA 102

### *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*

- 
- (b) Auditor means auditor as defined in ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing ~~the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an Auditing Standard expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.<sup>2</sup>~~
- (c) Engagement quality control reviewer means engagement quality control reviewer as defined in ASQC 1 ~~a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgements the engagement team made and the conclusions it reached in formulating the auditor’s report.~~
- (d) Firm means firm as defined in ASQC 1 ~~a sole practitioner, partnership or corporation or other entity of assurance practitioners. “Firm” should be read as referring to a public sector equivalent where relevant.<sup>3</sup>~~
- (e) Relevant ethical requirements means ethical requirements that apply to the auditor, assurance practitioner, engagement quality control reviewer and firm. In Australia, these include the applicable requirements of APES 110 *Code of Ethics for Professional Accountants*, issued by the Accounting Professional & Ethical Standards Board Limited (February 2008 December 2010 incorporating all amendments to May 2017), the applicable provisions of the *Corporations Act 2001* and other applicable law or regulation.

## Requirements

### Compliance with Relevant Ethical Requirements (Ref: Para. A1-A7)

6. The auditor, assurance practitioner, engagement quality control reviewer, and firm shall comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

\* \* \*

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<sup>2</sup> See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

<sup>3</sup> See ASQC 1.

## **Application and Other Explanatory Material**

### **Compliance with Relevant Ethical Requirements** (Ref: Para. 6)

- A1. The auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants*, issued by the Accounting Professional & Ethical Standards Board Limited (February 2008 December 2010 incorporating all amendments to May 2017), which are to be taken into account in determining whether relevant ethical requirements referred to in paragraph 6 of this Auditing Standard have been met. In relation to audits and reviews undertaken in accordance with the *Corporations Act 2001*, the provisions of Division 3 Part 2M.4 of the Act may also apply.
- A2. APES 110 establishes the fundamental principles of professional ethics and provides a conceptual framework for applying those principles.
- A3. The fundamental principles of professional ethics, as described in APES 110, include:
- (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behaviour.
- A4. APES 110 illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.
- A5. In the case of an audit engagement, it is in the public interest and required by APES 110, that the auditor be independent of the entity subject to the audit. APES 110 describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.
- A6. The fundamental principles in APES 110 are reinforced in particular by:
- (a) The leadership of the firm;
  - (b) Education and training;
  - (c) Monitoring; and
  - (d) A process for dealing with non-compliance.
- A7. The definition of terms in APES 110 may differ from the definitions of those terms in Australian Auditing Standards including terms defined in ASQC 1, ASA 200 and ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.

~~For example, APES 110 defines the "firm" as:~~

## **Auditing Standard ASA 102**

### ***Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements***

- 
- ~~(a) — A sole practitioner, partnership, corporation or other entity of professional accountants;~~
  - ~~(b) — An entity that controls such parties through ownership, management or other means;~~
  - ~~(c) — An entity controlled by such parties through ownership, management or other means; and~~
  - ~~(d) — An auditor general's office or department.~~

~~whereas ASQC 1 defines the "firm" as:~~

~~"Firm means a sole practitioner, partnership or corporation or other entity of assurance practitioners. "Firm" should be read as referring to a public sector equivalent where relevant".~~

APES 110 also provides guidance in relation to the terms "network" and "network firm."

In complying with the requirements of this Auditing Standard, the definitions used in APES 110 apply in so far as is necessary to interpret the ethical requirements of ASQC 1, ASA 200 and ASA 220.

**ASA 102**  
(March 2018)

# **Explanatory Statement**

## ***ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements (reissued March 2018)***

Issued by the Auditing and Assurance Standards Board



**Australian Government**

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**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](http://www.auasb.gov.au)

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## **Reasons for Issuing Auditing Standard ASA 102**

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

ASA 102 is an Auditing Standard made under the *Corporations Act 2001* for Australian legislative purposes. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102. Under ASA 102 the auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board Limited (December 2010 incorporating all amendments to May 2017), which are to be taken into account in determining whether relevant ethical requirements have been met. The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

The requirement and application and other explanatory material in ASA 102 have been drawn from several standards of the International Auditing and Assurance Standards Board (IAASB).

The AUASB has made ASA 102 in a format that is consistent with the other Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality control in compliance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* by 1 January 2010.

## **Purpose of Auditing Standard ASA 102**

The purpose of reissuing this Auditing Standard is to update the reference to the latest version of APES 110 *Code of Ethics for Professional Accountants* issued to the Australian Professional & Ethical Standards Board Limited.

## **Operative Date**

ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (reissued March 2018) is operative for engagements with financial reporting periods commencing on or after 8 March 2018<sup>1</sup>.

## **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**

It is the view of the AUASB that these changes do not require public exposure as they are not significant in nature, and have no impact on the requirements of ASA 102.

## **Regulatory Impact Statement**

A Regulatory Impact Statement (RIS) will be prepared in connection with the preparation of ASA 102. It is expected that the RIS will be cleared by the Office of Best Practice Regulation (OBPR).

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<sup>1</sup> Subject to approval by FRLI.  
**ASA 102**

## **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 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements**

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 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*.

#### *Purpose of Auditing Standard ASA 102*

The purpose of ASA 102 is to establish a requirement for auditors, assurance practitioners, engagement quality control reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

#### *Main Features*

ASA 102 is reissued to refer to the latest version of APES 110 *Code of Conduct for Professional Accountants* as issued by the Australian Professional & Ethical Standards Board Limited.

### **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.





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

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28 February 2018

Principal Advisor  
Individuals and Indirect Tax Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Submitted electronically: [ACNCReview@treasury.gov.au](mailto:ACNCReview@treasury.gov.au)

**AUASB Submission on the *Review of Australian Charities and Not-for-profits Commission (ACNC) legislation***

**Introduction**

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the Treasury's *Review of Australian Charities and Not-for-profits Commission (ACNC) legislation*.

The AUASB is responsible for developing, issuing and maintaining auditing and assurance standards in Australia and contributing to the development of a single set of global auditing and assurance standards for world-wide use. Our mandate requires us to develop standards and associated guidance that have a clear public interest focus and are of the highest quality, covering both financial statement auditing and other assurance services. Our standards are applied by a broad population of auditors who perform audits and assurance engagements across the spectrum of Charities and Not-for-profit entities, including small/medium practitioners (SMPs) and public sector auditors.

All auditors and assurance professionals are already required to apply the AUASB's standards in accordance with the current ACNC legislation. Our submission and its associated recommendations therefore focus on what we consider to be the areas where the ACNC's legislation could be streamlined and enhanced to improve or clarify the auditor's responsibilities when performing an audit or review of an ACNC registered entity.

Our submission has been developed based on targeted stakeholder outreach and input from AUASB Technical Staff and Board Members. The submission prepared focusses on two elements of the review:

- Element 1 – Assess the effectiveness of the provisions and the regulatory framework established by the ACNC Acts to achieve the objects; and
- Element 2 – Consider whether any amendments to the ACNC Acts are required to enable the achievement of the objects and to equip the ACNC Commissioner to respond to both known and emerging issues.

Our overall comments and specific recommendations are presented below.

## Overall comments

### *Review of the audit and assurance requirements in the ACNC Acts*

In our submission, we have specifically highlighted three areas of inconsistency and/or duplication between sections of the ACNC Acts and the requirements of applicable assurance standards relating to:

- Providing an independence declaration;
- Forming an opinion over operational records; and
- The registered entity's requirement to provide the auditor/reviewer with information and assistance.

In addition, we recommend that the sections of the ACNC Act that address audit and assurance requirements are holistically reviewed to further clarify other inconsistencies and duplication of requirements with the auditing standards. Such a review would improve the coherence and clarity of the assurance requirements and 'future proof' the Act against subsequent updates made to the audit and assurance standards. This exercise would ensure ongoing compliance with s60-35 in the ACNC Act (*"Audit or review to be conducted in accordance with the auditing standards"*) and clarify how additional statutory reporting requirements (e.g. the *Corporations Act 2001* disclosures) should be applied.

The AUASB would be pleased to assist in this review, working with other relevant stakeholders to develop assurance requirements in the ACNC legislation that are clear, complement the auditing and assurance standards and meet the needs of the Charities and Not-for-profit sector.

### *Additions to the ACNC Acts to be considered*

We have heard feedback from assurance practitioners in the sector that a mechanism similar to s311 and s601HG of the *Corporations Act 2001*, which requires auditors to notify ASIC of contraventions of the Corporations Act should be considered for inclusion in the ACNC Acts.

### *Reporting Framework*

The AUASB sees value in a wider conversation about the reporting requirements of registered charities. The AUASB is supportive of the ACNC, AASB and AUASB continuing to work together, and consulting with the sector, to develop a suitable reporting and assurance framework for charities, with the aim of ensuring that reporting and assurance is proportionate and consistent according to the size of the entity.

Whilst we consider the existing assurance standards are flexible and robust enough to provide assurance on different subject matters (including financial and non-financial information) and can be tailored to meet the needs of stakeholders, greater clarity and consistency of reporting requirements across the sector will also lead to improved stakeholder outcomes when it comes to the auditing and assurance requirements of these entities.

## Recommendations

The AUASB's detailed recommendations accompany this letter as Attachment 1.

Should you have any queries regarding this submission, please do not hesitate to contact me or Matthew Zappulla at [mzappulla@auasb.gov.au](mailto:mzappulla@auasb.gov.au)

Yours sincerely,



Professor Roger Simnett AO  
Chair

# ATTACHMENT 1

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## **Element 1 – Assess the effectiveness of the provisions and the regulatory framework established by the ACNC Acts to achieve the objects**

### **Forming an opinion over operational records s60-30**

#### *Overview of issue*

Division 60 section 60-30 (3) & (4) of the ACNC Act requires, in the case of an audit or a review respectively, for the assurance provider to form an opinion/conclusion as to whether the registered entity has kept other records as required by this part. Further to this, s60-45 requires the auditor to report any contraventions of s60-30 in their audit opinion and s60-50 requires the same of a reviewer's report.

The record keeping required by that Part of the ACNC Act includes written financial records as well as operational records. However it is not clear what the operational records consist of, therefore making it difficult for the assurance practitioner to determine whether there have been any deficiencies, failures or shortcomings in relation to keeping of operational records.

#### *Recommendation*

We recommend that assurance practitioner **should not** be required to form an opinion over the operational records. However, if this requirement is retained in the Act, further clarification of what constitutes operational records and when it is considered that there have been deficiencies, failures or short comings in the records is needed.

### **Independence requirements s60-40**

#### *Overview of issue*

Division 60 section 60-40 of the ACNC Act covers the need for a registered entity to obtain from its auditor or reviewer an independence declaration. The section does not clearly outline the format of the independence declaration, mainly whether it is a separate statement or whether a statement within an audit opinion or a review conclusion is sufficient. Paragraph Aus 28.1(c) of ASA 700 *Forming an Opinion and Reporting on a Financial Report* requires a statement of independence to be included within the audit opinion, often resulting in a duplication of this requirement for an independence declaration.

#### *Recommendation*

To remove this duplication for auditors and assurance professionals we recommend the review panel amend the wording of the Act to clearly state a separate independence declaration is only required if it does not form part of the audit opinion or review conclusion.

### **Auditor or reviewer to be provided with information and assistance s60-55**

#### *Overview of issue*

The requirements outlined within this section of the ACNC Act are inconsistent with the requirements in paragraph 6 of ASA 210 *Agreeing the Terms of Audit Engagements*. This paragraph requires the auditor to obtain agreement from management that it acknowledges and understands its responsibilities which includes access to all information relevant to the preparation of the financial statements; additional information requested and unrestricted access to persons from the entity which have been determined by the auditor as necessary to obtain audit evidence. Whilst these conditions are similar to that of s60-55, the assurance standards go above and beyond the requirements, particularly because s60-55 is restricted by a request for information needing to be 'reasonable', which is not defined.

#### *Recommendation*

We recommend that the ACNC Act is amended to align with the requirements of management within the auditing standards or removed altogether as it is already an explicit requirement in the auditing standards and a precondition for an auditor to accept an audit or review engagement.

## **Reporting Framework**

### *Overview of issue*

The AUASB sees value in a wider conversation about the reporting requirements of registered charities. The AUASB is supportive of the ACNC, AASB and AUASB continuing to work together, and consulting with the sector, to develop a suitable reporting and assurance framework for charities, with the aim of ensuring that reporting and assurance is proportionate and consistent according to the size of the entity.

Whilst we consider the existing assurance standards are flexible and robust enough to provide assurance on different subject matters (including financial and non-financial information) and can be tailored to meet the needs of stakeholders, greater clarity and consistency of reporting requirements of across the sector will also lead to improved stakeholder outcomes when it comes to the auditing and assurance requirements of these entities.

### *Recommendations*

Further work to be undertaken by the ACNC and AASB in consultation with the sector to develop a suitable reporting framework for registered charities, with the AUASB to participate in a similar exercise to determine the appropriate assurance requirements using the current assurance framework once the reporting framework has been finalised and agreed.

## **Overall review of assurance requirements of the ACNC Act**

### *Overview of issue*

As noted above the AUASB have identified three key areas of either duplication or inconsistency within the assurance sections of the ACNC Act.

Retaining duplicative or inconsistent assurance requirements creates unnecessary confusion for practitioners, and may result in inconsistencies between the requirements of the ACNC Act and the assurance requirements as the assurance standards are updated.

### *Recommendation*

We recommend that the sections of the ACNC Act that address audit and assurance requirements are holistically reviewed to further clarify other inconsistencies and duplication of requirements with the auditing standards. Such a review would improve the coherence and clarity of the assurance requirements and ‘future proof’ the Act against subsequent updates made to the audit and assurance standards. This exercise would ensure ongoing compliance with s60-35 of the ACNC Act (“*Audit or review to be conducted in accordance with the auditing standards*”) and clarify how additional statutory reporting requirements (e.g. the *Corporations Act 2001* disclosures) should be applied.

**Element 2 – Consider whether any amendments to the ACNC Acts are required to enable the achievement of the objects and to equip the ACNC Commissioner to respond to both known and emerging issues.**

**Auditor requirement to notify the ACNC of ‘significant’ contraventions of the ACNC Acts**

*Overview of issue*

Under s311 and s601HG of the *Corporations Act 2001*, auditors are obliged to notify ASIC where they have reasonable grounds to suspect there have been contraventions of the *Corporations Act 2001*. There is no such provision within the ACNC Acts.

*Recommendations*

We recommend the inclusions of provisions similar to the *Corporations Act 2001*, requiring the appointed auditor to notify the ACNC of significant contraventions of the ACNC Act. However, the requirement to notify the ACNC of contraventions should be ‘significant’ contraventions only, with sufficient explanation of what is considered significant.

The need for only ‘significant’ contraventions is important, particularly if auditors or reviewers are required to report on operational records, which presently do not have clear guidance over what is considered an appropriate level of documentation.

Associated with this recommendation we would request that, if enacted, the ACNC produce guidance for auditors and assurance practitioners that provides clarity on what would be considered a ‘significant’ contravention of the ACNC Act, as ASIC have done in relation to the equivalent requirement under s311 of the *Corporations Act 2001*.



# AUASB February Update

February 2018

## Introduction

The AUASB newsletter is a snapshot of developments at the AUASB and in international assurance standard setting.

## Latest news

### **AUASB Submission to the Monitoring Group**

Earlier this month, after listening to key stakeholders, the AUASB submitted its response to the Monitoring Group's Consultation Paper: *Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest*.

[Further details.](#)

### **AUASB Agenda Consultation Forums Overview**

Last year the AUASB conducted consultation forums to gather constituent feedback on its proposed technical work program and strategic projects for the period 2017-2020.

[Read the consultation overview.](#)

### **AUASB Submission to NZAuASB on ED 2017-2 The Audit of Service Performance Information**

In December, after discussions at the November AUASB meeting and input at a number of the NZAuASB meetings as the ED was developed, the AUASB Technical Group submitted its response to the NZAuASB's ED 2017-2: *New Zealand Auditing Standard XX The Audit of Service Performance Information*.

[Read more.](#)

### **New AUASB Members appointed**

In November 2017, AUASB Chair Prof Roger Simnett welcomed the appointment of Assoc Prof Noel Harding and Ms Julie Crisp to the AUASB.

[Further details.](#)

## International update

### **Key Audit Matters – A 'stock take' of the New Zealand experience**

The External Reporting Board (XRB) and Financial Markets Authority (FMA) have published the results of their joint analysis of *Key audit matters – A stock-take of the first year in New Zealand*.

### **FRC Audit Quality Thematic Review – Materiality**

The FRC has issued the *Audit Quality Thematic Review – Materiality*. This review explains the concept of audit materiality and how the major firms determine materiality in practice.

### **FRC Auditing and Assurance Lab Project Phase 1 Report**

The FRC Audit Committee has issued the *Auditing and Assurance Lab Project Phase 1 Report*. The report focuses on the good practice elements of existing audit committee reporting and encourages audit committees to consider adopting them.

## Events

### AUASB Board Meeting

Wednesday 7 March, Sydney

## In case you missed it

### Podcast: 28 November Board Meeting Highlights

This 12-minute podcast features AUASB Chair Roger Simnett, AUASB Technical Director Matthew Zappulla and former board member Nonna Martinov-Bennie.

*[Listen now.](#)*

### AUASB FAQs: Auditor Reporting FAQs

The AUASB developed these FAQs to assist with interpreting the new requirements of the Australian Auditing Standards.

*[View the FAQs.](#)*

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9 February 2018

Gerben J. Everts  
Chairman  
The Monitoring Group  
C/O International Organisation of Securities Commissions  
Calle Oquendo 12  
28006 Madrid  
SPAIN

via Email: [MG2017consultation@iosco.org](mailto:MG2017consultation@iosco.org)

Dear Mr Everts,

**Monitoring Group Consultation Paper: Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest**

**Introduction**

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the Monitoring Group's Consultation Paper: "Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest" (the consultation paper).

The AUASB is an independent, fully funded statutory agency of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards. Our mandate requires us to develop Australian Auditing and Assurance Standards that have a clear public interest focus and are of the highest quality. We have a very broad mandate covering both financial statement auditing and other assurance services, and support a large population of auditors from all sectors, including Small Medium Practitioners (SMPs) and the public sector auditors, who rely on our standards and other pronouncements.

Our enabling legislation requires that the AUASB participate in and contribute to the development of a single set of auditing standards for worldwide use. We currently use the International Standards on Auditing and Assurance (ISAs, ISREs, ISAEs, etc.) of the International Auditing and Assurance Standards Board (IAASB) as a base for all Australian Auditing and Assurance Standards, which ensures conformity with their international equivalents.

Our responsibility as a National Standard-Setter (NSS) means any diminution of the robustness and applicability of International Auditing and Assurance Standards raises a concern about their adoption in our local jurisdiction. We are very supportive of attempts to improve and enhance the global auditing and assurance standard-setting process, especially in this fast-moving technology driven world. However we are cognisant that auditing and assurance is a service that adds value by increasing the credibility of reported information, the value of which may be reduced if society loses faith in its development and support processes or observes criticisms of the quality of the service being currently provided. Thus, great care needs to be taken that this review and consultation process does not jeopardise years of successful globalisation and harmonisation of these standards.

Whilst we support the Monitoring Group's (MG) efforts to improve and enhance the global auditing and assurance standard-setting process, we also have concerns about many of the proposals put forward which, in our view, do not represent a proportional response to the issues raised in the consultation paper. If



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implemented, we would be required to scrutinise the impact of these proposals to determine whether the new arrangements will result in standards that are fit for purpose in our jurisdiction.

In developing this response we have sought the views of our key stakeholders and board members, as well as drawing upon our experience dealing with the international standard-setting boards and IFAC representatives and staff.

## **Overall Comments**

Whilst supportive of the MG's initiative to undertake this review of the governance and oversight of the international audit-related standard-setting boards, overall the AUASB does not support a number of the proposed options for reform presented by the MG. In particular we are concerned that the consultation paper does not contain sufficient information to support the case for many of the MG's proposed reforms and appears to draw upon feedback from a narrow base of constituents when assessing the need for change. Our overall comments on the consultation paper relate to five key areas:

### *Public interest and influence by the profession*

As a NSS and adopter of the International Standards on Auditing, Review and Assurance Engagements, it is critical for the AUASB that standards are set, and perceived to be set, in the public interest. The consultation paper raises key concerns that the standards developed to date by the IAASB have not been developed in the public interest and there is undue influence by the profession. Our observations on this matter differ to the perceptions raised by the MG in the consultation paper.

Part of our due process as a NSS is to observe and understand the international standard-setting process, and ensure that this process is consistent with the supporting principles outlined in section 2 of the consultation paper. The AUASB has for many years had a representative on the IAASB, and for the past year have been regular observers at IAASB meetings. Our representatives have been classed as "independent members" of the IAASB, being academics, public sector auditors and audit committee members. They are well supported in their deliberations for the Board and the Task Forces, demonstrating that resources other than practitioners are available to support IAASB activities. In our experience, and after consulting with our past representatives there is no evidence, or observed instances, that support the MG's key concerns that standards have been subject to undue influence by the profession or are not developed in the public interest at the international level.

Furthermore we do not consider that the key concerns raised in the consultation paper are consistent with observations and experiences about the standard-setting process raised within our local jurisdiction and broader region. We question the basis on which the MG has determined in the consultation paper that these concerns are observed on a global scale or limited to specific jurisdictions. To demonstrate this is to highlight that, since the AUASB was constituted as an independent statutory agency in 2004, we have adopted all of the International Standards on Auditing, Review and Assurance Engagements and related pronouncements issued by the IAASB into our local standard-setting framework, and have not encountered any opposition from our stakeholders which suggested this approach was inappropriate.

### *Staged-approach to review standard-setting process*

The AUASB does not agree with the proposal to review the international standard-setting process in a staged approach. To effectively identify the best model for international standard-setting going forward we consider that any changes made to both the standard-setting bodies and their revised governance/oversight arrangements should be carried out after all concerns with the current processes are identified, recommendations are provided, and an overall impact assessment is conducted. Without a complete review of each element of the international standard-setting process being performed concurrently there are a number of proposed reforms which the AUASB cannot support, as there is insufficient information provided to gauge their potential impact.

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### *Benefits of National Standard-Setters adopting a single set of 'sector neutral' standards*

As referred to above, the AUASB has a broad mandate and currently adopts international standards on both auditing and assurance for entities across various market segments and industries. Adoption by local jurisdictions of the international auditing and assurance standards contributes to the ability of local entities to raise capital and operate more efficiently internationally. Developing and maintaining a single set of international standards supports the quality of the audit process, improves the effectiveness and efficiency of implementation by auditing firms, and reinforces confidence in capital markets. We believe any changes to the standard-setting boards must continue to support the primary objective of ensuring that standard-setting serves the public interest by developing and promoting a single set of 'sector neutral' and principles-based standards that draw on auditors' professional judgement. Such a commitment would therefore protect and enhance the confidence, consistency, broad acceptance and high quality of the current international standard-setting framework.

### *Public Interest Oversight Board (PIOB) role*

The AUASB encourages the MG to ensure that the PIOB's role be limited to oversight in relation to the standards-setting process. We strongly oppose any reforms which promote a role for the PIOB in the technical deliberations of the standards-setting process or provide the PIOB with any powers of veto over the decisions of the international standard-setting boards. Any concerns that the public interest is not being served should be identified at the time of observation, to aid a timely and appropriate response, rather than after decisions are taken.

### *Review by MG of responses from public consultation*

The AUASB encourages the MG to ensure that there is an appropriate and transparent review of the comments received on the consultation paper. There should be careful and transparent consideration of all submissions received. We encourage the MG to better outline the process it will apply to evaluating responses, and include other stakeholders in this review, to encourage confidence in this process. We are in favour of all responses being made public, and question how public interest can be served if it is unclear how all submissions will be considered.

## **Specific Comments on the Consultation Paper**

In formulating our detailed responses to the Monitoring Group's consultation paper we have focused on those elements most relevant to the international auditing and assurance standards process – specifically the structure, composition and roles and responsibilities of the international standard-setting boards. Whilst other issues in the consultation paper, such as the nominations process and future funding arrangements, are critical for the profession we have targeted our responses on specific matters directly related to the AUASB's functions and mandate.

### *Standard-Setting Board governance and oversight*

We have not observed any significant issues related to the current governance and oversight arrangements over the international standard-setting process. Additionally, we are not aware of any circumstances supporting the concerns raised by the MG in the consultation paper that suggest current oversight arrangements need to be strengthened to serve the public interest through due process and accountability. Nonetheless we offer the following contributions which may assist in improving current governance and oversight arrangements:

- Whichever group has responsibility for the standard-setting boards nominations process, it should be focused on the capacity and capability of the individual appointed, rather than which organisation the nominated individuals represent.
- Any body charged with the responsibility of governance and oversight of the standard-setting process should consist of diverse representation drawn from all relevant stakeholder groups and a range of geographies. This will enhance confidence in and global acceptance of international

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standards. In particular we do not support the governance and oversight of the standard-setting boards being limited to, or having a majority of, representatives from regulatory bodies.

- It is essential that there is sufficient practitioner involvement in the standard-setting process for both the standard-setting boards and the body or bodies that provides governance and oversight of this process. We are unaware of other scenarios where similar professions (such as legal or medical standard-setters) don't have practitioners represented throughout their standard-setting processes. Standards being developed without sufficient practitioner involvement creates a risk that they are not fit for purpose, impractical to implement and or may be rejected by the professional community.
- We believe that both the standard-setting boards and any oversight body should be reformed at the same time. The impact of many of the proposed reforms in the consultation paper cannot be evaluated effectively in the absence of a holistic review of the roles and responsibilities of each level of the international standard-setting process being undertaken concurrently.
- We strongly oppose any reforms which result in a technical oversight role or 'powers of veto' for the oversight body. Its role should be limited to ensuring the technical decisions of the international standard-setting boards follow due process.

#### *Separate boards for auditing and ethical standards*

We support maintaining the current model of having separate boards to develop auditing and ethical standards for the following reasons:

- Whilst acknowledging there are some elements of the auditing and ethical standards framework that overlap, we consider the skillset and expertise required to oversee each of the full suite of auditing and ethical standards requires a different set of capabilities. Merging the standard-setting boards may make it less desirable for board members to apply for positions or to identify candidates possessing the necessary knowledge and attributes to effectively contribute in each of the auditing, assurance and ethical standards.
- We have serious concerns whether a single board has the capacity to address all issues that arise in relation to auditing, assurance and ethical standards in timely manner. Stakeholder consultations highlighted by the MG in the consultation paper already raise concerns about the relevance and timeliness of standards, and this may only get worse if a single board is made responsible for the development and adoption of all international auditing and assurance standards and ethical standards for all types of engagements.
- We consider it essential and in the public interest that all accountants — be they auditors, in public practice or in business — are governed by a common ethical code that is overseen and administered by a dedicated standard-setting body. Whilst not directly part of the AUASB's mandate we have concerns with any proposal that separates the responsibility for setting ethical standards for auditors and assurance professionals away from setting ethical standards for the rest of the accounting profession.
- In our jurisdiction it is estimated that auditors make up only 7% of the accounting profession, and rarely are their activities limited to auditing and assurance work. We have not observed any detrimental impacts associated with auditors and other types of accountants applying the same ethical code. In fact the different sections in the current structure of the Code of Ethics are largely effective in addressing ethical issues unique to the auditing profession. Consequently we consider the development of different ethical requirements based on the service being provided, rather than applying a set of common ethical principles for all accountants, may lead to a lack of clarity both within and beyond the profession.

We have recently seen in practice how the current separate boards have increased collaboration and consistency in common subject areas (for example, the application of professional scepticism) through a range of initiatives, such as joint task forces and regular joint sessions at board meetings. We support the

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continuation of these collaborative activities rather than merging the development of auditing and ethical standards into a single entity.

#### *Standard-Setting Board composition & roles*

The consultation paper raises a number of concerns about the existing composition and roles of the standard-setting boards and how these could be reformed. These reforms focus primarily on structural aspects of the standard-setting boards, however we consider changes to current arrangements should also reflect upon the skills and attributes of board members, and the quality of the candidates nominated, rather than which constituency they represent. In particular we consider the future composition and role of board members should:

- Be driven by a nominations process targeted at getting the right people on the standard-setting boards, who are committed to upholding the guiding principles outlined in section 2 of the consultation paper, and able to demonstrate agility across a range of capabilities and experience to the standard-setting development process.
- Safeguard geographic diversity - This is particularly important for a global ‘standards-taker’ like Australia, so we can ensure views from our region are represented in the international standard-setting development process. This will have a positive impact on local acceptance and implementation.
- Incorporate a diversity of expertise across the auditing and assurance standards framework – for example, ensuring that there are specialists in non-financial assurance standards, technology and data analytics experts, and representatives of the SMP sector on the auditing standard-setting body (as is currently the case). Auditing requires a diverse and up-to-date skill set across multiple disciplines and securing access to these skills in a manner that is beneficial to the sustainability of the standard-setting process will require a range of individuals being appointed from a range of technical backgrounds.
- Not have a majority or over-representation from any one stakeholder group, making sure there is an appropriate balance of members from the practitioner, non-practitioner and regulator stakeholder groups, as well as independent members who can support ‘the public interest’. It is also critical the balance of members on the standard-setting boards reflects the scale of their underlying stakeholder group in the standard-setting process. For example, a regulator representative may proportionately represent a small group of their cohorts globally, whereas a practitioner representative may proportionately represent many thousands of similar practitioners globally.
- Ensure those who represent organisations whose responsibility it is to enforce the standards are not in a position where they can overly influence the development of the standards. In particular, whilst the consultation paper raises stakeholder concerns that there is currently too great an influence by practitioners on the existing boards, we also highlight the risk of undue influence should too many regulators be appointed to each of the standard-setting boards.

Notwithstanding our preference to keep the current two standard-setting boards separate, we acknowledge there would be potential benefits in reducing the size of each board and revisiting the role of board members as suggested in the consultation paper. Consistent with recent corporate governance trends, reducing the number of members on each board should be effective in streamlining the standard-setting process but still enable capacity for diversity of representation across each board as described in our feedback above.

However, we would not support any reform that allows a simple majority vote to approve standards and exposure drafts. We consider the current arrangements, which require a two-thirds majority of board members, produce standards that demonstrate a greater consensus, which increases their acceptance and application globally. Allowing standards to be approved via a simple majority creates a risk that they are released without the support of all stakeholders, which then undermines their credibility and jeopardises the high rate of implementation currently observed in jurisdictions across the world.

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### *Roles and responsibilities of Standard-Setting Board members and staff*

In conjunction with changes to their composition and role described above we support the proposal that the current roles and responsibilities of board members and technical staff be reviewed and revised. In particular, considering the reduced number of board members that may be appointed as a result of the proposals in the consultation paper being implemented, we agree they should be supported by technical staff with greater capacity and capability than is available under existing arrangements. However, any changes to the current roles and responsibilities of standard-setting board members and staff would need to consider the following points:

- Notwithstanding an increased role for technical staff under the model proposed in the consultation paper, board members should continue to have responsibility to develop, review and approve standards, supported by other experts as appropriate. Whilst we agree that board members roles should be more strategic in nature we consider that there still needs to be a direct role for board members in the standard-setting development process.
- Our observations are that IFAC has recently experienced challenges when managing existing staffing arrangements for the standard-setting boards. These challenges would potentially be magnified if the level and expertise of staffing is increased as described in the consultation paper. In particular, it may be difficult for the revised standard-setting boards to attract the right candidates into technical staff roles whilst the reform of the standard-setting process is still being evaluated and revised. For similar reasons, any technical staffing changes in the short term would require a comprehensive transition plan to protect against loss of continuity and capacity as any agreed reforms are implemented.
- Changes to the nature and structure of technical staff supporting the standard-setting boards should ideally also reflect the same or similar levels of diversity relating to expertise and geographical representation of the board members they support. This diversity of staff knowledge and capability would contribute to the increased credibility and relevance of standards developed by the international standard-setting boards, as well as improve engagement and outreach with stakeholders across the profession.

Finally, based on our observations of the IAASB's recent activities we consider that current standard-setting board processes (including task force development activities) could be streamlined, for example through:

- A reduction in the detail of meeting papers produced. This would assist in making the boards' deliberations more accessible and transparent to interested stakeholders, particularly where English is not the native language.
- Implementing additional and more flexible staffing arrangements for each standard-setting board could be used to increase outreach and interaction with NSS from a greater range of jurisdictions.
- The increased use of technology as part of the boards' operations, such as the webcast of meetings and other standard-setting board events. This could improve efficiency, reduce costs, whilst also enabling greater collaboration with stakeholders across all parts of the world.

### **Conclusion**

Further to our comments above, detailed replies to a number of the specific questions asked in the consultation paper accompany our response overleaf in Attachment 1.

Should you have any queries regarding our response, please contact me or the AUASB Technical Director, Matthew Zappulla, at [mzappulla@auasb.gov.au](mailto:mzappulla@auasb.gov.au).

Yours sincerely,



Professor Roger Simnett AO  
Chair

## Attachment 1 – Responses to specific questions in the Monitoring Group Consultation Paper

*Q1 Do you agree with the key areas of concern identified with the current standard-setting model? Are there additional concerns that the Monitoring Group should consider?*

The consultation paper raises key concerns that the standards developed to date by the IAASB have not been developed in the public interest and there is undue influence by the profession. The Australian Auditing and Assurance Standards Board's (AUASB) observations on this matter differ to the perceptions raised by the MG in the consultation paper on this issue.

Part of our due process as a national standard-setter is to observe and understand the international standard-setting process, and ensure that this process is consistent with the supporting principles outlined in section 2 of the consultation paper. The AUASB has for many years had a representative on the IAASB, and for the past year have been regular observers at IAASB meetings. Our representatives have been classed as "independent members" of the IAASB, being academics, public sector auditors and audit committee members. They are well supported in their deliberations for the Board and the Task Forces, demonstrating that resources other than practitioners are available to support IAASB activities. In our experience, and after consulting with our past representatives there is no evidence or observed instances that support the MG's key concerns that standards have been subject to undue influence by the profession or are not developed in the public interest at the international level.

Furthermore we do not consider that the key concerns raised in the consultation paper are consistent with observations and experiences about the standard-setting process raised within our local jurisdiction and broader region. We question the basis on which the MG has determined in the consultation paper that these concerns are observed on a global scale or limited to specific jurisdictions. To demonstrate this is to highlight that, since the AUASB was constituted as an independent statutory agency in 2004, we have adopted all of the International Standards on Auditing, Review and Assurance Engagements and related pronouncements issued by the IAASB into our local standard-setting framework, and have not encountered any opposition from our stakeholders which suggested this approach was inappropriate.

We agree that the relevance and timeliness of standards is a key concern. The AUASB has a broad mandate and currently adopts international standards on both auditing and assurance for entities across various market segments and industries. Adoption by local jurisdictions of the international auditing and assurance standards enables local entities to raise capital and operate more efficiently internationally. Developing and maintaining a single set of international standards supports the quality of the audit process, improves the effectiveness and efficiency of implementation by auditing firms, and reinforces confidence in capital markets. We believe any changes to the standard-setting boards must continue to support the primary objective of ensuring that standard-setting serves the public interest by developing and promoting a single set of 'sector neutral' and principles-based standards that draw on auditors' professional judgement. Such a commitment would therefore protect and enhance the confidence, consistency, broad acceptance and high quality of the current international standard-setting framework.

*Q2 Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?*

We support the overarching principle of standard-setting being in the public interest, and the supporting principles applied by the MG in the Consultation Paper, however we also consider consensus of constituents and board members to be a fundamental principle of standard-setting.

*Q3 Do you have other suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest? If so what are they?*

We urge the Monitoring Group to prioritise the development of any revised public interest framework – this should be done in advance of or in conjunction with any review of the standard-setting boards and their governance/oversight.

*Q4 Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.*

We support the current model of having separate boards to develop auditing and ethical standards for the following reasons:

- Whilst acknowledging there are some elements of the auditing and ethical standards framework that overlap we consider the skillset and expertise required to oversee each of the full suite of auditing and ethical standards requires a different set of capabilities. Merging the standard-setting boards may make it less desirable for board members to apply for positions or to identify candidates possessing the necessary knowledge and attributes to effectively contribute in each of the auditing, assurance and ethical standards.
- We have serious concerns about whether a single board has the capacity to address all issues that arise in relation to auditing, assurance and ethical standards in timely manner. Stakeholder consultations highlighted by the MG in the consultation paper already raise concerns about the relevance and timeliness of standards, and this may only get worse if a single board is made responsible for the development and adoption of all international auditing and assurance standards and ethical standards for all types of engagements.
- We consider it essential and in the public interest that all accountants - be they auditors, in public practice or in business - are governed by a common ethical code that is overseen and administered by a dedicated standard-setting body. Whilst not directly part of the AUASB's mandate we have concerns with any proposal that separates the responsibility for setting ethical standards for auditors and assurance professionals away from setting ethical standards for the rest of the accounting profession.
- In our jurisdiction it is estimated that auditors make up only 7% of the accounting profession, and rarely are their activities limited to auditing and assurance work. We have not observed any detrimental impacts associated with auditors and other types of accountants applying the same ethical code. In fact the different sections in the current structure of the Code of Ethics are largely effective in addressing ethical issues unique to the auditing profession. Consequently we consider the development of different ethical requirements based on the service being provided, rather than applying a set of common ethical principles for all accountants, may lead to a lack of clarity both within and beyond the profession.

We have recently seen in practice how the current separate boards have increased collaboration and consistency in common subject areas (for example, the application of professional scepticism) through a range of initiatives, such as joint task forces and regular joint sessions at board meetings. We support the continuation of these collaborative activities rather than merging the development of auditing and ethical standards into a single entity.

*Q5 Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC? If not, why not?*

We have not responded directly to this question.

*Q6 Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.*

We consider it essential and in the public interest that all accountants - be they auditors, in public practice or in business - are governed by a common ethical code that is overseen and administered by a dedicated standard-setting body. Whilst not directly part of the Australian Auditing and Assurance Standards Board's mandate we have concerns with any proposal that separates the responsibility for setting ethical standards for auditors and assurance professionals away from setting ethical standards for the rest of the accounting profession.

In our jurisdiction it is estimated that auditors make up only 7% of the accounting profession, and rarely are their activities limited to auditing and assurance work. We have not observed any detrimental impacts associated with auditors and other types of accountants applying the same ethical code. In fact the different sections in the current structure of the Code of Ethics are largely effective in addressing ethical issues unique to the auditing profession. Consequently we consider the development of different ethical requirements based on the service being provided, rather than applying a set of common ethical principles for all accountants, may lead to a lack of clarity both within and beyond the profession.

*Q7 Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of the standard-setting boards? If so please set these out in your response along with your rationale.*

It is essential that there is sufficient practitioner involvement in the standard-setting process for both the standard-setting boards and the body (or bodies) that provides governance and oversight of this process. We are unaware of other scenarios where similar professions (such as legal or medical standard-setters) don't have practitioners represented throughout their standard-setting processes. Standards being developed without sufficient practitioner involvement creates a risk that they are not fit for purpose, impractical to implement and or may be rejected by the professional community.

We believe that both the standard-setting boards and any oversight body should be reformed at the same time. The impact of many of the proposed reforms in the consultation paper cannot be evaluated effectively in the absence of a holistic review of the roles and responsibilities of each level of the international standard-setting process being undertaken concurrently.

We strongly oppose any reforms which result in a technical oversight role or 'powers of veto' for the oversight body. Its role should be limited to the ensuring the technical decisions of the international standard-setting boards follow due process.

*Q8 Do you agree that the focus of the board should be more strategic in nature? And do you agree that the members of the board should be remunerated?*

We support a review of current board member roles and responsibilities, including a focus on board member roles to be more strategic in nature, as described in the consultation paper.

Notwithstanding an increased role for technical staff under the model proposed in the consultation paper, board members should continue to have responsibility to develop, review and approve standards, supported by other experts as appropriate. Whilst we agree that board members' roles could be more strategic in nature we consider that there still needs to be a direct role for board members in the standard-setting development process.

In conjunction with the above point, we support a revision of the roles and responsibilities of the standard-setting boards' staff in order to reduce the amount of time current board members spend in the detail of the drafting process.

We support board members being remunerated if this is determined to be a key factor in attracting and retaining the best board members possible.



*Q9 Do you agree that the board should adopt standards on the basis of a majority?*

We would not support any reform that allows a simple majority vote to approve standards and exposure drafts. We consider the current arrangements, which require a two-thirds majority of board members, produce standards that demonstrate a greater consensus, which increases their acceptance and application across the globe. Allowing standards to be approved via a simple majority creates a risk that they are released without the support of all stakeholders, which then undermines their credibility and jeopardises the high rate of implementation currently observed in jurisdictions across the world.

*Q10 Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members; allowing both full time (one quarter?) and part-time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?*

Notwithstanding our preference to keep the current two standard-setting boards separate, we acknowledge there would be potential benefits in reducing the size of each board and revisiting the role of board members as suggested in the consultation paper. Consistent with recent corporate governance trends, reducing the number of members on each board should be effective in streamlining the standard-setting process but still enable capacity for diversity of representation across each board as described in our feedback above.

Our views on the composition of the board apply regardless of any decision to appoint a proportion of members on a full or part time basis.

*Q11 What skills or attributes should the Monitoring Group require of board members?*

The consultation paper raises a number of concerns about the existing composition and roles of the standard-setting boards and how these could be reformed. These reforms focus primarily on structural aspects of the standard-setting boards, however we consider changes to current arrangements should also reflect upon the skills and attributes of board members, and the quality of the candidates nominated, rather than which constituency they represent. To ensure appropriate Board representation, use of a comprehensive skills matrix is suggested to capture key aspects, such as the governance skills and diversity of representation required. In particular we consider the future composition and role of board members should:

- Be driven by a nominations process targeted at getting the right people on the standard-setting boards, who are committed to upholding the guiding principles outlined in section 2 of the consultation paper, and able to demonstrate agility across a range of capabilities and experience to the standard-setting development process.
- Safeguard geographic diversity. This is particularly important for a global ‘standards-taker’ like Australia so we can ensure views from our region are represented in the international standard-setting development process, which will have a positive impact on local acceptance and implementation.
- Incorporate a diversity of expertise across the assurance standards framework – for example, ensuring that there are specialists in non-financial assurance standards and representation of the SMP/SME sector on the audit standard-setting body, as is currently the case.
- Not have a majority or over-representation from any one stakeholder group, making sure there is an appropriate balance of members from the practitioner, non-practitioner and regulator stakeholder groups represented, as well as independent members who can support ‘the public interest’.

*Q11 What skills or attributes should the Monitoring Group require of board members? (continued)*

- Ensure those who represent organisations whose responsibility it is to enforce the standards are not in a position where they can overly influence the development of the standards. In particular, whilst the consultation paper raises stakeholder concerns that there is currently too great an influence by practitioners on the existing boards, we also highlight the risk of undue influence should too many regulators be appointed to each of the standard-setting boards.

*Q12 Do you agree to retain the concept of a CAG with the current role and focus, or should its remit and membership be changed, and if so, how?*

We have not responded directly to this question.

*Q13 Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?*

As the public interest framework is yet to be developed we are unable to respond directly to this question, however we agree in principle that task forces should operate under the same public interest framework as the standard-setting boards.

*Q14 Do you agree with the changes proposed to the nomination process?*

Nominations to a new governance/oversight body should follow the same robust, transparent process determined for appointments to the standard-setting bodies themselves. Whichever group has responsibility for the standard-setting boards nominations process, it should be focused on the capacity and capability of the individual appointed, rather than which organisation the individual represents.

*Q15 Do you agree with the role and responsibilities of the PIOB as set out in this consultation? Should the PIOB be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards? Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?*

We have not observed any significant issues related to the current arrangements that provide governance and oversight over the international standard-setting process. Additionally, we are not aware of any circumstances supporting the concerns raised by the MG in the consultation paper that suggest current oversight arrangements need to be strengthened to serve the public interest through due process and accountability.

The Australian Auditing and Assurance Standards Board encourages the MG to ensure that the PIOB's role be limited to oversight in relation to the standards-setting process. We would strongly oppose any reforms which promote a role for the PIOB in the technical deliberations of the standards-setting process or provide the PIOB with any powers of veto over the decisions of the international standard-setting boards. Any concerns that the public interest is not being served should be identified at the time of observation, to aid a timely and appropriate response, rather than after decisions are taken.

Any body charged with the responsibility of governance and oversight of the standard-setting process should consist of diverse representation drawn from all relevant stakeholder groups and a range of geographies. This will enhance confidence in and global acceptance of international standards. In particular we do not support the governance and oversight of the standard-setting boards being limited to those with regulatory responsibilities.

*Q16 Do you agree with the option to remove IFAC representation from the PIOB?*

We have not responded directly to this question.

*Q17 Do you have suggestions regarding the composition of the PIOB to ensure that it is representative of non-practitioner stakeholders, and what skills and attributes should members of the PIOB be required to have?*

Any body charged with the responsibility of governance and oversight of the standard-setting process should consist of diverse representation drawn from all relevant stakeholder groups and a range of geographies. This will enhance confidence in and global acceptance of international standards. In particular we do not support the governance and oversight of the standard-setting boards being limited to those with regulatory responsibilities.

*Q18 Do you believe that PIOB members should continue to be appointed through individual MG members or should PIOB members be identified through an open call for nominations from within MG member organizations, or do you have other suggestions regarding the nomination/appointment process?*

Nominations to a new governance/oversight body should follow the same robust, transparent process determined for appointments to the standard-setting bodies themselves. Whichever group has responsibility for the standard-setting boards nominations process, it should be focused on the capacity and capability of the individual appointed, rather than which organisation the nominated individual represents.

Any body charged with the responsibility of governance and oversight of the standard-setting process should consist of diverse representation drawn from all relevant stakeholder groups and a range of geographies. Greater confidence in and global acceptance of international standards may be achieved by identifying all PIOB members through an open call for nominations. In particular we do not support the governance and oversight of the standard-setting boards being limited to those with regulatory responsibilities.

We strongly oppose any reforms which result in a technical oversight role or ‘powers of veto’ for the oversight body. Its role should be limited to the ensuring the technical decisions of the international standard-setting boards follow due process.

*Q19 Should PIOB oversight focus only on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?*

We have not responded directly to this question.

*Q20 Do you agree that the Monitoring Group should retain its current oversight role for the whole standard-setting and oversight process including monitoring the implementation and effectiveness of reforms, appointing PIOB members and monitoring its work, promoting high-quality standards and supporting public accountability?*

We have not responded directly to this question.

*Q21 Do you agree with the option to support the work of the standard-setting board with an expanded professional technical staff? Are there specific skills that a new standard-setting board should look to acquire?*

Considering the reduced number of board members that may be appointed as a result of the proposals in the consultation paper being implemented, we agree they should be supported by technical staff with greater capacity and capability than is available under existing arrangements.

Our observations are that IFAC has recently experienced challenges when managing existing staffing arrangements for the standard-setting boards. These challenges would potentially be magnified were the level and expertise of staffing to be increased as described in the consultation paper. In particular, it may be difficult for any revised standard-setting boards to attract the right candidates into technical staff roles whilst the reform of the standard-setting process is still being evaluated and revised. For similar reasons, any technical staffing changes in the short term would require a comprehensive transition plan to protect against loss of continuity and capacity as any agreed reforms are implemented.

Changes to the nature and structure of technical staff supporting the standard-setting boards should ideally also reflect the same or similar levels of diversity relating to expertise and geographical representation of the board members they support. This diversity of staff knowledge and capability would contribute to the increased credibility and relevance of standards developed by the international standard-setting boards, as well as improve engagement and outreach with stakeholders across the profession.

*Q 22 Do you agree the permanent staff should be directly employed by the board?*

We have not responded directly to this question.

*Q23 Are there other areas in which the board could make process improvements – if so what are they?*

The AUASB supports a full review of current standard-setting board processes to improve the timeliness and relevance of the development process. Based on our observations of the IAASB's recent activities we consider that current standard-setting board processes (including existing task force development activities) could be enhanced and streamlined, for example through:

- A greater emphasis on engagement with national standard-setters to ensure international standards are fit for purpose and gain greater acceptance in different jurisdictions.
- A reduction in the detail of meeting papers produced. This would assist in making the boards' deliberations more accessible and transparent to interested stakeholders, particularly where English is not the native language.
- Implementing additional and more flexible staffing arrangements for each standard-setting board could be used to increase outreach and interaction with NSS from a greater range of jurisdictions.
- The increased use of technology as part of the boards' operations, such as the webcast of meetings and other standard-setting board events. This could improve efficiency, reduce costs, whilst also enabling greater collaboration with stakeholders across all parts of the world.

*Q24 Do you agree with the Monitoring Group that appropriate checks and balances can be put in place to mitigate any risks to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession (e.g. independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which could distribute the funds)?*

We have not responded directly to this question.

## Attachment 1 – Responses to specific questions in the Monitoring Group Consultation Paper

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*Q25 Do you support the application of a “contractual” levy on the profession to fund the board and the PIOB? Over what period should that levy be set? Should the Monitoring Group consider any additional funding mechanisms, beyond those opt for in the paper, and if so what are they?*

We have not responded directly to this question.

*Q26 In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.*

We have not responded directly to this question.

*Q27 Do you have any further comments or suggestions to make that the Monitoring Group should consider?*

We have not responded directly to this question.