



AUASB DECLARATION OF INTERESTS

As at September 2025

AUASB Meeting 165
Agenda Paper 1.0

AUASB Member	Professional/Organisational Affiliations	Employment/Other Positions Held	Other Relevant Interests
Mr Doug Niven (Chair)	<ul style="list-style-type: none">Fellow, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Chair of the Auditing and Assurance Standards Board, AUASB Statutory Authority and Office of the AUASBMember, Australia's Financial Reporting CouncilMember, New Zealand Auditing and Assurance Standards Board	<ul style="list-style-type: none">Member, IAASB/IESBA Stakeholder Advisory CouncilMember, IAASB Jurisdictional Standard Setters Group
Ms Julie Crisp (Deputy Chair)	<ul style="list-style-type: none">Registered Company AuditorFellow, Chartered Accountants Australia and New ZealandFellow, CPA AustraliaFellow, Governance Institute of AustraliaFellow, Institute of Public Administration AustraliaGraduate, Australian Institute of Company DirectorsCertified Internal Auditor, Certified Government Audit Professional, Certification in Risk Management Assurance – Professional Member, Institute of Internal AuditorsMember, Association of Certified Fraud Examiners	<ul style="list-style-type: none">Non-Executive Director – CPA AustraliaMember – Performance Statements Audit Expert Advisory Panel, Australian National Audit OfficeBoard Director and Chair of the Auditing & Risk Committee of Aboriginal Investment NT, a Commonwealth statutory entity regulated by the ACNCFormer Northern Territory Auditor-General (concluded 12 September 2024)	<ul style="list-style-type: none">Director and Shareholder, Family Trust CompanyDirector and Shareholder, Asterism Assurance and Advisory Pty LtdNon Executive Director: Larrakia Development CorporationMember: Audit & Risk Committee, Charles Darwin University



AUASB Member	Professional/Organisational Affiliations	Employment/Other Positions Held	Other Relevant Interests
Ms Marilyn Gwan	<ul style="list-style-type: none">Fellow, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Partner, Grant Thornton Australia	<ul style="list-style-type: none">Member of Australian Institute of Company Directors Reporting CommitteeMember of the Australian Accounting and Assurance Public Policy Committee – Audit Quality Working GroupMember of the Australian Accounting and Assurance Public Policy Committee – ESG Working GroupDirector and Shareholder, Family Trust Company(s)Trustee – personal family trusts
Mr Klynton Hankin	<ul style="list-style-type: none">Member, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Partner, PricewaterhouseCoopers	<ul style="list-style-type: none">Member, Finance, Risk and Audit Committee - Cancer Council Australia
Dr Noel Harding	<ul style="list-style-type: none">Member, CPA Australia	<ul style="list-style-type: none">Professor and Head of School of Accounting, Auditing and Taxation, UNSW Sydney	<ul style="list-style-type: none">Editor, International Journal of AuditingDeputy Editor, Accounting and FinanceCo-chair of AFAANZ Auditing and Assurance Standards Committee
Mr Terence L Jeyaretnam	<ul style="list-style-type: none">Degree in Environmental Engineering (UWA)Chartered Professional EngineerFellow and Engineering Executive of the Institute of Engineers, Australia	<ul style="list-style-type: none">Clean Energy Regulator Accredited Category 2 AuditorAssociate Professor of Practice at Monash University's Department of Accounting, Faculty of Business and EconomicsFormerly APAC Leader and Partner, Climate Change and Sustainability Services, Ernst & Young in Melbourne	<ul style="list-style-type: none">Board member, Australian Conservation FoundationChair, Amnesty International AustraliaChair, Global Citizen, Australia
Ms Joanne Lonergan	<ul style="list-style-type: none">Member, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Partner, Ernst & Young	<ul style="list-style-type: none">Director & Shareholder, Family Trust Company



AUASB Member	Professional/Organisational Affiliations	Employment/Other Positions Held	Other Relevant Interests
Mr Andrew Porter	<ul style="list-style-type: none">• Fellow, Institute of Chartered Accountants in England and Wales• Member, Australian Institute of Company Directors• Fellow, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">• Chief Financial Officer, Australian Foundation Investment Company Limited	<ul style="list-style-type: none">• CFO for Djerriwarrh Investments, Mirrabooka Investments and AMCIL Limited• Director of Australian Investment Company Services Ltd.• Director of a Family Trust Company• Director of the Melbourne Anglican Foundation and trustee of related entities
Ms Jennifer Travers	<ul style="list-style-type: none">• Member, Chartered Accountants in Australia and New Zealand	<ul style="list-style-type: none">• Partner, KPMG	<ul style="list-style-type: none">• Chair of the Australian Accounting and Assurance Public Policy Committee – Audit Quality Working Group• Member of the Australian Accounting and Assurance Public Policy Committee – ESG Working Group• Chair of the Trans-Tasman Audit and Advisory Committee (CA ANZ)• Director and Shareholder, Family Trust Company(s)• Trustee – personal family trusts
Mr Jason Thorne	<ul style="list-style-type: none">• Fellow, Institute of Chartered Accountants in England and Wales• Member, Chartered Accountants in Australia and New Zealand• Registered Company Auditor	<ul style="list-style-type: none">• Partner, Deloitte Touche Tohmatsu	<ul style="list-style-type: none">• Director and Shareholder, family trust company
Mr Chi Mun Woo	<ul style="list-style-type: none">• Member, Chartered Accountants Australia & New Zealand• Member, Institute of Chartered Accountants in England and Wales	<ul style="list-style-type: none">• Partner, Climate and Sustainability practice, Deloitte	-



AUASB Agenda Paper

Title:	Revision of ISRE 2410, <i>Review of Interim Financial Information Performed by the Independent Auditor of the Entity</i>	Date:	10 Sept 2025
Office of the AUASB:	Johanna Foyster / Rene Herman	Agenda Item:	2.1

Objective of Agenda Item:

1. To seek AUASB member input on matters to be discussed at the upcoming September 2025 IAASB meeting related to the Revision of ISRE 2410 project.
2. Members are appointed in a personal capacity and do not represent the views of the firms. **However, we would appreciate Board members from audit firms also bringing to the meeting perspectives from within their firms on the key matters being addressed in this Board paper.** This will better inform the discussion at the meeting and input to the IAASB.
3. Member views may inform Bill Edge in providing his views to the IAASB as a member. Significant issues (if any) may also be communicated to the IAASB by the AUASB's IAASB Technical Advisor and/or the AUASB Chair (including through the IAASB/IESBA Stakeholder Advisory Council and Jurisdictional Standard Setters (JSS) arrangements).

Questions for AUASB Members

4. The main question for the attention of AUASB members concerns the approach to the work effort and reporting on going concern at interim reviews (see Question 5 below).

No	Questions
1	Acceptance and Continuance of the Interim Review Engagement Do AUASB members have any comments on the proposal to introduce more granular requirements relating to acceptance and continuance of interim review engagements, to support application of ISRE 2410 as a standalone standard and consistency in practice (paragraphs 8 to 11 below)?
2	Materiality Do AUASB members have any comments on the proposal to introduce a requirement to 'determine' materiality for the interim financial information as a whole (paragraphs 12 and 13 below)?
3	The Auditor's Understanding of the Entity and its Environment Do AUASB members have any comments on the proposal to replace the two black letter paragraphs in the extant ¹ with a single requirement that sets out the core principle that applies irrespective of whether the auditor is newly appointed, and aligning the requirement more closely to the equivalent requirement of ISRE 2400 (Revised) ² (paragraphs 14 to 17 below)?
4	First-time Interim Review Engagements: (a) Do AUASB members have any comments on the proposal to address special considerations related to first-time interim reviews in application material alone (paragraph 18 below)?

¹ Extant ISRE 2410, paragraphs 12 and 17 / ASRE 2410 paragraphs 13 and 14

² ISRE 2400 (Revised), paragraph 45

No	Questions
	(b) Do AUASB members consider any other areas, in addition to the auditor obtaining a sufficient understanding of the entity (see paragraph 13 below), may need special consideration in a first-time interim review?
5	Going concern (a) Do AUASB members have any comments on the auditor's proposed work effort related to going concern in the context of an interim review? (b) Is the work effort suggested in paragraph 19a and 19b sufficient and appropriate for situations where there is an existing MURGC or Close Call scenario at the full year audit? (c) Do AUASB members support the proposal to require specific statements about going concern to be included in the auditor's interim review report and the language that the project team is considering for such statements. (d) Should the auditor's interim review report be required to report where there is a Close Call scenario similar to the requirement in ISA 570? (See paragraphs 19 to 23 below.)
6	Other Information Do AUASB members have any comments on the approach to the requirements for other information in the context of an interim review engagement (paragraphs 24 to 26 below)?

Background and Previous Discussions on Topic

5. The IAASB is currently undertaking a project to modernise and revise ISRE 2410.
 - At its [March 2025 meeting](#), the IAASB discussed issues identified from information-gathering activities relating to ISRE 2410.
 - At its [June 2025 meeting](#), the IAASB discussed and approved a project proposal to revise ISRE 2410. The Board also discussed:
 - (a) Initial drafting of the Introduction, Objectives, Definitions and General Requirements sections of proposed ISRE 2410 (Revised); and
 - (b) Possible enhancements to the form, content and structure of the auditor's review report, including the order of information presented in the auditor's review report, and the form of the auditor's conclusion.
6. The AUASB received updates on the project at its 11 March 2025 and 10 June 2025 meetings. In particular, AUASB members were informed that the IAASB will not be updating ISRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* at this time. The project is being staffed by the AUASB and NZAuASB under IAASB direction.

Matters being considered at the September 2025 IAASB meeting

7. The following is a summary of the more substantive issues to be discussed at the September 2025 IAASB meeting³ and the implications for Australia.

Granularity of proposed requirements on Engagement Level Quality Management and Acceptance and Continuance of the Interim Review Engagement

8. The ISRE 2410 project team debated whether the revised requirements for Engagement Level Quality Management and Acceptance and Continuance should remain high-level with the focus on core principles—given the nexus between the interim review and the annual audit and the auditor's familiarity with the detail in the ISAs—or adopt greater detail aligned with ISRE 2400 (Revised). Ultimately, the project team proposes the latter approach to support the application of ISRE 2410 as a standalone standard and promote consistency in practice.
9. The Office of the AUASB anticipates that these proposed changes would not result in increased work effort in the Australian context but rather formalise and clarify existing practices. Australian

³ See links provided for [drafting proposals](#) and accompanying [issues paper](#), which provides further background and the rationale for the project team's recommendations presented as drafting proposals.

practitioners are familiar with the principles of engagement-level quality management and acceptance and continuance.

Work effort related to acceptance and continuance for interim review engagements

10. There is a proposal to enhance the existing requirement in extant ISRE 2410⁴ for the auditor and the client to 'agree on the terms of the engagement', by requiring the agreement to the terms to be in writing, to support enforceability of the requirement. The new requirement will also identify matters to be included as a minimum in such a written agreement.⁵
11. ASRE 2410 already requires auditors to determine whether the preconditions for an interim review are met and for the review engagement terms to be recorded in writing. However, unlike the proposed revised international standard, Australian requirements do not currently specify the content of that written agreement. In practice, auditors are likely already including these matters in engagement letters, so no change in practice or significant increase in work effort is expected.

Materiality

12. It is proposed that the revised standard include a new explicit requirement for the auditor to 'determine' a materiality for the interim financial information as a whole, consistent with ISRE 2400 (Revised).⁶ Proposed new application material will provide more targeted guidance for interim review engagements.
13. ASRE 2410 requires the auditor to 'consider' materiality when determining the nature, timing and extent of review procedures and evaluating the effect of misstatements. The Office of the AUASB supports the IAASB's requirement for materiality to be determined, as auditors in practice will need a quantitative materiality threshold to identify, for example, areas of the interim financial information where material misstatements are likely to occur; and to assess identified misstatements. This change is not expected to increase work effort as feedback from practitioners indicate that materiality is presently determined for engagements performed under ASRE 2410.

The auditor's understanding of the entity and its environment as a basis for determining review procedures to be performed

14. It is proposed that the two black letter paragraphs in the extant ISRE 2410⁷ covering existing auditors and newly appointed auditors, be replaced with a single requirement that sets out the core principles that apply, irrespective of whether the auditor is newly appointed or a continuing auditor. Scenario-specific material has been moved to application material.
15. Language used in the redrafted requirement, aligns with ISRE 2400 (Revised)⁸ and the International Framework for Assurance Engagements. Use of the term 'area' acknowledges that interim financial information may not always constitute a complete set of financial statements, as local laws or regulations and reporting frameworks may instead require a prescribed reportable form consisting of prescribed sections, or 'areas'.
16. Proposed new application material clarifies the expected work effort for a newly appointed auditor who has not previously audited the entity's annual financial statements, highlighting the need for more extensive procedures in the first year. New application material clarifies that a comprehensive risk identification and assessment process such as that required for audits performed under the ISAs is not necessary.
17. The Office of the AUASB does not foresee any impact on work effort in practice from these changes and supports referring to 'areas' of the interim financial information that may be materially misstated.

First-time interim review engagements⁹

18. It is proposed that, since the fundamental principles of interim review engagements remain unchanged regardless of whether the engagement is first-time or continuing, any special

⁴ Extant ISRE 2410, paragraph 10 (black letter)

⁵ Previously included as guidance only – see extant ISRE 2410, paragraph 11 (grey letter)

⁶ Extant ISRE 2410, paragraph 15 (bullet point four) included consideration of materiality as grey letter guidance.

⁷ Extant ISRE 2410, paragraphs 12 and 17

⁸ ISRE 2400 (Revised) paragraph 45

⁹ An interim review engagement undertaken by an auditor who has not previously audited the entity's annual financial statements

considerations for first-time engagements¹⁰ should be addressed through targeted application material.

Going concern

Auditor's work effort

19. Extant ISRE 2410¹¹ includes a single black letter paragraph for the auditor to inquire about whether management has changed its assessment of the entity's ability to continue as a going concern. If, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor is required to inquire about management's plans and to consider the adequacy of any disclosures about such matters in the interim financial information. ASRE 2410¹² is consistent with this.
20. To highlight the importance of going concern considerations in interim review engagements, some jurisdictional standard setters (JSS) have introduced requirements that increase the robustness of the auditor's work effort relating to going concern and/or have introduced reporting requirements on going concern in the auditor's interim review report. To this end, and considering the public interest element of going concern, the project team is proposing more robust requirements to clarify the auditor's expected work effort for going concern. While no drafting is being taken to the September IAASB meeting, the project team is seeking directional input from the IAASB members about the appropriate work effort for the auditor including:
 - (a) **Performing inquiries** of management to obtain an understanding of management's assessment of the entity's ability to continue as a going concern and the basis of preparation adopted in preparing the interim financial information. In addition, inquiring whether there have been changes in management's assessment since the date of their assessment for the last annual financial statements (and, if applicable, the most recent interim financial information), and the basis for those changes. This also includes inquiries about the period covered by management's assessment, and, if applicable, whether it is consistent with the requirements of the financial reporting framework.

The objective of such inquiries is to obtain evidence about:

 - (i) Whether management has identified new events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern ('events or conditions'); and
 - (ii) The current status of previously identified and disclosed events or conditions, irrespective of whether they resulted in a material uncertainty related to going concern disclosure, including whether and if so, how, they have resolved.
 - (b) **Considering the consistency of the responses** to such inquiries with the evidence obtained from other review procedures, and with the evidence obtained in performing the most recent annual financial statement audit.
 - (c) **Performing additional procedures** related to management's assessment if, in the course of performing the interim review engagement, the auditor becomes aware of:
 - (i) New events or conditions, irrespective of whether management has concluded that a material uncertainty exists.
 - (ii) Changes in previously identified events or conditions; or
 - (iii) Any indications that the interim financial information may be misleading in view of management's assessment about going concern.
 - (d) **Evaluating** whether the evidence obtained provides a basis for the auditor's judgments, and any required statements in the auditor's interim review report, about:

¹⁰ For example, to address topics such as: the auditor's understanding of the entity, opening balances and comparative information included in the interim financial information for the first time.

¹¹ ISRE 2410, paragraph 27 (black letter)

¹² ASRE 2410, paragraph 19

- (i) The appropriateness of management's use of the going concern assumption, including whether a material uncertainty exists; and
 - (ii) The adequacy of management's disclosures about going concern, given the requirements of the applicable financial reporting framework for the interim financial information, including any disclosures relating to any material uncertainty that may exist.
- (e) Any additional procedures that may be necessary to support the auditor's judgments about going concern matters.

Communication through the auditor's interim review report

21. ISA 570 (Revised 2024) requires the auditor to include explicit statements in the auditor's report on the entity's annual financial statements. The project team considered whether to propose an equivalent requirement for interim review engagements, as there is a risk that such statements may unintentionally suggest a greater work effort than is necessary to achieve the auditor's objectives in an interim review engagement.
22. However, the need for transparency that drove the IAASB's decisions in approving ISA 570 (Revised 2024) is equally relevant for interim review engagements. Because interim financial information is intended to provide an update on the latest complete set of annual financial statements, it would not be unreasonable for intended users of the entity's interim financial information to expect an update in the interim review report about going concern matters raised in the auditor's report on the annual financial statements.
23. On that basis, the project team has recommended that the interim review report include clear and appropriately worded statements about going concern. The project team is also proposing a new requirement for the report to include specific statements relating to going concern. For illustrative purposes, the project team is considering:

Nothing has come to the auditor's attention that causes the auditor to believe that:

- (i) Management's use of the going concern basis of accounting in the preparation of the interim financial information is not appropriate; and
- (ii) Management has identified a material uncertainty related to going concern that has not been adequately disclosed in the interim financial information.

Other Information

24. Extant ISRE 2410 (and ASRE 2410) includes two paragraphs¹³ on the auditor's responsibility for "accompanying information," that require the auditor to:
- (a) Read the other information that accompanies the interim financial information to consider whether it is materially inconsistent with the interim financial information; and
 - (b) If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, discuss the matter with management.
25. The project team has considered whether the requirements in proposed ISRE 2410 (Revised) should:
- (a) Remain at a high level similar to that in extant ISRE 2410 and ISAE 3000 (Revised); or

¹³ ISRE 2410, paragraphs 36 and 37

- (b) Be more detailed, similar to ISSA 5000.14. This may include specific requirements and related application material for obtaining the other information, reading and considering the other information, and responding when a material inconsistency appears to exist or the other information appears to be materially misstated.

26. The project team is seeking directional input from the IAASB.

IAASB's next Steps

27. A complete first draft of the revised ISRE 2410 is expected to be presented at the IAASB's December 2025 meeting. It is anticipated that an Exposure Draft will be approved in March 2026 for a 90-day public consultation period.

¹⁴ The [Basis for Conclusions](#) for ISSA 5000 *General Requirements for Sustainability Assurance Engagements* indicates that the IAASB determined that more detailed requirements about other information would support achieving outcomes more consistently in the context of assurance engagements over sustainability information.

AUASB Agenda Paper

Title:	IAASB September 2025 Meeting – Audit Evidence and Risk Response	Date:	10 September 2025
Office of the AUASB:	Rene Herman	Agenda Item:	2.2

Objective of this agenda paper

- The objective of this agenda item is to seek the views of AUASB members on key directional matters affecting projects on the IAASB standard setting projects.
- Members are appointed in a personal capacity and do not represent the views of the firms. **However, we would appreciate Board members from audit firms also bringing to the meeting perspectives from within their firms on the key matters being addressed in this Board paper.** This will better inform the discussion at the meeting and input to the IAASB.
- Member views may inform Bill Edge in providing his views to the IAASB as a member. Significant issues (if any) may also be communicated to the IAASB by the AUASB's IAASB Technical Advisor and/or the AUASB Chair (including through the IAASB/IESBA Stakeholder Advisory Council and Jurisdictional Standard Setters arrangements).

Questions for AUASB members

No.	Question	Paragraphs in this paper
1	<i>Material accounts</i> Do AUASB members support amending the requirement for some substantive testing for material balances and transactions where risk is assessed as low (whether or not controls are relied upon) in paragraph 18 of ISA 330 to a conditional requirement relying on professional judgement? Do AUASB members support paragraph 18 applying at an account level rather than an assertion level?	7-8
2	<i>Authenticity of Documentation</i> Do AUASB members support removing the presumption that records and documents can be accepted as genuine from paragraph A24 of ISA 200, consistent with the recently revised ISA 240?	9-10
3	<i>Technology</i> Do AUASB members support the recommendation not to pursue technology-related requirements that would apply conditionally or otherwise?	11-14
4	<i>Use of tests of control</i> Do AUASB members support the recommendation to broaden the definition of tests of controls in ISA 330 to facilitate testing the operating effectiveness of controls that operate more widely than at the assertion level?	15-19
5	<i>Controls testing alone</i> Do AUASB members consider that testing of controls alone is currently possible under the ISAs? Do AUASB members support that tests of control alone could in limited circumstances respond to an assessed ROMM at the assertion level, and if so, do AUASB members have examples of these limited circumstances?	23-24
6	<i>Analytical procedures</i>	25-27

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No.	Question	Paragraphs in this paper
	Do AUASB members support the recommendation to differentiate investigating the results for substantive analytical procedures and other analytical procedures?	

Background

4. The Audit Evidence and Risk Response project covers concurrent revisions of ISA 330,¹ ISA 500,² and ISA 520³. The IAASB papers are extensive [see Agenda Item 9].
5. The IAASB project team has conducted extensive outreach, including deep dive sessions, across stakeholder groups including users, Monitoring Group members, regulators, jurisdictional standard setters and audit firms to inform directional thinking of the project team. A summary of outreach activities done by the IAASB is included at Appendix 1 to this Agenda Paper.
6. The main areas for discussion at the September 2025 IAASB meeting, and where the AUASB has previously raised issues, are:
 - a) Material Classes of Transactions, Account Balances, and Disclosures (material COTABD)
 - b) The Auditor's Work Related to Authenticity
 - c) Technology
 - d) Clarifying the Use of Tests of Controls
 - e) Alignment with Concepts of ISA 315
 - f) Tests of Controls Alone to Respond to an Assessed Risk of Material Misstatement
 - g) Investigating the Results of Analytical Procedures

Material Classes of Transactions, Account Balances, and Disclosures

7. ISA 330 paragraph 18 requires a level of substantive testing for material COTABD irrespective of the assessed risks and reliance on controls. There are a range of views on this requirement. Firms are the main group opposed to this requirement on the basis that it undermines the risk-based audit approach and may result in a checklist mentality. The firms believe the 'stand-back' requirement in paragraph 36 in ISA 315 for the auditor to evaluate whether the auditor's determination of ROMM remains appropriate is sufficient (i.e. the 'stand-back' requirement will either result in the auditor identifying and assessing ROMM for a material COTABD that was not previously determined to be a significant COTABD, or confirming that no ROMM exist for a material COTABD). Others hold the view that paragraph 18 of IAS 330 is a fundamental requirement of an audit and agree with the supporting application material that the risk assessment may not be perfect and there can be breakdowns or overrides of controls.
8. Three options were considered by the project team, with Option c) being recommended to the IAASB:
 - a) Option 1 - Remove Paragraph 18 of ISA 330 and Introduce a Presumption that there is a ROMM in all Material COTABDs in ISA 315.
 - o The project team are of the view that this Option is not feasible on the basis of limiting support for the auditor's application of professional judgment by driving an enforced risk assessment for each material COTABD that has not been determined to be a significant COTABD by presuming a relevant assertion(s). It will place an unnecessary burden on auditors because of the additional work effort involved and could drive inconsistent judgment in determining materiality.

¹ International Standard on Auditing (ISA) 330, *The Auditor's Responses to Assessed Risks*

² The work for the in-scope standards is based on '[Proposed ISA 500 \(Revised\) Pre-finalization Holding Package](#)' that encapsulates the Board's decisions on key aspects addressed in the [Exposure Draft for Proposed ISA 500 \(Revised\)](#), [Audit Evidence \(ED-500\)](#), including the IAASB's deliberations of proposals and options based on the feedback received on ED-500 (see [Agenda Item 5](#) discussed by the IAASB at the March 2024 quarterly meeting).

³ ISA 520, *Analytical Procedures*

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- b) Option 2 - Remove Paragraph 18 of ISA 330 and revise the 'Stand-Back' Requirement in ISA 315. The Option includes extending the 'stand-back' requirement in paragraph 36 of ISA 315 by requiring the auditor to perform additional risk assessment procedures to obtain audit evidence to support the evaluation.
- However, unlike a 'stand-back' requirement that asks the auditor to reflect on whether their determination of significant COTABDs remains appropriate, this Option requires performance of additional risk assessment procedures. The project team is of the view is that Option 2 could be perceived as unclear about the extent of additional work required.
- c) Option 3 - Revise the extant requirement to a conditional requirement and clarify the purpose and rationale of paragraph 18 of ISA 330. The obligation to perform substantive procedures would apply only when specific criteria are met, such as the presence of specific information needs of users. This approach allows auditors to exercise professional judgment, on a justifiable threshold, so that procedures are focused on, and proportionate to, the circumstances of the engagement.
- The project team is of the view that this Option effectively moves from a requirement to one that is exercised through auditor judgment, i.e., it is up to the auditor to determine if substantive procedures are required for material COTABDs. Although still being a guardrail against imperfect risk identification and assessment, the conditionality of the proposed requirement may be viewed as less robust than the extant requirement. It also assumes that the auditor would have some level of insight into matters that are of particular importance to intended users, which could be less practical in certain circumstances or for certain types of entities.

ISA 330:

Substantive Procedures

18. ~~Irrespective of the assessed risks of material misstatement, the auditor shall determine the need to design and perform substantive procedures for each material class of transactions, account balance, and disclosure that has not been determined to be a significant class of transactions, account balance or disclosure.~~ (Ref: Para. A43–A49)

The Auditor's Work Related to Authenticity

9. There are a range of views on whether it is appropriate to address, the lead-in sentence⁴ in paragraph A24 of ISA 200 that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary:
- (a) Concerns from audit firms that if the wording is removed, there is a risk of extending the scope of an audit, widening the expectation gap and making audits impracticable in the context of the objective of an audit of financial statements.
 - (b) Views from regulators that the wording of the sentence does not promote appropriate application of professional scepticism.
- This sentence was removed in the recently approved ISA 240 (para 14 of previous standard).
10. The project team is recommending:
- (a) To promote clarity and align terminology with Proposed ISA 500 (Revised) and ISA 240 (Revised), by removing the reference to '*accepting records and documents as genuine*' from ISA 200. This distinction has introduced unnecessary complexity, risks misinterpretation and gives rise to perceived inconsistencies.
 - (b) Clarify in Proposed ISA 500 (Revised) that it is unnecessary for the auditor to consider the authenticity of every individual document and record encountered in an audit.

⁴ The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.

Technology

11. There is general support for developing guidance to promote consistency when technological tools are used on audit engagements and to support the auditor in determining when it may be necessary to use technological tools to obtain sufficient appropriate audit evidence.
12. The project team proposes not pursuing technology-related requirements that would apply conditionally or otherwise. Instead, the project team considers that application material is the appropriate means to facilitate and encourage the auditor's use of technological tools in obtaining and evaluating audit evidence for the in-scope standards. Such guidance would clarify the auditor's responsibilities for use of technological tools, promote consistency in practice, and reduce uncertainty, while also maintaining the flexibility needed to future proof and accommodate technological innovation.
13. The project team considers that the existing principles in the standards remain fit for purpose as they accommodate a broad range of considerations, regardless of whether the auditor uses technological tools or not, to obtain and evaluate audit evidence (e.g. paragraph 9 of Proposed ISA 500 (Revised), *Audit Evidence*, requires the auditor to evaluate the relevance and reliability of information intended to be used as audit evidence. This applies regardless of whether technology is used in performing audit procedures.
14. The project team is proposing:
 - (a) To introduce in paragraph 25 of ISA 220 specificity about the resources used on engagements, such as human, technological and intellectual resources.
 - (b) New application material in ISA 220 to better support the auditor's determination of whether to use technological tools along with examples of circumstances where the use of such tools may be necessary to obtain audit evidence.
 - (c) New application material through ISA 330 and ISA 500:
 - (i) Examples of new or changing risks introduced by the use of new or emerging technologies by auditors and by entities.
 - (ii) Enhanced linkages in ISA 330 with Proposed ISA 500 (Revised) regarding:
 - the level of detail of information for meeting the intended purpose(s) of audit procedures; and
 - examples illustrating how the level of information may impact the effectiveness of substantive procedures.

Clarifying the Use of Tests of Controls

15. The project team is considering if tests of controls as defined in ISA 330 can also separately fulfill other purposes, including evaluating the relevance and reliability of information intended to be used as audit evidence as required by ISA 500.
16. ISA 330 paragraph 4b defines a test of controls as an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.
17. Proposed ISA 500 (Revised) explains that⁵:
 - (a) The evaluation of relevance and reliability may be performed concurrently with the audit procedures applied to the information (e.g. a test of controls may be used to evaluate accuracy and completeness of information generated internally from the entity's information system).
 - (b) Audit evidence obtained from audit procedures performed in accordance with other ISAs may also assist the auditor in evaluating the relevance and reliability of information (e.g. tests of controls over the preparation and maintenance of the information performed in accordance with ISA 330).

⁵ See ['Proposed ISA 500 \(Revised\) Pre-finalization Holding Package' in Agenda Item 5 discussed by the IAASB at the March 2024 quarterly meeting, paragraphs A37–A38 and A56F](#)

- (c) The reliability of information, in particular the attributes of accuracy, completeness and authenticity, may also be affected by whether the integrity of the information has been maintained through all stages of information processing (e.g. effective general information technology controls (GITCs) to safeguard and maintain the integrity of the financial information).
18. The project teams' outreach with individual firms indicated:
- (a) The firms encourage testing controls that address risks to the integrity of information in an entity's information system and use those as a basis for evaluating the reliability of information intended to be used as audit evidence.
 - (b) However, those controls are likely to have only been identified when they also either directly address a risk of material misstatement (ROMM) at the assertion level that arises because of a risk to the integrity of information, or when they support the operation of other controls that directly address ROMM at the assertion level.
 - (c) Testing the operating effectiveness of GITCs is performed in the context of evaluating the integrity of information extracted from an entity's information systems (e.g., system-generated reports) that is used in the performance of audit procedures.
 - (d) Certain tests of controls do not fit neatly into the extant definition of 'tests of controls' because the controls are not precise enough to prevent or detect and correct material misstatements at the assertion level.
 - (e) Auditors may not recognise that tests of controls may simultaneously also provide a basis for evaluating the reliability of a wider range of information intended to be used as audit evidence.
19. The project team is proposing to broaden the definition of 'tests of controls' in ISA 330 to facilitate testing the operating effectiveness of controls that operate more widely than at the assertion level. Staff also propose application material linked to Proposed ISA 500 (Revised).

Definitions

4. For purposes of the ISAs, the following terms have the meanings attributed below:

...

- (b) Test of Controls - An audit procedure designed to ~~evaluate~~ obtain audit evidence about the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements ~~at the assertion level~~. (Ref: Para. A0A)

...

Application and Other Explanatory Material

Definitions (Ref: Para. 4)

A0A. Test of controls may be performed to:

- Obtain audit evidence about the operating effectiveness of controls that address risks of material misstatement thereby confirming the auditor's assessment of control risk;⁶ or
- Provide a basis for the auditor's evaluation of the reliability of information in accordance with Proposed ISA 500 (Revised).⁷

Alignment with ISA 315 concepts

20. ISA 315 requires a separate assessment of inherent risk and controls, with an acknowledgement that inherent risk is a range on a spectrum of inherent risk. ISA 330 requires the auditor to design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed ROMM at the assertion level.
21. The project team aims to improve the alignment between the separate assessments of inherent and controls risk as required by ISA 315 into paragraph 7 of ISA 330 and establish a linkage

⁶ ISA 315 (Revised 2019), paragraph 34.

⁷ Proposed ISA 500 (Revised), *Audit Evidence*, paragraph 9.

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between the auditor's assessment of inherent risk on a spectrum, and the persuasiveness of the audit evidence that is required to appropriately address the risk.

22. No specific input is requested of AUASB members at this time.

Use of Tests of Control alone to respond to an assertion level ROMM

23. The project team is recommending an explicit approach that could encourage auditors to more frequently consider the use of tests of controls to respond to assessed ROMMs at the assertion level when appropriate to do so. Intended amendments to the application material in ISA 330 (see below) would explicitly recognise that in certain narrow circumstances the auditor may design further audit procedures to obtain sufficient appropriate audit evidence related to a relevant assertion by performing only tests of controls:

A4. The auditor's assessment of ~~the identified risks~~ of material misstatement at the assertion level in accordance with ISA 315 (Revised 2019) provides a basis ~~for considering the appropriate audit approach~~ for designing and performing further audit procedures. For example, the auditor may determine that:

- (a) Only by performing tests of controls may the auditor obtain sufficient appropriate audit evidence to address ~~achieve an effective response to~~ the assessed risk of material misstatement for a ~~particular relevant~~ assertion. This ~~may be the case when the auditor has identified a risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, and is therefore required to test the operating effectiveness of controls that address that risk;~~⁸
- (b) Performing only substantive procedures can provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for ~~particular a relevant~~ assertions. In these circumstances, ~~and, therefore,~~ the auditor excludes the expected effect of controls from the assessment of the risk of material misstatement at the assertion level. This may be because the auditor has not identified a risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence, or in assessing control risk, the auditor does ~~and therefore the auditor may not plan to test the operating effectiveness of controls; in determining the nature, timing and extent of substantive procedures;~~⁹ or
- (c) A combined approach, using both tests of controls and substantive procedures is an effective approach.

The auditor need not design and perform further audit procedures for relevant assertions where for which the assessment of inherent the risk is such that the risk of material misstatement is below the acceptably low level. However, as required by paragraph 18, ~~irrespective of the approach selected and the assessed risk of material misstatement,~~ the auditor determines the need to designs and performs substantive procedures for each material class of transactions, account balance, and disclosure that is not determined to be a significant class of transactions, account balance or disclosure.

24. The project team proposes to provide appropriate guardrails in the standards that mitigate against applying a 'test of controls only' approach to address an assertion level ROMM when it is not appropriate to do so. New application material in ISA 330, would recognise that in certain narrow circumstances the auditor may design further audit procedures to obtain sufficient appropriate audit evidence for a relevant assertion by 'performing only tests of controls'. The application material would set out specific attributes of the controls for which this could apply – illustrated below:

- The risk of management override of controls does not affect the assessment of risk at the assertion level in accordance with ISA 240 (Revised).¹⁰

⁸ ISA 315 (Revised 2019), paragraph 33

⁹ ISA 315 (Revised 2019), paragraph 34

¹⁰ ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 40

- The assessment of inherent risk for the relevant assertion is at the lower end of the spectrum of inherent risk.
- The controls that formed part of the auditor's assessment of control risk and are planned to be tested in the circumstance:
 - Are sufficiently precise to respond to the events or conditions that gave rise to the identification and assessment of the inherent risk;
 - Are automated controls requiring little or no manual intervention;
 - Include the indirect controls that support the operation of the direct controls that address the relevant assertion; and
 - Operate in the entity's information system that the auditor has evaluated as appropriately supporting the preparation of financial statements in accordance with the applicable financial reporting framework.¹¹
- The further audit procedures designed and performed in relation to the particular class of transactions, account balance or disclosure do not involve performing only tests of controls for all the relevant assertions of the class of transactions, account balance or disclosure.

Investigating the Results of Analytical Procedures

25. The project team is recommending revisions to ISA 520 to differentiate procedures required when investigating the results of substantive analytical procedures and other types of analytical procedures (e.g. for risk assessment or analytical procedures that assist when forming an overall conclusion).
26. Paragraph 7 of ISA 520 applies to analytical procedures broadly, whether substantive or non-substantive analytical procedures. Paragraph 7 of ISA 520 requires the auditor to investigate fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. When investigating fluctuations, the auditor is required to:
(a) Inquire of management and obtain appropriate audit evidence relevant to management's responses; and
(b) Perform other audit procedures as necessary in the circumstances. The current requirement leads to confusion about the nature and extent of the investigation that is required in the case of substantive analytical procedures compared to non-substantive analytical procedures.
27. The project team aims to separate the current investigation paragraph:
 - (a) Retain but revise the extant requirement in paragraph 7 of ISA 520 that would apply to analytical procedures performed as risk assessment procedures or analytical procedures that assist when forming an overall conclusion; and
 - (b) Develop a new requirement, to evaluate differences exceeding the amount of difference that is acceptable without further investigation that would be specific to substantive analytical procedures. This would include performing audit procedures in addition to inquiries to determine whether a material misstatement exists.

¹¹ ISA 315 (Revised 2019), paragraph 25

APPENDIX 1 - OUTREACH ACTIVITIES AND MEETINGS

Meetings and Working Sessions

1. Staff engaged with representatives of the following in person or at virtual meetings:

Users of Financial Statements

- Meetings with members of the Stakeholder Advisory Council and individual users of financial statements from Canada, Japan, Malaysia, Spain, Belgium, Italy, Romania, Hong Kong, New Zealand and United States.
- European Federation of Financial Analysts' Societies.
- Securities Analysts Association of Japan.
- Corporate Reporting Users' Forum (UK Chapter)

Monitoring Group Members

- Standards Coordination Working Group of the International Forum of Independent Audit Regulators.
- Committee on Issuer Accounting, Audit and Disclosure of the International Organization of Securities Commissions.

Regulators and Audit Oversight Authorities

- Australian Securities and Investment Commission (Australia).
- International Auditing Standards Subgroup of the Committee of European Auditing Oversight Bodies.
- Canadian Public Accountability Board (Canada).
- Capital Market Authority (Kingdom of Saudi Arabia).
- Dutch Authority for the Financial Markets (Netherlands).
- Financial Reporting Council (United Kingdom).
- Independent Regulatory Board for Auditors (South Africa).
- Public Company Accounting Oversight Board (United States).
- Securities and Exchange Commission of Brazil (Brazil).

JSS and PAOs

- American Institute of Certified Public Accountants.
- Institute of Chartered Accountants of England and Wales.

Accounting Firms

- Baker Tilly International Limited.
- BDO International.
- Crowe Global.
- Deloitte Touche Tohmatsu Limited.
- Ernst & Young Global Limited.
- Grant Thornton International Limited.
- Global Public Policy Committee.
- KPMG International Limited.
- Forvis Mazars Global Limited.
- PricewaterhouseCoopers International Limited.
- RSM International.

Stakeholder Events

2. The AE&RR project was discussed at the following stakeholder events:
 - Forum of Firms meetings in Amsterdam (April 2025) and in New York (June 2025).
 - SMPAG meeting in New York (May 2025).
 - IAASB-JSS Liaison Group (IAASB-JSS) meetings in New York (May 2025 and May 2024).

Roundtable

3. In July 2025, the AE&RR project hosted a virtual roundtable that convened representatives from the audit oversight and regulatory community and the auditing profession to discuss varying stakeholder perspectives for selected topics being considered under the project and to inform future actions of the IAASB.



AUASB Agenda Paper

Title:	IAASB September 2025 Meeting – Other topics	Date:	10 September 2025
Office of the AUASB:	Rene Herman	Agenda Item:	2.3

Objective of this agenda paper

1. The objective of this agenda item is to seek the views of AUASB members on matters affecting projects on the IAASB standard setting projects.
2. Members are appointed in a personal capacity and do not represent the views of the firms. **However, we would appreciate Board members from audit firms also bringing to the meeting perspectives from within their firms on the key matters being addressed in this Board paper.** This will better inform the discussion at the meeting and input to the IAASB.
3. Member views may inform Bill Edge in providing his views to the IAASB as a member. Significant issues (if any) may also be communicated to the IAASB by the AUASB's IAASB Technical Advisor and/or the AUASB Chair (including through the IAASB/IESBA Stakeholder Advisory Council and Jurisdictional Standard Setters arrangements).

Questions for AUASB members

No.	Questions
1	Sustainability Assurance Are AUASB members aware of any new areas requiring guidance under ISSA 5000 since the last AUASB meeting that have not already been communicated to the Office of the AUASB (see paragraphs 5 and 6 below)?
2	ISA 540 Are AUASB members aware of any major matters in relation to ISA 540 that the IAASB should raise in their post implementation review survey not already identified in the IAASB meeting papers (see paragraphs 9 to 11 below)?
3	IAASB strategy and workplan <ul style="list-style-type: none">• Do AUASB members have any comments on the list of environmental trends impacting the external reporting ecosystem in Appendix 1 to this paper?
4	Technology Do AUASB members have any major comments on developments in the technological landscape relevant to audit and assurance engagements in Appendix 2 to this Agenda Item?

Background information

4. Topics being discussed at the September 2025 IAASB meeting:
 - ISRE 2410 – Refer Agenda Item 2.1
 - Audit Evidence and Risk Response – Refer Agenda Item 2.2
 - Sustainability Assurance – ISSA 5000 adoption and implementation update
 - Experts Narrow Scope Project – Feedback from ED, updated drafting and approval
 - ISA 540 – Post Implementation Review – Feedback on some of the main issues
 - Strategy and Work Plan 2028-2031 – Approach and key elements
 - Technology – Monitoring update
 - LCE – Maintenance matters (this is not relevant to Australia)

Sustainability Assurance: Implementation support materials – ISSA 5000

5. Resources are under development for release in 2025, as follows:
 - Illustrative assurance reports - for release in September 2025
 - Webinars - a three-part series covering the entire sustainability assurance engagement from preparing the firm, acceptance of an engagement through to reporting.
 - FAQ on Materiality - for release in October / November 2025.
6. Further clarification, including by highlighting where relevant issues are addressed in ISSA 5000 and the ISSA 5000 Implementation Guide, has been called for with respect to the following matters:
 - Relevant Ethical Requirements
 - The applicability of the IESBA Code, including revisions and the IESSA.
 - The determination of “at least as demanding” ethical requirements (and quality management requirements).
 - Materiality
 - Applying materiality to narrow scope engagements.
 - Accumulating and evaluating materiality of misstatements in disparate disclosures.
 - Differences between nature and extent of procedures in limited assurance and reasonable assurance engagements.
 - Evidence
 - From value chain components.
 - For estimates and forward-looking information.
 - Connectivity with the financial statement auditor
 - Communication with the financial statement auditor.
 - Use of the work of the financial statement auditor.
 - Key Differences Between ISSA 5000 and ISAE 3000
 - Assurance Report Content
 - Use of emphasis of matter, other matter or inherent limitations paragraphs.
 - Assurance report contents for a disclaimer of conclusion.
 - Impact of fair presentation versus compliance frameworks on the conclusion wording.

Experts Narrow Scope

7. Comments received on the experts narrow scope amendments exposure draft, indicated that proposals to ISA 620 are not explicit enough to align to Code. To address this, the Project Team is now proposing an explicit requirement within ISA 620 that if the auditor concludes that the auditor’s expert does not have the necessary competency, capability and objectivity (CCO) for the auditor’s purposes then the auditor cannot use the expert’s work. This will drive consistency where a jurisdiction may not adopt the Code. Application material would state that using the work of an expert that does not have the necessary CCO, affects the auditor’s fulfilment of ethical principles.
8. The Office of the AUASB supports the proposed requirement which is already implicit in ISA 620.

ISA 540 – PIR

9. The IAASB will run a public consultation survey from January to April 2026 as part of the post Implementation review of ISA 540 *Auditing Accounting Estimates and Related Disclosures*. Views and recommendations will be collated and discussed over the second half of 2026.
10. The PIR objectives are to:
 - Determine whether ISA 540 is being consistently understood and implemented; and
 - Identify how practical challenges and concerns are being addressed and whether further actions by the IAASB are needed.
11. A survey of jurisdictional standard setters (JSS) there are still challenges with:
 - Performing risk assessment
 - Retrospective reviews
 - Use of experts

Additionally, JSS have indicated that inspection findings still find estimates a common area for deficiencies relating to sufficiency of audit procedures around point estimates, ranges, managements estimates and assumptions and the exercise of professional scepticism.

Strategy and Workplan

12. The IAASB and IESBA are considering developing a joint stakeholder survey to inform the future strategies and workplans for the 2028-2031 period.
13. Furthermore, IESBA and IAASB do not currently have a formal statement articulating a joint value proposition. The May 2025 Stakeholder Advisory council meeting discussed the relevance and value proposition of the IAASB and IESBA's work and their impact on business and economies more broadly – see Session 3 of the [SAC meeting highlights](#).
14. The SAC also discussed key trends shaping the accounting and auditing industry in 2025 and beyond and their potential implications for the IAASB's work. Based on these discussions and additional research performed by IAASB Staff, the IAASB Staff have identified several key future trends that may impact the external reporting ecosystem, including the standard-setting landscape in the coming years. These future trends have been included at Appendix 1 to this Agenda Paper.

Technology

15. The IAASB will continue to discuss its Technology Position and Technology Quality Management Workstream activities and obtain the Board's input and direction on these topics.
16. The IAASB continues to monitor technological developments relevant to audit and assurance engagements to enable the IAASB to maintain an up-to-date understanding of emerging technologies, market trends, and regulatory initiatives that may affect its standards, non-authoritative materials, or other activities.
17. A key source of information for monitoring activities is the IAASB's Technology Advisory Network (TAN), comprising jurisdictional standard setters from around the world. An update from the TAN is set out in Appendix 2 to this Agenda Paper

LCE Standard maintenance

18. Although not relevant in Australia, for information the IAASB will be asked to confirm that the process to update of the ISA for LCE should commence when revisions to the ISAs are almost finalised. The IAASB will also be asked to consider process matters, such as the need of project plans for each update.

Appendix 1

Preliminary List of Environmental Trends Impacting the External Reporting Ecosystem Prepared by IAASB Staff

1. Impact of Emerging Technologies

- (a) *Digital Transformation and Automation:* Businesses and industries, including accounting firms, are undergoing a far-reaching transformation driven by the adoption of emerging technologies such as generative AI and machine learning, robotics, internet of things, and blockchain. It is anticipated that these and other new technologies will continue to develop rapidly and impact significantly the external reporting ecosystem, including how auditing and accounting firms organize themselves and undertake their work.
- (b) *Digital Assets and Institutionalization of Digital Assets:* Given the growing use of emerging technologies, digital assets, including cryptocurrencies, have become more popular and their institutionalization is accelerating. For example, in the United States spot Bitcoin exchange-traded funds were approved by the Securities and Exchange Commission in early 2024, enabling traditional investors (e.g., pension funds) to more readily invest in Bitcoins. Currently, regulation varies by jurisdiction, but the direction is likely to move towards cleared and more mature frameworks.
- (c) *Financial Crimes Enabled by Technology:* The growing use of emerging technology has also given rise to significant threats to cybersecurity and a significant rise in unlawful activities that exploit digital systems, networks, and generative AI to commit, conceal, or facilitate theft, fraud, or other forms of financial misconduct, for example, cyber- or AI-enabled fraud, money laundering, account-takeover, etc. With the significant increase in cyber threats, there will be more focus on IT controls, data security including on the cloud, and cybersecurity to protect sensitive financial and non-financial information.

2. Geopolitical Changes

- (d) *Multipolarity:* There is a shift toward a more multipolar world order, with greater inclusion of voices from developing countries. Given this, there are calls to reform global institutions (e.g., United Nations, International Monetary Fund and the World Bank) to amplify developing countries' representation. There is also likely to be a shift and re-balancing of economic influence from established G7 to the "Emerging-Seven" (China, Brazil, Indonesia, India, Russia, Mexico and Turkey) over the coming decade. Those shifts may impact political support for or resistance to the adoption and implementation of global standards.
- (e) *Geopolitical Tensions:* There is an increase in international conflicts involving a growing number of countries. Recent major conflicts and crises have had a significant impact on global stability. Examples include the wars in Ukraine and Gaza and recent trade wars. In addition, there is a move away from globalism toward a more nationalistic focus. Trade conflicts, sanctions, and regional instabilities may fragment international cooperation, making global convergence of standards more difficult.
- (f) *Regulatory Changes:* The accounting and auditing industry is navigating a complex regulatory environment, with ongoing changes. On the one hand, these changes are driven by the need for market stability and to prevent economic disruptions caused by corporate failures. On the other hand, there is a trend towards reducing regulatory burdens and streamlining processes to foster innovation and economic growth.
- (g) *Risk to Fragmentation of Frameworks:* Given the multipolarity, different jurisdictions, industries, or organizations may use varied and sometimes conflicting frameworks, rules,

and metrics for reporting information. In the accountancy profession, this is especially the case in areas like financial disclosures, sustainability reporting, and corporate governance.

3. Climate Change

- (h) *Persisting Demand for Climate Reporting:* As the impact of climate change continues to rise, climate reporting will continue to grow as a critical component of corporate transparency. Stakeholders, including investors and regulators, are demanding more comprehensive and accurate climate-related disclosures. This trend is driving the rise of sustainability reporting and assurance and integrated reporting frameworks.
- (i) *Regulatory Changes:* The regulatory landscape for climate reporting will continue to evolve, with potential amendments to existing regulations and the introduction of new standards.

4. Evolving Structure and Business Models of Accounting Firms

- (j) *Private Equity Investments:* Private equity organizations are increasingly investing in accounting firms, driving growth and technological innovation but raising ethics and auditor independence implications, including on firms' ethical culture.
- (k) *Involvement of Non-Professional Accountants in the Accounting and Auditing Industry:* Traditionally, accounting firms were staffed almost exclusively with accountants and auditors. Now, a growing share of their workforce consists of specialists from other disciplines, such as technology, data science, law, consulting, and sustainability.
- (l) *Talent Shortage:* The accounting and auditing industry is facing a significant talent shortage driven in part by perceptions of the industry as being less dynamic and innovative, and the attraction of alternative career paths.
- (m) *Changing Work Model:* The modern work model in the financial sector and professional services industries, including accounting firms, is becoming more flexible, not only with hybrid modes of working but also with the development of out-of-territory or centralized workforces in service delivery centers.

Appendix 2 – AI and other matters (per IAASB Agenda Item 7-A)

A) **AI GOVERNANCE, EXPLAINABILITY, AND TRANSPARENCY**

1. **AI Governance:** As organizations integrate artificial intelligence (AI) into their operations, the attention on robust governance and control mechanisms is increasing. Publications from professional accountancy bodies outline the role of accountants in AI governance, quality management, and AI assurance, covering the evolution of AI, key governance components, and the role of assurance engagements in building trust.
2. **Regulatory oversight:** Audit regulators have noted early-stage adoption of AI in audit tools, with limited examples in public company audits. Publications from regulators have identified areas whereby AI could enhance quality, while introducing new risks associated with these tools. Some oversight strategies include influencing firms on how they design and integrate controls over emerging technologies.
3. **AI model explainability and transparency:** There are concerns about AI decision-making processes operating as “black boxes”—producing outputs in ways that cannot be easily understood or tested by auditors, which affects transparency and the ability to challenge evidence. Regulators are also debating acceptable thresholds for AI model interpretability in audit, balancing the need for transparency with practical implementation realities.

B) **AI USE BY AUDITORS**

4. **AI integration in firm audit workflows:** Firms are incorporating AI into various stages of audit workflows, including risk assessment, substantive procedures, and other core audit tasks. Examples include generative AI being used to draft working papers, analyze complex datasets, simulate audit scenarios, and identify anomalies or trends. Adoption has been aimed at enhancing efficiency, improving coverage and insight, and enabling more dynamic, data-driven audit procedures.
5. **Auditor-led AI innovation and agent-based tools:** Some auditors are experimenting with AI agents to improve task automation and knowledge retrieval. Regulators and other observers have also noted the prospect of autonomous AI agents undertaking more complex audit work in the future, potentially reshaping parts of the audit cycle and resource allocation.
6. **AI-generated evidence and assurance considerations:** AI systems are generating audit evidence in a growing number of engagements, with examples ranging from automated transaction matching to anomaly detection reports used as part of substantive testing. This expansion has prompted questions on the reliability and sufficiency of such evidence, particularly when underlying algorithms are opaque or rely on third-party data sources. It also raises issues about how auditors document and corroborate AI-generated outputs in compliance with existing requirements, and whether additional procedures or professional judgment frameworks are needed to assess their appropriateness.

C) **AI USE BY AUDITED ENTITIES**

7. **AI use by audited entities and evolving audit procedures:** Monitoring noted growth in AI adoption across client entities, prompting auditors to assess data integrity, operational controls, governance maturity, and risk management practices. In many cases, this involves evaluating AI-driven processes embedded in core operations and considering the sufficiency of governance frameworks, alongside the development of tailored audit procedures. These include testing the design and operating effectiveness of relevant controls, assessing the appropriateness of data inputs, evaluating the integrity and transparency of AI model outputs, and understanding how such processes integrate with broader business workflows. In some cases, auditors are involving IT specialists to evaluate algorithms, model training data, and bias mitigation measures, and are developing strategies for documenting findings in a manner consistent with audit evidence requirements.

D) **EMERGING AI RISKS AND DISRUPTIVE POTENTIAL**

8. **Risk associated with intersection of Quantum Computing, AI, and Agentic AI:** The convergence of these technologies introduces novel risks, with quantum computing in particular posing potential threats to current encryption methods, secure data transmission, and blockchain integrity. Combined with AI and agentic AI, these developments could create complex vulnerabilities in data integrity, algorithmic reliability, and the resilience of assurance systems.
9. **Evolving concepts of “AI Assurance” and applicability of SOC engagements:** There have been varied and sometimes conflicting interpretations of the term “AI Assurance,” with no

consistent definition or agreed scope across jurisdictions and stakeholders. Discussions included whether existing frameworks for service organization control (SOC) engagements could be adapted to cover AI systems and processes, and what additional considerations might be needed to address AI-specific risks. This uncertainty creates differing expectations among stakeholders and could influence how assurance services develop in response to AI adoption.

10. **Potential for significant disruption of the profession:** AI and related technologies could fundamentally alter audit roles, workflows, and the market for assurance services. This disruption may include shifts in the types of skills auditors require, increased automation of traditionally human-led procedures, changes in firm structures and service offerings, and potential redefinition of the scope and value proposition of assurance in a technology-driven environment.
11. **Standard-setting cadence:** The speed of technological change risks outpacing the ability of standard-setting processes to adapt, potentially creating gaps in applicability. This may lead to periods where emerging technologies are widely used in practice before relevant guidance exists, creating uncertainty for practitioners and external stakeholders.

E) DATA ANALYTICS AND ALTERNATIVE INFORMATION SOURCES

12. **Data Analytics:** Expansion of data-driven audit approaches is continuing, including automated analytical procedures and integration with other technologies to support risk assessment and substantive testing. Continued uncertainty over the use of data analytics for multiple purposes (risk assessment and substantive testing) has been identified.
13. **Use of non-financial data:** Auditors are leveraging a growing range of alternative technology-driven data sources—including drone and surveillance images, IoT sensor and voice data—to obtain audit evidence such as the operating status of machines. Emerging possibilities include satellite-based optical and radar imagery to assess conditions or confirm the existence of property, though challenges with resolution, shooting frequency, and cost remain.

F) DIGITAL ASSETS

14. **Digital assets and stablecoins:** There have been ongoing developments in digital assets, including stablecoins, and their relevance to audit and assurance engagements. Recent legislation has begun providing emerging frameworks for stablecoins, though practical implications for audit and assurance remain uncertain. These frameworks have provided avenues for practitioners to engage in assurance engagements over the validity of issued stablecoins.

G) CYBERSECURITY

15. **Cyber Security:** Cyber risks remain a significant concern, affecting client operations, the integrity of audit evidence, and the resilience of technology systems relied upon during engagements. These threats evolve in scale and sophistication, with implications for how auditors assess IT controls, evaluate incident response capabilities, and consider the potential for cyber incidents to disrupt audit processes or compromise evidence.

H) THIRD-PARTY DEPENDENCIES

16. **Increasing diversity of technology providers and audit firm reliance:** Audit firms, including many SMPs, are engaging with a growing range of technology providers, from established cloud platforms to emerging FinTech and niche audit-tech developers. This has expanded the options available to firms but also heightened the complexity of vendor management, increased dependency risks, and has the potential to constrain technology governance where key services are outsourced.
17. **Audited entities reliance on technology:** Audited entities are increasingly dependent on cloud services, accounting and ERP platforms, and other technology providers, while AI providers are a growing component within their businesses. This reliance is adding complexity in evaluating internal controls, understanding the use of emerging technologies embedded in processes, and determining the scope and sufficiency of third-party assurance reports.



AUASB Agenda Paper

Title:	Revised GS 018 <i>Franchising Code of Conduct – Auditor’s Report</i>	Date:	10 September 2025
Office of the AUASB:	See Wen Ewe	Agenda Item:	3.0

Objective of this Agenda Paper

1. The objective of this Agenda Item is to seek AUASB member initial feedback on revised GS 018 *Franchising Code of Conduct – Auditor’s Report* (GS 018) on the audit of standalone solvency statements of franchisors. See draft revised GS 018 at Agenda Paper 3.1.

Questions for AUASB members

No.	Question
1	Do AUASB members agree that: (a) ASA 805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement is an appropriate framework for the audit of solvency statements of franchisors; and (b) ASA 540 Auditing Accounting Estimates and Related Disclosures should be applied by analogy? (See paragraphs 9 to 11 below.)
2	Do AUASB members have any comments on: (a) The draft revised GS 018 (including the example auditor’s report in Appendix 2); (b) The proposal to remove the inherent limitation section from the example auditor’s report (see paragraph 15 below); and (c) The proposal to defer updating references to the revised ASA 570 <i>Going Concern</i> and ASA 240 <i>The Auditor’s Responsibilities Relating to Fraud in an Audit of a Financial Report</i> (see paragraph 17 below)?
3	Do AUASB members agree for the revised draft GS 018 to be shared with targeted stakeholders for soft consultation?

Background

2. GS 018 concerns the requirement in Item 21(4) in Annexure 1 of the *Competition and Consumer (Industry Code – Franchising) Regulations 2014* (2014 Code) for a separate standalone audit opinion on a solvency statement by the franchisor’s directors.
3. The 2014 Code was repealed in December 2024 and replaced by the [Competition and Consumer \(Industry Code – Franchising\) Regulations 2024](#) (2024 Code) which contains a similar requirements for audit of a solvency statement (Item 21(4) of Schedule 1). There are no substantive differences between the relevant requirements of the 2014 and 2024 Codes. The relevant provisions of the 2024 Code appear in Appendix 1 to the draft revised GS 018.
4. Typically, the auditor of the solvency statement is also the auditor of the franchisor’s financial report. The solvency statement provides the directors’ opinion as to whether there are reasonable grounds to believe that the franchisor will be able to pay its debts as and when they fall due. This is similar to the solvency statement required in the directors’ declaration under s295(4) of the *Corporations Act 2001*.
5. A stakeholder requested that the example audit report in GS 018 be updated to refer to the 2024 Code instead of the 2014 Code.

Matters for Consideration

A. Due process

6. The Office of the AUASB has reviewed the 2024 Code and consulted with the stakeholder who approached the Office of the AUASB and the CEO of Franchise Council of Australia.
7. Because the requirements for the audit of the solvency statement have not changed, only narrow scope amendments are proposed to be made to GS 018:
 - (a) Updating references to the 2014 Code to refer to the 2024 Code;
 - (b) Adding more examples of information to consider in assessing solvency;
 - (c) Updating references to changed AUASB standards; and
 - (d) Removing an inherent limitations paragraph from the example audit report.
8. Given that the revisions are narrow in scope and the 2024 Code applies for years ended 30 June 2025, a formal project plan and full consultation process is not required by the [AUASB Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#) (see paragraph 172).
9. During the course of updating the GS, the Office of the AUASB noted that the existing guidance in GS 018 is focused more on going concern instead of solvency, which are separate concepts. Amendments have been made to the draft revised GS 018 to focus on solvency. The example auditor's report has also been amended for the circumstances of the engagement. Given that the proposed changes are more than anticipated, the Office of the AUASB will send the revised draft GS 018 to targeted stakeholders for soft consultation.

B. Framework

10. Paragraph 14 of GS 018 refers to [ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Information](#). The audit procedures performed on the solvency statement are likely to include an analysis and assessment of future cash flows, revenue and payment streams and reflect assumptions that are dependent upon future events.
11. However, GS 018 is based on ASA 805 rather than ASAE 3450. The solvency statement concerns the ability to meet debts as and when they fall due and does not present forecasts. Although ASA 540 deals with monetary accounting estimates (e.g. goodwill and other intangible assets), paragraph 14 of GS 018 has been amended to refer to ASA 540 by analogy instead of ASAE 3450. An auditor may analyse and assess future cash flows for accounting estimates that involve judgements about future conditions or events under ASA 540.
12. ASA 805 deals with an audit of a single financial statement or of a specific element, account or item of a financial statement. Although audit of the solvency statement does not fit snugly within ASA 805, the use of ASA 805 as the basis for GS 018 is consistent with the solvency statement in the directors' declaration being part of the financial report audited under the *Corporations Act 2001*. The solvency statement under the franchising code is often accompanied by the financial report and code statement is audited by the franchisor's financial report auditor.

C. Example auditor's report

13. The current example auditor's report in Appendix 2 of GS 018 includes sections on 'Basis of Preparation and Distribution' and 'Inherent Limitation'.
14. In the draft revised GS 018, the 'Basis of Preparation and Distribution' section has been re-titled to 'Emphasis of Matter – Basis of Preparation and Restriction on Distribution' to align with the wording in ASA 805 Appendix 2.
15. The 'Inherent Limitation' section has been removed because the ASAs require the auditor to obtain reasonable assurance about whether the statement as a whole is free from material misstatement, whether due to fraud or error. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive (see paragraph 5 of [ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards](#)). Because the inherent limitations for audits of the solvency statements are no more significant than those for other audit engagements, it is not necessary to draw users' attention to an inherent limitation. An inherent limitation section is only

found in the ASAEs and ASSA example assurance reports on compliance¹, on controls² and sustainability information³. There is no specific section on inherent limitations in the illustrative auditor's reports in ASA 570⁴, ASA 700⁵, ASA 805 and ASAE 3450.

16. Paragraph 11 of ASA 805 states that when forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in ASA 700 adapted as necessary in the circumstances of the engagement. The auditor's report is drafted in accordance with ASA 700 and adapted for the circumstances of the engagement.

D. Fraud and Going Concern

17. GS 018 refers to ASA 570 and ASA 240. ASA 570 has been revised but the revised ASA 240 has been approved in-principle but not yet finalised. The revised standards are operative for financial reporting periods beginning on or after 15 December 2026. While GS 018 could refer to both versions of ASA 570, it is suggested that the references to ASA 570 and ASA 240 be updated at a later date after the revised ASA 240 is finalised.

Next steps

18. Subject to any feedback from AUASB members, the revised GS 018 will be shared with the target stakeholders for feedback. A revised draft GS 018 will be brought back to the Board for approval, highlighting any significant matters raised by stakeholders and how they were addressed.

Materials presented

Agenda Item No.	Title
3.1	Revised draft GS 018 (Mark-up from extant)
3.2	Revised draft GS 018 (Clean)

¹ See ASAE 3100 *Compliance Engagements*.

² See ASAE 3150 *Assurance Engagements on Controls*.

³ See [ASSA 5000 General Requirements on Sustainability Assurance](#)

⁴ See ASA 570 *Going Concern*

⁵ See ASA 700 *Forming an Opinion and Reporting on a Financial Report*

GS 018

(~~June 2015~~September 2025)

Guidance Statement GS 018

Franchising Code of Conduct – Auditor's Report

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

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

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Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on the application of AUASB Standards and, where relevant, legislation regulation or other authoritative publications, to assist auditors and assurance practitioners to comply with AUASB Standards. Guidance Statements are intended to assist auditors and assurance practitioners in applying an existing standard or standards of general application to particular circumstances or specialised industries/sectors ~~certain procedural, entity or industry specific matters related to the application of an AUASB Standard(s).~~

Guidance Statements are designed to provide assistance to auditors and assurance practitioners to achieve the objectives of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of a specific AUASB Standard(s); and, where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement.

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~~Guidance Statements are designed to provide assistance to auditors and assurance practitioners to assist them in fulfilling the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of specific AUASB Standard(s); and where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement. Further, Guidance Statements do not establish or extend the requirements under an existing AUASB Standard(s).~~

Guidance Statement **GS 018 *Franchising Code of Conduct – Auditor's Report*** is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 018 *Franchising Code of Conduct – Auditor's Report* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

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

This Guidance Statement does not prescribe or create new requirements.

Dated: ~~15 June 2015~~

~~M H Kelsall~~ D Niven
Chairman - AUASB

Conformity with International Pronouncements

There is no equivalent International Standard on Auditing or International Auditing Practice Note (IAPN) to this Guidance Statement.

GUIDANCE STATEMENT GS 018

Franchising Code of Conduct – Auditor's Report

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors to interpret, discharge and report under Item 21 of ~~Annexure Schedule 1~~ to the *Competition and Consumer (Industry Codes—Franchising) Regulations 2024* ~~Franchising Code of Conduct~~¹ (the “Franchising Code”).

Issuance Date

2. This Guidance Statement is issued on ~~15-XX June September 2015-2025~~ by the AUASB and replaces GS 018 *Franchising Code of Conduct – Auditor's Report*, issued in ~~October 2010~~ June 2015.

Introduction

3. Item 21 of ~~Annexure Schedule 1~~² to the Franchising Code (~~Annexure Schedule 1~~) imposes mandatory disclosure requirements on the franchisor in relation to financial details, which must be provided to franchisees or prospective franchisees when entering into a new franchise agreement on or after 1 ~~January 2015~~ April 2025.
4. Audit engagements undertaken in relation to the financial details as required under Item 21 of ~~Annexure Schedule 1~~ are performed under ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*. This standard states that when forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in ASA 700 *Forming an Opinion and Reporting on a Financial Report* as necessary in the circumstances of the engagement.
5. In undertaking audit engagements under Item 21 of ~~Annexure Schedule 1~~, the auditor is required to provide the audit report to the franchisor within four months after the end of the financial year to which the statement of the franchisor’s solvency (directors’ statement) relates.

Nature and Extent of the Audit Engagement

Item 21-(1) of ~~Annexure Schedule 1~~

6. The directors’ statement required by Item 21-(1) of ~~Annexure Schedule 1~~ includes the directors’ opinion on “solvency” as at the end of the last financial year as to whether there are reasonable grounds to believe that the franchisor will be able to pay its debts as and when they fall due.
7. The auditor’s responsibility is to form and express an opinion on the directors’ statement made pursuant to Item 21-(1) of ~~Annexure Schedule 1~~. The substance of this responsibility is similar to that assumed by a company auditor in relation to the “solvency” statement by directors which forms part of the directors’ declaration under Section 295(4) of the *Corporations Act 2001* (the “Act”), and on which the auditor forms an opinion and reports, as

¹ ~~The Franchising Code of Conduct came into operation on 1 July 1998 and the revised Competition and Consumer (Industry Code – Franchising) Regulation 2014 (issued Oct 2014) is repealed and replaced by Competition and Consumer (Industry Codes—Franchising) Regulations 2024 (issued December 2024) applicable from 1 January-April 2015-2025.~~ A copy of the Code is available from the Australian Competition and Consumer Commission (ACCC) website (<http://www.accc.gov.au>).

² Refer to Appendix 1 which sets out the Financial details under Item 21 of ~~Annexure Schedule 1~~ to the Franchising Code, to be included in the franchisor’s disclosure document prepared for a franchisee or prospective franchisee looking to enter into a franchise agreement from 1 ~~January-April 2015-2025~~.

a component of the financial report, under the Act. For audits under the Act, the auditor's opinion on the directors' solvency statement is derived from, and is integral to, the audit process related to forming an opinion on the financial report and the appropriateness of the going concern basis in accordance with ASA 570 *Going Concern*.

8. ~~In the case of an audit under the Act, the auditor's responsibility is to consider the appropriateness of the going concern basis (defined for financial reporting purposes) in the context of the audit of a financial report. The auditor therefore considers the going concern assumption under ASA 570 (including solvency) for the "relevant period"³, being the period from the date of the auditor's current report to the expected date of the next auditor's report on the financial report for the next period. Solvency and going concern are related but separate concepts. Determining solvency is separate from assessing going concern, and whilst rare, the outcome of these assessments may differ. A franchisor can be solvent but not use the going concern basis of accounting preparation if the franchisor is able to pay its current debts as and when they fall due but has intended decided (or has no choice but) to liquidate the entity or to cease operations trading in the future, or has no realistic alternative but to do so. In rare cases, a franchisor can be insolvent but continue using the going concern basis of preparation if they are expected to become solvent again, avoid liquidation and continue trading.~~

~~Item 21-(2) and 21-(3) of Annexure Schedule 1~~

9. If requested by the franchisee and they are available the franchisor should provide to the franchisee or prospective franchisees as part of the Disclosure documents under Item 21-(2) or 21-(3) of ~~Annexure Schedule 1~~, the financial reports of the franchisor for each of the last two completed financial years or as part of the consolidated entity (or foreign equivalent) which are accompanied by an independent audit report addressed to the directors of the franchisor.

~~Item 21-(4) and 21-(5) of Annexure Schedule 1~~

10. In the event that clause 21-(4) or 21-(5) of ~~Annexure Schedule 1~~ applies and the auditor (either a registered company auditor or for foreign franchisors, a foreign equivalent) is engaged to provide an independent audit report on the directors' statement under Item 21-(1) of ~~Annexure Schedule 1~~, the audit report is required to be provided within four months of the end of the financial year to which the directors' statement relates. The implication for the auditor will be on managing workflow, client expectations and meeting all reporting requirements in a shorter time frame.
11. While recognising that for entities subject to audit under the Act, there is an interrelationship between the opinion under the Act and that required under Item 21-(4) or 21-(5) of ~~Annexure Schedule 1~~, the audit report issued under Item 21-(4) or 21-(5) of ~~Annexure Schedule 1~~, is undertaken as a separate engagement. It is acknowledged, however, that in situations where the audit reports are to be provided by the same auditor, much of the evidence to support the opinion under Item 21-(4) and 21-(5) of ~~Annexure Schedule 1~~ will be derived from the financial report audit under the Act.
12. For engagements under Item 21-(4) and 21-(5) of ~~Annexure Schedule 1~~, the auditor considers the risks inherent in issuing an audit report without the support of an accompanying financial report. For example, unlike the auditor's opinion on solvency under the Act, which is one element of the information reported on by the auditor, the Item 21-(4) and 21-(5) of ~~Annexure Schedule 1~~ opinion is a specific audit report on the directors' statement and stands in its own right.
13. In situations where no audit has been conducted as at the end of the last financial year, the nature and extent of the audit procedures to be undertaken by an auditor on a ~~franchisor entity's~~ financial information, may be similar to those required to express an audit opinion under the Act, before being able to report under Item 21-(4) or 21-(5) of

³ — Refer to the definition of relevant period in ASA 570, paragraph Aus 13.2.

~~Annexure-Schedule~~ 1. Whilst the audit process need not be directed to supporting an opinion on a complete financial report, but rather on the directors' assertion in their statement, the auditor may, for example need to have obtained sufficient appropriate audit evidence under ASA 500 *Audit Evidence* about the assets, liabilities, revenues, expenses, cash flows, budgets and projections of the entity in order to assess the basis for the directors' statement.

14. The audit procedures performed to be able to report under Item 21-(4) or 21-(5) of ~~Annexure-Schedule~~ 1, are likely to include an analysis and assessment of ~~prospective-forward-looking~~ information in relation to cash flows, revenue and payment streams and reflect assumptions that are dependent upon future events which may be subject to risks inherent in the business and future economic conditions. The auditor applies professional judgement in auditing any assumptions ~~to determine their reasonableness as such evidence is future-oriented and speculative in nature about future events or conditions.~~

15. ~~The auditor may refer to ASAE 3450-540 Auditing Accounting Estimates and Related Disclosures Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information for further guidance on this area.~~ While dealing with accounting estimates, ASA 540 may be applied by analogy.

16. Information to consider in analysing and assessing solvency may include:

- (a) cash balances or overdrafts, the amount and timing of operating cash inflows, access to credit lines and undrawn facilities, and the liquidity of non-core investments;
- (b) the timing and amount of payment obligations, supplier credit terms, debt repayment dates, and the end date for any loan repayment or rent holidays;
- (c) the ability of customers and borrowers (including related parties) to meet their obligations to the company, including meeting credit and repayment terms;
- (d) known or likely changes in economic and market conditions, consumer behaviours and demand, performance of franchisees, inventory turnover, supply chains, production processes, and ability to deliver goods and services;
- (e) ability of the franchisor to comply with debt covenants and normal terms of credit, renegotiate debt arrangements, and refinance maturing debt;
- (f) the possibility of withdrawal of financial support by major lenders;
- (g) the possibility of debt factoring arrangements, customer supply chain financing or financial support by a parent company not continuing;
- (h) ability of a parent or shareholders of the company to meet any financial support arrangements;
- (i) the solvency of any entities to which the company has given financial guarantees or offers of financial support; and
- (a)(j) any uncertainties affecting the above.

Item 21-(6) of ~~Annexure-Schedule~~ 1

~~14.17.~~ In situations where the franchisor or the entity ~~was~~^{is} insolvent in either or both of the last two completed financial years, and ~~is~~^{is} required to report under Item 21-(6) of ~~Annexure-Schedule~~ 1, the auditor considers the guidance contained in paragraphs 10 ~~to~~ 14 of this guidance statement. The auditor considers the date on which the statutory declaration of the franchisor's solvency is provided and the date at which they sign the independent audit report in order to consider whether any subsequent events under ASA 560 *Subsequent Events* have been reported appropriately by the franchisor.

Other Considerations under the Franchising Code

- ~~15.18.~~ The franchisor is also required to disclose to the franchisee or prospective franchisee under section ~~17.34~~ of the Franchising Code any materially relevant facts that may affect a statement, declaration or a document referred to in Item 21 of ~~Annexure-Schedule 1~~, as soon as reasonably practicable prior to the parties entering into the franchise agreement.
- ~~16.19.~~ In the circumstances where a materially relevant fact becomes known after the disclosure document is completed, the matter should be brought to the attention of the franchisee or prospective franchisee in writing within a reasonable time but not more than 14 days after the franchisor becomes aware of the matter.
- ~~17.20.~~ The auditor needs to enquire of the franchisor as to whether there are any materially relevant facts that should be brought to their attention and apply professional judgement to determine any impact on the engagement specific audit approach of such facts.
- ~~18.21.~~ In the case where a materially relevant fact becomes known to the auditor after completion and distribution of the disclosure document (including the audit report) to the franchisee or prospective franchisee that may have caused the auditor to amend the audit report, the auditor needs to follow the requirements in ASA 560 to resolve the matter.

Audit Approach

- ~~19.22.~~ The nature, timing and extent of the audit procedures appropriate to achieve reasonable assurance on the directors' statement under Item 21-(4) or 21-(5) of ~~Annexure-Schedule 1~~, are a function of the circumstances of each engagement, and will depend on:
- (a) whether the auditor is a new or continuing auditor;
 - (b) the proximity of the most recent audited financial report;
 - (c) the extent and nature of changes in the entity's activities and/or industry/industries in which it operates since the issue of the most recent audited financial report; and
 - (d) the nature, timing and extent of the audit procedures conducted since the issue of the most recent audited financial report.

Continuity in Auditor

- ~~20.23.~~ For the continuing auditor where an audited financial report has recently been issued under the Act which includes the directors' opinion on solvency as part of the directors' declaration, the audit process may be limited to a consideration of any changes in the entity's circumstances from the date of the audited financial report. This may involve the auditor:
- (a) enquiring of management/directors as to the basis on which ~~they have formed their~~ opinion on solvency under Item 21-(1) of ~~Annexure-Schedule 1~~ ~~has been formed~~, and evaluating the appropriateness of any new assumptions underlying their opinion;
 - (b) updating knowledge of the entity's business and industry, to evaluate whether there have been any significant changes to the appropriateness of significant assumptions underlying the previous solvency opinion⁴. Particular emphasis may need to be given to any changes in expectations concerning cash flow, trading conditions, financial commitments, financing arrangements etc;
 - (c) enquiring as to any changes to the entity's internal control structure in relation to cash flow and management of debt; and

⁴ Refer to ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* for further guidance on areas the auditor needs to consider when undertaking the audit.

- (d) applying appropriate analytical review procedures, for example comparing the latest management accounts with budgets and cash flow forecasts.

In the absence of evidence contrary to the representations made by the directors in their Item 21-(1) of ~~Annexure-Schedule~~ 1 statement, and for the auditor to report under Item 21-(4) or 21-(5) of ~~Annexure-Schedule~~ 1, ASA 700 states that the auditor shall form an unmodified opinion.

~~21.24.~~ Significant changes in fundamental assumptions and/or conditions, for example changes in the nature of the entity's business, plans for significant acquisitions and disposals may require application of more extensive audit procedures. Some examples of audit procedures the auditor may consider are provided in paragraph 23(c) of this guidance statement.

Initial Engagement – New Auditor

~~22.25.~~ For an auditor undertaking an initial audit engagement, and/or a situation where there has been a significant time lag since the issue of the latest audited financial report, and less extensive audit procedures applied in relation to forming an audit opinion on the financial report in the current financial period, the nature, timing and extent of the audit procedures may need to be more extensive. This may involve the auditor placing further emphasis on certain areas of the audit, but is not limited to, the following:

- (a) understanding the entity and its environment and assessing the risks of material misstatement under ASA 315 .
- (b) consideration of procedures to obtain information for use in identifying the risks of material misstatement due to fraud under ASA 240 *The Auditor's Responsibilities Relating to Fraud in and Audit of a Financial Report- Appendix 2*.
- (c) obtaining sufficient appropriate audit evidence under ASA 500 to support the directors' statement:
 - (i) enquiring of management as to the basis on which they have formed their opinion on solvency and evaluating the appropriateness of the assumptions on which this is based;
 - (ii) reviewing procedures and controls over cash flows, trading conditions, financial commitments etc that may affect cash flow e.g. collection of debtor days and budgetary forecasts and the ability of the entity to pay its debts as and when they fall due;
 - (iii) appropriateness of management's use of the going concern assumption in the preparation of the directors' statement under ASA 570; and
 - (iv) obtaining written representations under ASA 580 *Written Representations* from management based on the assertions made throughout the engagement; ~~and~~.
- (d) consideration of subsequent events under ASA 560 that may have the potential to affect the directors' statement.

~~23.26.~~ In any of the situations described above where the audit procedures create doubt as to the directors' representations concerning solvency, additional audit procedures may need to be undertaken to enable an opinion to be expressed.

Auditor's Report

~~24.27.~~ The auditor is concerned with obtaining sufficient appropriate audit evidence that the position and declaration given in the directors' statement pursuant to Item 21-(1) of

~~Annexure Schedule 1 is fairly presented,~~ based on the foreseeable commercial circumstances facing the entity and which the auditor can reasonably perceive to exist.

28. If, as a result of applying the appropriate level of audit procedures, the auditor forms the opinion that there is sufficient and appropriate audit evidence obtained to support the representations made by the directors in their statement, the auditor issues an unmodified auditor's report under ASA 700. An example report is provided in Appendix 2 to this Guidance Statement⁵.

~~25.29. The report under ASA 700 is amended for the circumstances of the engagement (see paragraph 11 of ASA 805).~~

~~26.30. If the auditor is of the opinion that the audit evidence is inconsistent with the representation made by the directors, under ASA 570 the auditor needs should to communicate with those charged with governance e.g. directors and/or audit committee of the franchisor, events or conditions arising from the audit that in the auditor's professional judgement may cast significant doubt on the entity's ability to continue as a going concern under ASA 570 and issue a modified report under ASA 705 Modifications to the Opinion in the Independent Auditor's Report. In this scenario, the auditor may need to consider the basis for the modification and whether this may potentially result in a breach of the Franchising Code and may deem it appropriate to obtain legal advice to determine the appropriate course of action in the circumstances.~~

~~27.31. If the auditor is of the opinion that there is sufficient and appropriate audit evidence to support the representation made by the directors that events exist that put into doubt the ability of the entity to pay its debts as and when they fall due, the auditor expresses an unqualified opinion but adds an emphasis of matter section. ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report may provide the auditor with some further guidance in this area.~~

~~28.32. Item 21.4(b) of Annexure Schedule 1, requires the copy of the independent audit [report] to be provided with the directors' statement before distribution of that report by the franchisor to any franchisee or prospective franchisee.~~

Conformity with International Pronouncements

~~29. There is no equivalent International Auditing Practice Statement (IAPS) or Auditing Standard to this Guidance Statement.~~

⁵ This example independent audit report on a Directors' Solvency Statement can be adapted accordingly for similar audit engagements across different subject matter e.g. *Competition and Consumer (Industry Codes-Oil) Regulations 2017* ~~Competition and Consumer (Industry Codes—Oil code) Regulation 2006.~~

Appendix 1

(Ref: Para. 3)

Excerpt from Franchising Code of Conduct

21 Financial details

~~21.(1)~~ A statement of the franchisor's solvency that:

- (a) reflects the franchisor's position:
 - (i) at the end of the last financial year; or
 - (ii) if the franchisor did not exist at the end of the last financial year—at the date of the statement; and
- (b) is signed by at least one director of the franchisor; and
- (c) gives the directors' opinion as to whether there are reasonable grounds to believe that the franchisor will be able to pay its debts as and when they fall due.

~~21.(2)~~ Financial reports for each of the last two completed financial years in accordance with sections 295 to 297 of the *Corporations Act 2001*, or a foreign equivalent of that Act applicable to the franchisor, prepared by the franchisor.

Note: See also items ~~21.(4)~~ to ~~21.(6)~~.

~~21.(3)~~ If:

- (a) the franchisor is part of a consolidated entity that is required to provide audited financial reports under the *Corporations Act 2001*, or a foreign equivalent of that Act applicable to the consolidated entity; and
- (b) a franchisee requests those financial reports;— financial reports for each of the last two completed financial years, prepared by the consolidated entity.

Note: See also items ~~21.(4)~~ to ~~21.(6)~~.

~~21.(4)~~ Items ~~21.(2)~~ and ~~21.(3)~~ do not apply if:

- (a) the statement under item ~~21.(1)~~ is supported by an independent audit provided by:
 - (i) a registered company auditor; or
 - (ii) if the franchisor is a foreign franchisor—a foreign equivalent for that franchisor;within four months after the end of the financial year to which the statement relates; and
- (b) a copy of the independent audit is provided with the statement under item ~~21.(1)~~.

~~21.(5)~~ If the franchisor or consolidated entity (the *entity*) has not existed for two or more financial years, then instead of providing the financial reports mentioned in item ~~21.(2)~~ or ~~21.(3)~~, the following:

- (a) a statutory declaration of the entity's solvency;

- (b) an independent audit report on the entity's solvency as at the date of the entity's declaration.

| ~~21.1(6)~~ If the franchisor or consolidated entity (the *entity*) was insolvent in either or both of the last two completed financial years, the following:

- (a) a statement of the period during which the entity was insolvent;
- (b) a statutory declaration of the entity's solvency;
- (c) an independent audit report on the entity's solvency as at the date of the entity's declaration.

Appendix 2

(Ref: Para. 26)

Example of An Unmodified Auditor's Report

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

We have audited the statement by directors ("the statement") of [name of franchisor] dated [insert date] [which reflects [name of franchisor] position at [date] and the directors' declaration of the entity's solvency] made for the purposes of fulfilling the requirements of Item 21 of Annexure Schedule 1 to the Competition and Consumer (Industry Codes—Franchising) Regulations 2024 (Franchising Code of Conduct).

In our opinion, the statement ~~dated as at~~ [insert date of the end of the last financial year], ~~presents fairly, in all material respects, the directors' opinion~~ pursuant to Item 21 of Annexure Schedule 1 to the Franchising Code of Conduct, that there are reasonable grounds to believe that [name of franchisor] will be able to pay its debts as and when they fall due is not materially misstated over the 12 month period from [date of financial year end].

Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Statement* section of our report. We are independent of the franchisor in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (including Independence Standards) (the Code) that are relevant to our audit of the statement in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Preparation and Restriction on Distribution

The statement has been prepared pursuant to Item 21 of Annexure Schedule 1 to the Franchising Code of Conduct for distribution to the franchisees and prospective franchisees of [name of franchisor]. As a result, the statement may not be suitable for another purpose. Our report is intended solely for the franchisees and prospective franchisees of [name of the franchisor] and should not be distributed to parties other than the franchisees and prospective franchisees of [name of the franchisor]. Our opinion is not modified in respect of this matter. We disclaim any assumption of responsibility for any reliance on this audit report or on the statement to which it relates to any other party, or for any purpose other than that for which it was prepared.

Directors' Responsibility for the Statement

The [name of franchisor] directors are responsible for ~~the preparation and fair presentation of the statement as at [date of financial year end] to reflect the position of the franchisor at that date, and assessing~~ the ability of [name of franchisor] to meet their debts as and when they fall due ~~over the 12 month period from that date as at date [the end of the last financial year]~~. This responsibility includes such controls as the directors determine is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

~~In preparing the statement, directors are responsible for assessing the franchisor's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the franchisor or to cease operations, or have no realistic alternative but to do so.~~

~~The directors are responsible for overseeing the franchisor's financial reporting process.~~

Auditor's Responsibilities for the Audit of the Statement

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

The following information may be provided in the body of the Auditor's Report or as an Appendix to the Auditor's Report

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- *Identify and assess the risks of material misstatement in the statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*
- *Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the franchisor's internal control.*
- ~~*Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.*~~
- ~~*Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the franchisor's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to this matter or, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the franchisor to cease to continue as a going concern.*~~

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

~~*We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.*~~

Inherent Limitation

~~Because of the subjective nature of prospective information required to fulfil the requirements of Item 21 of Annexure 1 to the Franchising Code, the persuasiveness of the evidence available is limited. Prospective information is information about events and/or actions that have not yet occurred and may not occur. It reflects assumptions about future events and is subject to future changes in the business and economic conditions. Whilst evidence is available to support the assumptions on which the directors' opinion is based, such evidence is future orientated and speculative in nature. As a consequence, actual results are likely to be different from the information on which the audit opinion is based, since anticipated events frequently do not occur as expected or assumed and the variations between the prospective opinion and the actual outcome may be significant.~~

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

GS 018
(September 2025)

Guidance Statement GS 018

Franchising Code of Conduct – Auditor's Report

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

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

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Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on the application of AUASB Standards and, where relevant, legislation regulation or other authoritative publications, to assist auditors and assurance practitioners to comply with AUASB Standards. Guidance Statements are intended to assist auditors and assurance practitioners in applying an existing standard or standards of general application to particular circumstances or specialised industries/sectors.

Guidance Statements are designed to provide assistance to auditors and assurance practitioners to achieve the objectives of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of a specific AUASB Standard(s); and, where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement.

Guidance Statements, whilst formally approved and issued by the AUASB, do not establish new principles or amend existing standards. Guidance Statements therefore do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards and are not legally enforceable.

Guidance Statement GS 018 *Franchising Code of Conduct – Auditor's Report* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 018 *Franchising Code of Conduct – Auditor's Report* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

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

This Guidance Statement does not prescribe or create new requirements.

Dated:

D Niven
Chair - AUASB

Conformity with International Pronouncements

There is no equivalent International Standard on Auditing or International Auditing Practice Note (IAPN) to this Guidance Statement.

GUIDANCE STATEMENT GS 018

Franchising Code of Conduct – Auditor's Report

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors to interpret, discharge and report under Item 21 of Schedule 1 to the *Competition and Consumer (Industry Codes—Franchising) Regulations 2024*¹ (the “Franchising Code”).

Issuance Date

2. This Guidance Statement is issued on XX September 2025 by the AUASB and replaces GS 018 *Franchising Code of Conduct – Auditor's Report*, issued in June 2015.

Introduction

3. Item 21 of Schedule 1² to the Franchising Code (Schedule 1) imposes mandatory disclosure requirements on the franchisor in relation to financial details, which must be provided to franchisees or prospective franchisees when entering into a new franchise agreement on or after 1 April 2025.
4. Audit engagements undertaken in relation to the financial details as required under Item 21 of Schedule 1 are performed under ASA 805 *Special Considerations -Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*. This standard states, that when forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in ASA 700 *Forming an Opinion and Reporting on a Financial Report* as necessary in the circumstances of the engagement.
5. In undertaking audit engagements under Item 21 of Schedule 1, the auditor is required to provide the audit report to the franchisor within four months after the end of the financial year to which the statement of the franchisor’s solvency (directors’ statement) relates.

Nature and Extent of the Audit Engagement

Item 21(1) of Schedule 1

6. The directors’ statement required by Item 21(1) of Schedule 1 includes the directors’ opinion on “solvency” as at the end of the last financial year as to whether there are reasonable grounds to believe that the franchisor will be able to pay its debts as and when they fall due.
7. The auditor’s responsibility is to form and express an opinion on the directors’ statement made pursuant to Item 21(1) of Schedule 1. The substance of this responsibility is similar to that assumed by a company auditor in relation to the “solvency” statement by directors which forms part of the directors’ declaration under Section 295(4) of the *Corporations Act 2001* (the Act), and on which the auditor forms an opinion and reports, as a component of the financial report, under the Act. For audits under the Act, the auditor’s opinion on the directors’ solvency statement is derived from, and is integral to, the audit process related to forming an

¹ The revised *Competition and Consumer (Industry Code – Franchising) Regulation 2014* (issued Oct 2014) is repealed and replaced by *Competition and Consumer (Industry Codes—Franchising) Regulations 2024* (issued December 2024) applicable from 1 April 2025. A copy of the Code is available from the Australian Competition and Consumer Commission (ACCC) website (<http://www.accc.gov.au>).

² Refer to Appendix 1 which sets out the Financial details under Item 21 of Schedule 1 to the Franchising Code, to be included in the franchisor’s disclosure document prepared for a franchisee or prospective franchisee looking to enter into a franchise agreement from 1 April 2025.

opinion on the financial report and the appropriateness of the going concern basis in accordance with ASA 570 *Going Concern*.

8. Solvency and going concern are related but separate concepts. Determining solvency is separate from assessing going concern, and whilst rare, the outcome of these assessments may differ. A franchisor can be solvent but not use the going concern basis of accounting if the franchisor is able to pay its debts as and when they fall due but intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In rare cases, a franchisor can be insolvent but continue using the going concern basis of preparation if they are expected to become solvent again, avoid liquidation and continue trading.

Item 21(2) and 21(3) of Schedule 1

9. If requested by the franchisee and they are available the franchisor should provide to the franchisee or prospective franchisees as part of the Disclosure documents under Item 21(2) or 21(3) of Schedule 1, the financial reports of the franchisor for each of the last two completed financial years or as part of the consolidated entity (or foreign equivalent) which are accompanied by an independent audit report addressed to the directors of the franchisor.

Item 21(4) and 21(5) of Schedule 1

10. In the event that clause 21(4) or 21(5) of Schedule 1 applies and the auditor (either a registered company auditor or for foreign franchisors, a foreign equivalent) is engaged to provide an independent audit report on the directors' statement under Item 21(1) of Schedule 1, the audit report is required to be provided within four months of the end of the financial year to which the directors' statement relates. The implication for the auditor will be on managing workflow, client expectations and meeting all reporting requirements in a shorter time frame.
11. While recognising that for entities subject to audit under the Act, there is an interrelationship between the opinion under the Act and that required under Item 21(4) or 21(5) of Schedule 1, the audit report issued under Item 21(4) or 21(5) of Schedule 1, is undertaken as a separate engagement. It is acknowledged, however, that in situations where the audit reports are to be provided by the same auditor, much of the evidence to support the opinion under Item 21(4) and 21(5) of Schedule 1 will be derived from the financial report audit under the Act.
12. For engagements under Item 21(4) and 21(5) of Schedule 1, the auditor considers the risks inherent in issuing an audit report without the support of an accompanying financial report. For example, unlike the auditor's opinion on solvency under the Act, which is one element of the information reported on by the auditor, the Item 21(4) and 21(5) of Schedule 1 opinion is a specific audit report on the directors' statement and stands in its own right.
13. In situations where no audit has been conducted as at the end of the last financial year, the nature and extent of the audit procedures to be undertaken by an auditor on a franchisor's financial information, may be similar to those required to express an audit opinion under the Act, before being able to report under Item 21(4) or 21(5) of Schedule 1. Whilst the audit process need not be directed to supporting an opinion on a complete financial report, but rather on the directors' assertion in their statement, the auditor may, for example need to have obtained sufficient appropriate audit evidence under ASA 500 *Audit Evidence* about the assets, liabilities, revenues, expenses, cash flows, budgets and projections of the entity in order to assess the basis for the directors' statement.
14. The audit procedures performed to be able to report under Item 21(4) or 21(5) of Schedule 1, are likely to include an analysis and assessment of forward-looking information in relation to cash flows, revenue and payment streams and reflect assumptions that are dependent upon future events which may be subject to risks inherent in the business and future economic conditions. The auditor applies professional judgement in auditing any assumptions about future events or conditions.

15. The auditor may refer to ASA 540 *Auditing Accounting Estimates and Related Disclosures* for further guidance on this area. While dealing with accounting estimates, ASA 540 may be applied by analogy.
16. Information to consider in analysing and assessing solvency may include:
 - (a) cash balances or overdrafts, the amount and timing of operating cash inflows, access to credit lines and undrawn facilities, and the liquidity of non-core investments;
 - (b) the timing and amount of payment obligations, supplier credit terms, debt repayment dates, and the end date for any loan repayment or rent holidays;
 - (c) the ability of customers and borrowers (including related parties) to meet their obligations to the company, including meeting credit and repayment terms;
 - (d) known or likely changes in economic and market conditions, consumer behaviours and demand, performance of franchisees, inventory turnover, supply chains, production processes, and ability to deliver goods and services;
 - (e) ability of the franchisor to comply with debt covenants and normal terms of credit, renegotiate debt arrangements, and refinance maturing debt;
 - (f) the possibility of withdrawal of financial support by major lenders;
 - (g) the possibility of debt factoring arrangements, customer supply chain financing or financial support by a parent company not continuing;
 - (h) ability of a parent or shareholders of the company to meet any financial support arrangements;
 - (i) the solvency of any entities to which the company has given financial guarantees or offers of financial support; and
 - (j) any uncertainties affecting the above.

Item 21(6) of Schedule 1

17. In situations where the franchisor or the entity was insolvent in either or both of the last two completed financial years, and is required to report under Item 21(6) of Schedule 1, the auditor considers the guidance contained in paragraphs 10 to 14 of this guidance statement. The auditor considers the date on which the statutory declaration of the franchisor's solvency is provided and the date at which they sign the independent audit report in order to consider whether any subsequent events under ASA 560 *Subsequent Events* have been reported appropriately by the franchisor.

Other Considerations under the Franchising Code

18. The franchisor is also required to disclose to the franchisee or prospective franchisee under section 34 of the Franchising Code any materially relevant facts that may affect a statement, declaration or a document referred to in Item 21 of Schedule 1, as soon as reasonably practicable prior to the parties entering into the franchise agreement.
19. In the circumstances where a materially relevant fact becomes known after the disclosure document is completed, the matter should be brought to the attention of the franchisee or prospective franchisee in writing within a reasonable time but not more than 14 days after the franchisor becomes aware of the matter.
20. The auditor needs to enquire of the franchisor as to whether there are any materially relevant facts that should be brought to their attention and apply professional judgement to determine any impact on the engagement specific audit approach of such facts.

21. In the case where a materially relevant fact becomes known to the auditor after completion and distribution of the disclosure document (including the audit report) to the franchisee or prospective franchisee that may have caused the auditor to amend the audit report, the auditor needs to follow the requirements in ASA 560 to resolve the matter.

Audit Approach

22. The nature, timing and extent of the audit procedures appropriate to achieve reasonable assurance on the directors' statement under Item 21(4) or 21(5) of Schedule 1, are a function of the circumstances of each engagement, and will depend on:
- (a) whether the auditor is a new or continuing auditor;
 - (b) the proximity of the most recent audited financial report;
 - (c) the extent and nature of changes in the entity's activities and/or industry/industries in which it operates since the issue of the most recent audited financial report; and
 - (d) the nature, timing and extent of the audit procedures conducted since the issue of the most recent audited financial report.

Continuity in Auditor

23. For the continuing auditor where an audited financial report has recently been issued under the Act which includes the directors' opinion on solvency as part of the directors' declaration, the audit process may be limited to a consideration of any changes in the entity's circumstances from the date of the audited financial report. This may involve the auditor:
- (a) enquiring of management/directors as to the basis on which the opinion on solvency under Item 21(1) of Schedule 1 has been formed, and evaluating the appropriateness of any new assumptions underlying their opinion;
 - (b) updating knowledge of the entity's business and industry, to evaluate whether there have been any significant changes to the appropriateness of significant assumptions underlying the previous solvency opinion³. Particular emphasis may need to be given to any changes in expectations concerning cash flow, trading conditions, financial commitments, financing arrangements etc;
 - (c) enquiring as to any changes to the entity's internal control structure in relation to cash flow and management of debt; and
 - (d) applying appropriate analytical review procedures, for example comparing the latest management accounts with budgets and cash flow forecasts.

In the absence of evidence contrary to the representations made by the directors in their Item 21(1) of Schedule 1 statement, and for the auditor to report under Item 21(4) or 21(5) of Schedule 1, ASA 700 states that the auditor shall form an unmodified opinion.

24. Significant changes in fundamental assumptions and/or conditions, for example changes in the nature of the entity's business, plans for significant acquisitions and disposals may require application of more extensive audit procedures. Some examples of audit procedures the auditor may consider are provided in paragraph 23(c) of this guidance statement.

Initial Engagement – New Auditor

25. For an auditor undertaking an initial audit engagement, and/or a situation where there has been a significant time lag since the issue of the latest audited financial report, and less extensive

³ Refer to ASA 315 *Identifying and Assessing the Risks of Material Misstatement* for further guidance on areas the auditor needs to consider when undertaking the audit.

audit procedures applied in relation to forming an audit opinion on the financial report in the current financial period, the nature, timing and extent of the audit procedures may need to be more extensive. This may involve the auditor placing further emphasis on certain areas of the audit, but is not limited to, the following:

- (a) understanding the entity and its environment and assessing the risks of material misstatement under ASA 315 .
 - (b) consideration of procedures to obtain information for use in identifying the risks of material misstatement due to fraud under ASA 240 *The Auditor's Responsibilities Relating to Fraud in and Audit of a Financial Report- Appendix 2*.
 - (c) obtaining sufficient appropriate audit evidence under ASA 500 to support the directors' statement:
 - (i) enquiring of management as to the basis on which they have formed their opinion on solvency and evaluating the appropriateness of the assumptions on which this is based;
 - (ii) reviewing procedures and controls over cash flows, trading conditions, financial commitments etc that may affect cash flow e.g. collection of debtor days and budgetary forecasts and the ability of the entity to pay its debts as and when they fall due;
 - (iii) appropriateness of management's use of the going concern assumption in the preparation of the directors' statement under ASA 570; and
 - (iv) obtaining written representations under ASA 580 *Written Representations* from management based on the assertions made throughout the engagement; and
 - (d) consideration of subsequent events under ASA 560 that may have the potential to affect the directors' statement.
26. In any of the situations described above where the audit procedures create doubt as to the directors' representations concerning solvency, additional audit procedures may need to be undertaken to enable an opinion to be expressed.

Auditor's Report

27. The auditor is concerned with obtaining sufficient appropriate audit evidence that the position and declaration given in the directors' statement pursuant to Item 21(1) of Schedule 1 is based on the foreseeable commercial circumstances facing the entity and which the auditor can reasonably perceive to exist.
28. If, as a result of applying the appropriate level of audit procedures, the auditor forms the opinion that there is sufficient and appropriate audit evidence obtained to support the representations made by the directors in their statement, the auditor issues an unmodified auditor's report under ASA 700. An example report is provided in Appendix 2 to this Guidance Statement⁴.
29. The report under ASA 700 is amended for the circumstances of the engagement (see paragraph 11 of ASA 805).
30. If the auditor is of the opinion that the audit evidence is inconsistent with the representation made by the directors, the auditor should communicate with those charged with governance e.g. directors and/or audit committee of the franchisor, and issue a modified report under

⁴ This example independent audit report on a Directors' Solvency Statement can be adapted accordingly for similar audit engagements across different subject matter e.g. *Competition and Consumer (Industry Codes-Oil) Regulations 2017*.

ASA 705 Modifications to the Opinion in the Independent Auditor's Report. In this scenario, the auditor may need to consider the basis for the modification and whether this may potentially result in a breach of the Franchising Code and may deem it appropriate to obtain legal advice to determine the appropriate course of action in the circumstances.

31. If the auditor is of the opinion that there is sufficient and appropriate audit evidence to support the representation made by the directors that events exist that put into doubt the ability of the entity to pay its debts as and when they fall due, the auditor expresses an unqualified opinion but adds an emphasis of matter section. *ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* may provide the auditor with some further guidance in this area.
32. Item 21(4)(b) of Schedule 1, requires the copy of the independent audit [report] to be provided with the directors' statement before distribution of that report by the franchisor to any franchisee or prospective franchisee.

Appendix 1

(Ref: Para. 3)

Excerpt from Franchising Code of Conduct

21 Financial details

- (1) A statement of the franchisor's solvency that:
 - (a) reflects the franchisor's position:
 - (i) at the end of the last financial year; or
 - (ii) if the franchisor did not exist at the end of the last financial year—at the date of the statement; and
 - (b) is signed by at least one director of the franchisor; and
 - (c) gives the directors' opinion as to whether there are reasonable grounds to believe that the franchisor will be able to pay its debts as and when they fall due.
- (2) Financial reports for each of the last two completed financial years in accordance with sections 295 to 297 of the *Corporations Act 2001*, or a foreign equivalent of that Act applicable to the franchisor, prepared by the franchisor.

Note: See also items 21(4) to 21(6).

- (3) If:
 - (a) the franchisor is part of a consolidated entity that is required to provide audited financial reports under the *Corporations Act 2001*, or a foreign equivalent of that Act applicable to the consolidated entity; and
 - (b) a franchisee requests those financial reports; financial reports for each of the last two completed financial years, prepared by the consolidated entity.

Note: See also items 21(4) to 21(6).

- (4) Items 21(2) and 21(3) do not apply if:
 - (a) the statement under item 21(1) is supported by an independent audit provided by:
 - (i) a registered company auditor; or
 - (ii) if the franchisor is a foreign franchisor—a foreign equivalent for that franchisor;within four months after the end of the financial year to which the statement relates; and
 - (b) a copy of the independent audit is provided with the statement under item 21(1).
- (5) If the franchisor or consolidated entity (the *entity*) has not existed for two or more financial years, then instead of providing the financial reports mentioned in item 21(2) or 21(3), the following:
 - (a) a statutory declaration of the entity's solvency;

- (b) an independent audit report on the entity's solvency as at the date of the entity's declaration.
- (6) If the franchisor or consolidated entity (the *entity*) was insolvent in either or both of the last two completed financial years, the following:
 - (a) a statement of the period during which the entity was insolvent;
 - (b) a statutory declaration of the entity's solvency;
 - (c) an independent audit report on the entity's solvency as at the date of the entity's declaration.

Appendix 2

(Ref: Para. 26)

Example of An Unmodified Auditor's Report

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

We have audited the statement by directors ("the statement") of [name of franchisor] dated [insert date] [which reflects [name of franchisor] position at [date] and the directors' declaration of the entity's solvency] made for the purposes of fulfilling the requirements of Item 21 of Schedule 1 to the *Competition and Consumer (Industry Codes—Franchising) Regulations 2024* (Franchising Code of Conduct).

In our opinion, the statement as at [insert date of the end of the last financial year] pursuant to Item 21 of Schedule 1 to the Franchising Code of Conduct, that there are reasonable grounds to believe that [name of franchisor] will be able to pay its debts as and when they fall due is not materially misstated.

Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Statement* section of our report. We are independent of the franchisor in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the statement in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Preparation and Restriction on Distribution

The statement has been prepared pursuant to Item 21 of Schedule 1 to the Franchising Code of Conduct for distribution to the franchisees and prospective franchisees of [name of franchisor]. As a result, the statement may not be suitable for another purpose. Our report is intended solely for the franchisees and prospective franchisees of [name of the franchisor] and should not be distributed to parties other than the franchisees and prospective franchisees of [name of the franchisor]. Our opinion is not modified in respect of this matter.

Directors' Responsibility for the Statement

The [name of franchisor] directors are responsible for assessing the ability of [name of franchisor] to meet their debts as and when they fall due as at date [the end of the last financial year]. This responsibility includes such controls as the directors determine is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Statement

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

The following information may be provided in the body of the Auditor's Report or as an Appendix to the Auditor's Report

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- *Identify and assess the risks of material misstatement in the statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*
- *Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the franchisor's internal control.*

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]