



Subject: Agenda for the 88th meeting of the AUASB
Venue: Executive Boardroom
Tertiary Education Quality and Standards Agency (TEQSA) offices
Tower Level 14, 530 Collins Street Melbourne
Time: Wednesday, 1 March 2017 from 8.30 a.m. to 5.00 p.m.

* Agenda item 8 will be a closed session.

Time	Agenda Item No.
8.30am.	1. Preliminary Session
8.45am	2. Auditor Reporting
10.15am	Break
10.30am	3. GS001 Concise Report
11.00am	4. Audit Committee Guide
12.00pm	5. International Update
12.30pm	Lunch
1.30pm	5. International Update (continued)
2.15pm	6. ASAE 3500 Performance Engagements
3.00pm	Break
3.15pm	7. Other Business
4:00pm	8. AUASB Board Matters*
5:00p.m.	Close



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 2(c)
Meeting Date: 1 March 2017
Subject: Auditor's Responsibilities – Outstanding matters
Date Prepared: 22 February 2017

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To consider:

- The approval of a recommendation to add an additional auditor's responsibilities statement on the AUASB website to cover non-listed groups.
- A change in the location of the statements from http://www.auasb.gov.au/auditors_files/ to a more user friendly location.

Background

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

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

8. In January 2017 a member of the AUASB requested an additional statement be added to cover non-listed groups. The AUASB member also suggested a change in the location of the statements from the current http://www.auasb.gov.au/auditors_files/ to a more user friendly URL, such as [http://www.auasb.gov.au/auditor's responsibility statements/](http://www.auasb.gov.au/auditor's_responsibility_statements/).
9. Post the January AUASB meeting, the AUASB technical staff received input from a number of accounting firms who have suggested the preparation of additional statements with generic terms used in relation to “the entity” audited as well as “those charged with governance”. They also suggested that an additional statement be prepared to cover a single listed entity audit where ASA 600 applies. The AUASB technical staff are most appreciative of the assistance provided by the technical staff of the accounting firms.
10. The AUASB technical staff will continue to determine whether additional statements are required (including statements in relation to ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*).

Matters to Consider

Part A – General

1. The AUASB is requested to consider and approve a new auditor’s responsibilities statements for:
 - (a) Non-listed group (“those charged with governance²”)
 - (b) Single listed entity (“the entity¹” / “those charged with governance²”)
 - (c) Single listed entity – ASA 600 applies (“the entity¹” / “those charged with governance²”)

¹ “the entity/(’s)” refers to the entity whose financial report has been audited.

² “those charged with governance” refers to the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.
2. The AUASB is requested to consider and approve a more user friendly URL such as [http://www.auasb.gov.au/auditor's responsibility statements/](http://www.auasb.gov.au/auditor's_responsibility_statements/)

Part B – NZAuASB

1. N/A

Part C – “Compelling Reasons” Assessment

1. NA

The proposed changes conform to IAASB modification guidelines for NSS?

Y ☒ N ☐

AUASB Technical Group Recommendations

1. The AUASB is requested to approve the new auditor's responsibilities statements outlined above.
2. Agree on a more user friendly URL such as [http://www.auasb.gov.au/auditor's responsibility statements/](http://www.auasb.gov.au/auditor's%20responsibility%20statements/).

Material Presented

Agenda Item 2(c).0	AUASB Board Meeting Summary Paper
Agenda Item 2(c).1	Auditor's Responsibilities Statement – Non-Listed Group (“those charged with governance”)
Agenda Item 2(c).2	Auditor's Responsibilities Statement –Single listed entity (“the entity's” / “those charged with governance”)
Agenda Item 2(c).3	Auditor's Responsibilities Statement – Single listed entity – ASA 600 applies (“the entity's” / “those charged with governance”)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider and approve new auditor's responsibilities statements	AUASB approval	AUASB	1 March 2017	o/s
2.	Consider and approve new location for the auditor's responsibilities statements	AUASB approval	AUASB	1 March 2017	o/s



AUDITOR'S RESPONSIBILITIES FORMING PART OF THE AUDITOR'S REPORT Group Entity—Not listed (Fair Presentation Framework)

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

- Identifies and assesses the risks of material misstatement of the financial report, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by those charged with governance².
- Concludes on the appropriateness of those charged with governance's³ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's² ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the financial report. The auditor is responsible for the direction, supervision and performance of the Group audit. The auditor remains solely responsible for the audit opinion.

The auditor communicates with those charged with governance² regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

¹ "Auditor" refers to an individual, a firm or an audit company responsible for the group audit opinion.

² "those charged with governance" refers to the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.



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

Listed Single Company—*Corporations Act 2001* (Fair Presentation Framework)

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

- Identifies and assesses the risks of material misstatement of the financial report, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's² internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by those charged with governance³.
- Concludes on the appropriateness of those charged with governance's³ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Entity² to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

The auditor also provides the those charged with governance³ with a statement that the auditor has complied with relevant ethical requirements regarding independence, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

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

¹ "Auditor" refers to an individual, a firm or an audit company.

² "the Entity/(s)" refers to the entity whose financial report has been audited.

³ "those charged with governance" refers to the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.



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

Listed Single Company—*Corporations Act 2001* (Fair Presentation Framework) *ASA 600 applies*

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

- Identifies and assesses the risks of material misstatement of the financial report, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's² internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by those charged with governance³.
- Concludes on the appropriateness of those charged with governance's³ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Entity² to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the business activities within the Entity² to express an opinion on the financial report. The auditor is responsible for the direction, supervision and performance of the audit. The auditor remains solely responsible for the audit opinion.

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

The auditor also provides the those charged with governance³ with a statement that the auditor has complied with relevant ethical requirements regarding independence, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

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

¹ "Auditor" refers to an individual, a firm or an audit company.

² "the Entity/(s)" refers to the entity whose financial report has been audited.

³ "those charged with governance" refers to the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **3**

Meeting Date: 1 March 2017

Subject: GS 001 *Concise Financial Reports under the Corporations Act 2001*

Date Prepared: 23 January 2017

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

1. To review and approve for issue the revised GS 001 *Concise Financial Reports Under the Corporations Act 2001* to take into account the changes to ASA 810 *Engagements to Report on Summary Financial Statements* arising from the new suite of auditor reporting standards.

Background

GS 001 was first issued in 2007, revised in 2008 and again in 2010. At the time of revising ASA 810 in September 2016, the AUASB agreed to revise GS 001 on the basis that even though concise reports were not used widely in Australia, they were still prepared and accordingly we need to retain guidance on this specific area of the Corporations Act. A first draft was presented to the AUASB at the 29 November 2016 AUASB meeting, with changes requested by the Board

Matters to Consider

Part A – General

Key areas of change in the revision to GS 001 for the AUASB to consider:

1. Para 7 – introduction of term: material uncertainty related to going concern
2. KAM: paragraph 41
3. Other Information: paragraphs 42-47

Part B – NZAuASB

1. N/A

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

Part C – “Compelling Reasons” Assessment

1. N/A

AUASB Technical Group Recommendations

1. Approval to issue GS 001 subject to OBPR.

Material Presented

Agenda Item 3	AUASB Board Meeting Summary Paper
Agenda Item .3.1	GS 001 <i>Concise Financial Reports under the Corporations Act 2001</i> (mark up)
Agenda Item .3.2	GS 001 <i>Concise Financial Reports under the Corporations Act 2001</i> (clean)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Approval	Approval	AUASB	1 March 2017	

GS 001

(~~November 2016~~ March 2017)

Guidance Statement GS 001

Concise Financial Reports Under the Corporations Act 2001

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

Contact Details

Auditing and Assurance Standards Board
Podium Level 14, 530 Collins Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204, Collins Street West
Melbourne Victoria 8007
AUSTRALIA

COPYRIGHT

© ~~2016~~ 2017 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this Guidance Statement are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source as being the AUASB.

Requests and enquiries concerning reproduction and rights for commercial purposes should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to enquiries@auasb.gov.au. Otherwise, no part of this Guidance Statement may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 1833-7600

Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on 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 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 *Concise Financial Reports Under the Corporations Act 2001* 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.

CONTENTS

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	1-1
Issuance Date	3
Introduction	4
Regulatory Requirements	5-10
Accounting Standard AASB 1039	11-15
Audit Activities	
Engagement Acceptance	16-18
Audit Procedures	19-31
The Auditor's Report.....	32-49
Conformity with International Pronouncements	50

Appendix 1: Illustrative Examples of the Auditor's Report on a Concise Financial Report

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 001 *Concise Financial Reports Under the Corporations Act 2001* 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: <TypeHere>

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 001

Concise Financial Reports Under the Corporations Act 2001

Application

1. ~~For audits of a concise financial report prepared under the *Corporations Act 2001* ("the Act") and in accordance with Accounting Standard AASB 1039 *Concise Financial Reports* (as amended April 2015) (AASB 1039), the auditor complies with the requirements ASA 810 *Engagements to Report on Summary Financial Statements*. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors reporting on such engagements.~~
1. ~~This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors reporting on a concise financial report prepared under the *Corporations Act 2001* ("the Act") and in accordance with Accounting Standard AASB 1039 *Concise Financial Reports* (as amended April 2015) (AASB 1039).~~
2. For audits of other ~~concise summary~~ financial reports, the auditor complies with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.
3. ~~This Guidance Statement should be used when an auditor conducts an audit under the Australian Auditing Standards.~~

Issuance Date

- 4.3. This Guidance Statement is issued on 1 ~~February~~ March 2017 by the AUASB and replaces GS 001 *Concise Financial Reports Under the Corporations Act 2001*, issued in March 2010.

Introduction

- 5.4. The auditor's objective in respect of a concise financial report prepared under the Act, is to express an opinion:
 - (a) whether the concise financial report complies with AASB 1039; and
 - (b) when included, whether the discussion and analysis complies with the requirements of AASB 1039.

Regulatory Requirements

- 6.5. The annual financial reporting requirements of a company, registered scheme and disclosing entity are found in section 314(1) of the Act.
- 7.6. Section 314(2) of the Act states:

A concise report for a financial year consists of:

 - (a) a concise financial report for the year drawn up in accordance with accounting standards made for the purpose of this paragraph; and
 - (b) the directors' report for the year (see sections 298-300A); and
 - (c) a statement by the auditor:
 - (i) that the financial report has been audited; and

- (ii) whether, in the auditor's opinion, the concise financial report complies with the accounting standards made for the purpose of paragraph (a); and
- (d) a copy of any qualification in, and of any statements included in the emphasis of matter section of, the auditor's report on the financial report (paragraph 7 of this guidance statement provides clarification regarding the implication of the term "Material Uncertainty Related to Going Concern"); and
- (e) a statement that the report is a concise report and that the full financial report and auditor's report will be sent to the member free of charge if the member asks for them.

- 7. The term "Material Uncertainty Related to Going Concern" has been introduced to the Australian Auditing Standards applicable for financial reporting periods commencing on or after 15 December 2016. The term is not used in the Act and accordingly is not captured under paragraph 6(d) of this guidance statement; however a concise report includes a copy of any statements included in the Material Uncertainty Related to Going Concern section of the auditor's report on the full financial report.
- 8. Section 314 of the Act does not require a concise report to include the directors' declaration made under section 295(4) of the Act in respect of the ~~(full) financial report~~ full financial report for the year. Consequently, where the directors of an entity decide to include the directors' declaration as part of the concise report, the auditor, under ASA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*, needs to read the declaration, along with other documents comprising the concise report, to identify material inconsistencies with the concise financial report and material misstatements of fact.
- 9. Section 314(3) of the Act requires the auditor to report on whether the discussion and analysis, if required by the Accounting Standard to be included in the concise financial report¹, complies with the requirements laid down by the Accounting Standard. Furthermore, section 314(3)(b) specifies that the auditor need not otherwise audit the statements made in the discussion and analysis.
- 10. The requirements of the Act relating to concise financial reports are based on the view that a concise financial report can provide members with information relevant to evaluating the business, without giving them fully detailed accounting disclosures. The concise report will, in many cases, be the only report that is sent to members². The provision, to some members, of less detailed information is expected to be sufficient to meet their needs for an understanding of the financial performance, financial position and financing and investing activities of the company, registered scheme or disclosing entity.

Accounting Standard AASB 1039

- 11. The Australian Accounting Standards Board issued Accounting Standard AASB 1039 *Concise Financial Reports*, the latest revision of which, dated April 2015, is operative for financial reporting periods beginning on or after 1 January 2009.

Discussion and Analysis

- 12. The Accounting Standard, inter alia, specifies the minimum content of a concise financial report, including a requirement that the financial statements forming part of the concise financial report, other than those of a listed company, be accompanied by discussion and analysis to assist the understanding of members.

¹ *Discussion and analysis* are not required for listed companies – see AASB 1039 paragraph 24. This is because, unlike other entities, listed companies are required by section 299A of the Act to provide an operational and financial report in the directors' report (which is included in the concise report).

² Unless members request a copy of the full financial report (annual financial report) – see section 314(2)(e) of the Act.

13. AASB 1039 adopts the view that the information reported in the financial statements forming part of the concise financial report will be enhanced by discussion and analysis of the principal factors which affect the financial performance, financial position and financing and investing activities of an entity. According to AASB 1039, the extent of discussion and analysis which is required to be provided in concise financial reports will vary from entity to entity, and from year to year, as is necessary in the circumstances to compensate for the brevity of the concise financial report, compared with the ~~(full) financial report~~ full financial report for the year.
14. AASB 1039 does not require the financial statements, forming part of the concise financial report of listed companies, to be accompanied by discussion and analysis. This is so as to avoid repetition of information required to be included in the directors' report by section 299A of the Act.
15. Whilst AASB 1039 does not mandate specific discussion and analysis disclosures, paragraph 27 of the Standard provides examples of the types of disclosures that may, at least, be expected to accompany the financial statements.

Audit Activities

Engagement Acceptance

16. Given that the concise financial report is an alternative form of reporting to members under the Act, and that the Act prescribes the auditor's reporting requirements, the AUASB takes the view that the audit of the concise financial report is treated, by auditors, as a separate engagement from the audit of the ~~(full) financial report~~ full financial report for the year. This view has been taken also because procedures, additional to those performed on the ~~(full) financial report~~ full financial report for the year, will be necessary when undertaking the audit of the concise financial report, particularly given that AASB 1039 requires, in certain circumstances, the inclusion of other information not found in the ~~(full) financial report~~ full financial report for the year, such as discussion and analysis.
17. In order to avoid any misunderstandings in relation to the audit of the concise financial report, the auditor complies with the engagement acceptance requirements in ASA 810 *Engagements to Report on Summary Financial Statements*. The auditor agrees the terms of the audit engagement with the appropriate person(s) within the entity's governance structure. The ~~prudent~~ auditor records the terms of engagement in writing and obtains written acceptance from the appropriate person representing the entity. These terms may be included in the written terms of the audit engagement for the ~~(full) financial report~~ full financial report. On recurring audits, the terms of the engagement are revised and re-confirmed as appropriate.
18. In addition to the specific requirements in ASA 810, the terms of engagement ordinarily include the objective and scope of the audit of the concise financial report (including the audit of discussion and analysis disclosures in that report). Such inclusions differentiate the engagement to audit the concise report from the engagement to audit the ~~(full) financial report~~ full financial report.

Audit Procedures

Auditing Standards

19. AASB 1039 requires the concise financial report to be derived from the ~~(full) financial report~~ full financial report for the year ~~and each financial statement to be presented as it is in the (full) financial report for the year~~. Consequently, the audit procedures performed under the Auditing Standards by the auditor when auditing the ~~(full) financial report~~ full financial report for the year are effectively performed on that information in the concise financial report that has been derived from the ~~(full) financial report~~ full financial report for the year. Accordingly, there is no expectation that such audit procedures need be repeated on the relevant information in the concise financial report.

20. Reference to “audit” and “audit procedures” in the illustrative examples of an auditor’s report on the concise financial report (see Appendix 1) relate to all procedures that have been performed by the auditor (i.e. regarding both the ~~(full) financial report~~ full financial report and the concise financial report).
21. When selecting and applying procedures in addition to those performed in relation to the ~~(full) financial report~~ full financial report for the year, the auditor complies with ASA 810.
22. Under ASA 810, paragraph 8, the auditor is required to perform specified procedures. Furthermore, the auditor is required to perform additional procedures that the auditor considers necessary as the basis for the auditor’s opinion (on the concise financial report), for example, procedures addressing discussion and analysis.

Discussion and Analysis

23. As the inclusion of discussion and analysis is not required in the ~~(full) financial report~~ full financial report for the year of some entities reporting under the Act, the audit of a concise financial report will include procedures to enable the auditor to reach a conclusion on the discussion and analysis, as part of forming an opinion on the concise financial report.
24. These procedures may include, a recalculation of ratios and/or trend analyses which have been included in the discussion and analysis; and ensuring that these disclosures are consistent with the information in the ~~(full) financial report~~ full financial report for the year.
25. Whilst AASB 1039 requires that the financial statements and the specific disclosures in a concise financial report be consistent with the ~~(full) financial report~~ full financial report for the year of the entity, it is recognised that because of the nature of discussion and analysis, such information (for example, a discussion and analysis of the main influences on the costs of the operations of the entity) goes beyond the type of disclosure which is included normally in the audited ~~(full) financial report~~ full financial report for the year.
26. In such circumstances, the auditor selects and applies appropriate procedures to be able to reach a conclusion on the discussion and analysis and evaluates the results of such procedures when forming an opinion on whether the discussion and analysis complies with the requirements of AASB 1039. In selecting and applying procedures and evaluating results, the auditor exercises professional judgement in accordance with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.
27. Where information of a subjective and/or prospective nature is included in the discussion and analysis, either to comment on, or to augment the entity’s financial statements forming part of the concise financial report (for example, a discussion of the impact of significant economic or other events on the operations of the entity), the auditor assesses whether the inclusion of such information in the audited concise financial report has the potential to mislead users.
28. Under ASA 200, the auditor exercises professional judgement in assessing the inclusion of such information in the discussion and analysis. If the auditor considers that this information is overly subjective and/or prospective in nature, and/or that it is information which cannot be quantified or verified, then the auditor refers to Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor’s Report*, for requirements and guidance on modifying the auditor’s report. Depending on the circumstances, the modification to the auditor’s report may be as a result of a disagreement with the directors (those charged with governance) on the adequacy or appropriateness of disclosures in the concise financial report, or may be as a result of a limitation in scope.
29. In view of the matters discussed above, it is generally important that the auditor ascertains from the directors (those charged with governance), at an early stage in the audit, the extent and nature of the discussion and analysis that they intend to include in the concise financial report.

30. In ascertaining the extent and nature of the discussion and analysis at an early stage the auditor seeks to avert any difficulties which might otherwise arise with regard to the inclusion of such information. The directors (those charged with governance) are thus informed at that stage if, in the auditor's opinion, there is any possibility that users of the concise financial report might be misled by the inclusion of overly subjective and/or prospective terminology and information in the discussion and analysis which forms part of the concise financial report.

Representations

31. Given that the Act does not require a directors' declaration to be included in the concise report, prior to issuing the auditor's report, ~~it would be prudent for the auditor,~~ under ASA 580 *Written Representations*, ~~to obtain~~ the auditor obtains a written representation from the entity's directors which attests that the concise financial report (including, when applicable, discussion and analysis disclosures) complies with the requirements of AASB 1039 and the Act.

The Auditor's Report

32. When reporting on a concise financial report, the auditor complies with the Act and ASA 810. As section 314 of the Act prescribes the auditor's reporting obligations, the auditor adheres to the requirements in ASA 810, paragraph 10 in respect of the prescribed reporting obligations.

33. Under ASA 810, paragraph 10(b), the auditor evaluates whether the users of a concise financial report might misunderstand the auditor's opinion. Due to the precision of wording recommended in this Guidance Statement, ~~and~~ the requirements of the Act, an auditor ordinarily concludes that users will not misunderstand the auditor's opinion.

34. When expressing an unmodified opinion on a concise financial report prepared in accordance with the requirements of the Act, the auditor's opinion uses one of the following phrases:

(a) In our opinion, the accompanying concise financial report, including the discussion and analysis of ABC Company, complies with Accounting Standard AASB 1039 Concise Financial Reports (other than a listed entity); or

Formatted: ParaLevel2

Formatted: Font: Italic

~~33.~~ (b) In our opinion, the accompanying concise financial report, complies with Accounting Standard AASB 1039 Concise Financial Reports (for a listed entity).

Formatted: Font: Italic

- ~~34.~~ 35. ASA 810, paragraph 16 lists the elements required to be included in an auditor's report.

Modifications to the Opinion, Emphasis of Matter Paragraph, Other Matter Paragraph and Material Uncertainty Related to Going Concern Section

- ~~35.~~ 36. Under ASA 810, paragraph 19, where the auditor's report on the ~~(full) financial report~~ full financial report includes a qualified opinion, an emphasis of matter or other matter paragraph, or a material uncertainty related to going concern ~~section~~, the auditor's report on the concise financial report states ~~that this~~. In addition, ~~the~~ the auditor's report on the concise financial report describes:

- (a) the basis for the qualified opinion on the ~~(full) financial report~~ full financial report, and the effect thereof on the concise financial report;
- (b) the matter referred to in the emphasis of matter or other matter paragraph or the material uncertainty related to going concern section in the ~~(full) financial report~~ full financial report, and the effect thereof on the concise financial report.

- ~~36.~~ 37. Examples:

- (a) AASB 1039 requires the concise financial report to be derived from, and consistent with, the ~~(full) financial report~~ full financial report for the year. Accordingly, modifications to the auditor's opinion on the ~~(full) financial report~~ full financial report

for the year will commonly be applicable to the auditor's opinion on the concise financial report. Certain modifications to the auditor's opinion on the ~~(full) financial report~~ full financial report for the year, however, may not be applicable to the auditor's opinion on the concise financial report, such as those relating solely to disclosures in the notes to the ~~(full) financial report~~ full financial report for the year.

- (b) The auditor may modify the auditor's report relating to the concise financial report only. An example is when an auditor is of the opinion that the discussion and analysis does not comply with the requirements of AASB 1039.

37.38. Where the auditor's report on the ~~(full) financial report~~ full financial report contains an adverse or disclaimer of opinion, the auditor's report on the concise financial report must, under ASA 810, paragraph 20:

- (a) state that the auditor's report on the ~~(full) financial report~~ full financial report contains an adverse opinion or disclaimer of opinion;
- (b) describe the basis for that adverse opinion or disclaimer of opinion; and
- (c) state that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the concise financial report.

Key Audit Matters

38.39. Where an auditor's report on the ~~(full) financial report~~ full financial report includes communication of key audit matters in accordance with ASA 701³ and the auditor is satisfied that the concise financial report is ~~materially derived from and is~~ consistent with the ~~(full) financial report~~ full financial report, the auditor's report on the concise financial report states that the auditor's report on the ~~(full) financial report~~ full financial report includes communication of key audit matters.

40. The auditor is not required to describe the individual key audit matters in the auditor's report on the concise financial report. However, the auditor, using professional judgement, may ~~determine whether or not to~~ include more detailed reference to key audit matters, either generically or specifically (ie by providing subheadings or descriptions). In making this determination, the auditor considers whether such inclusions are beneficial to the users understanding of the audit of the concise financial report, or whether such inclusions could be misleading if the underlying issues are not relevant to or disclosed in a similar manner in the concise financial report.

39.41. Illustration 2 of Appendix 1, demonstrates the wording used where the auditor states that the auditor's report on the full financial report includes communication of key audit matters.
Illustration 3 of Appendix 1, demonstrates the wording that may be used where the auditor includes the key audit matters, that were included in the full financial report's auditor's report, in the concise financial report's auditor's report.

Other Information

Uncorrected Material Misstatement of Other Information included in Full Financial Report

40.42. Where an auditor's report on the ~~(full) financial report~~ full financial report includes a statement that describes an uncorrected material misstatement of the other information in accordance with ASA 720⁴ ~~and the auditor is satisfied that the concise financial report is materially consistent with the (full) financial report, and the uncorrected material misstatement does not relate to matters dealt with in the information included in a document containing the concise financial report,~~ the auditor's report on the concise financial report states that the auditor's

³ See ASA 701 Key Audit Matters

⁴ See ASA 720 The Auditor's Responsibilities Relating to Other Information

report on the ~~(full) financial report~~ full financial report includes a statement that describes an uncorrected material misstatement of other information; and describes the uncorrected material misstatement of other information and the effect thereof, if any, on the information included in a document containing the concise financial report.

43. When an uncorrected material misstatement of the other information has been identified in the auditor's report on the full financial report and that uncorrected material misstatement relates to a matter that is included in the information in a document containing the concise financial report, a material inconsistency between the concise financial report and that information may exist or the information may be misleading. The auditor discusses the inconsistency with management and determines what revisions are required and considers the implications, if any, on the auditor's report on the concise financial report.

Information included in a document containing a concise financial report

Formatted: Heading 8

~~41.44.~~ A document that includes a concise financial report may contain some or all of the same matters ~~dealt with~~ included in the other information included in the audited annual report or may include matters that are not dealt with in the other information included in the annual report.

Where Information contains matters already dealt with in other information included in the audited annual report,

Formatted: Heading 8

Formatted: English (Australia)

45. Where information is included in a document that includes a concise financial report and that information deals with some or all of the matters as the other information in the annual report, the work already performed on that other information in accordance with ASA 720 may be sufficient.

~~42.46.~~ The auditor reads the information included in a document containing the concise financial report, and considers whether there is a material inconsistency between that information and the concise financial report. Where a material inconsistency is identified, the auditor discusses the inconsistency with management and determines what revisions are required and considers the implications, if any, on the auditor's report on the concise financial report.

~~43. Where information is included in a document that includes a concise financial report and that information deals with some or all of the matters as the other information in the annual report, the work already performed on that other information in accordance with ASA 720 may be sufficient.~~

Formatted: Heading 8

~~44. When an uncorrected material misstatement of the other information has been identified in the auditor's report on the (full) financial report and that uncorrected material misstatement relates to a matter that is dealt with in the information in a document containing the concise financial report, a material inconsistency between the concise financial report and that information may exist or the information may be misleading. The auditor discusses the inconsistency with management and determines what revisions are required and considers the implications, if any, on the auditor's report on the concise financial report.~~

Where Information contains matters not already dealt with in other information included in the audited annual report

~~45.47.~~ Where information is included in a document that includes a concise financial report and that information deals with matters not dealt with in other information in the annual report, the auditor may still find ASA 720 helpful and follows the guidance contained in paragraph ~~42-46~~ of this guidance statement.

*Remuneration Report*⁵

46-48. Where a company includes a Remuneration Report in the annual directors' report, the auditor reports thereon to members. The auditor, exercising professional judgement, may include a copy of the auditor's report on the remuneration report with the auditor's report on the concise financial report. Whilst there is no legal requirement to do so, it is in the public interest that a copy of the auditor's report on the Remuneration Report is included with the auditor's report on the concise financial report. Illustration 2 of Appendix 1 demonstrates the wording that may be used where the auditor's report on the remuneration report is included in the auditor's report of the concise financial report.

Illustrative Examples

47-49. The illustrative reports in Appendix 1 provide examples of an auditor's report on a concise financial report.

Conformity with International Pronouncements

48-50. As this Guidance Statement relates to Australian legislative requirements under the Act, there is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

⁵ See Guidance Statement GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001*.

Appendix 1

(Ref: Para.45)

ILLUSTRATIVE EXAMPLES OF THE AUDITOR'S REPORT ON A CONCISE FINANCIAL REPORT

Introduction

A. *Examples Provided in this Appendix*

- (a) Illustration 1: Concise financial report derived from a ~~(full) financial report~~full financial report of an *unlisted entity* where the auditor's report thereon includes a *material uncertainty related to going concern*.
- (b) Illustration 2: Concise financial report derived from a ~~(full) financial report~~full financial report of a *listed entity* where the auditor's report thereon includes a *material uncertainty related to going concern and key audit matters*.
- (c) Illustration 3: Concise financial report derived from a ~~(full) financial report~~full financial report of a *listed entity* where the *auditor's report is qualified* but the *qualification does not affect the auditor's opinion on the concise financial report*.
- (d) Illustration 4: Concise financial report derived from a ~~(full) financial report~~full financial report of an *unlisted entity* where the *auditor's report thereon includes a material uncertainty related to going concern* and the *auditor's opinion on the concise financial report is qualified*.

B. *Form of Reporting*

AASB 1039 does not specify whether a concise financial report prepared under section 314 of the Act is a “general purpose financial report” within the meaning described in Accounting Standard AASB 101 *Presentation of Financial Statements*. The auditor’s reporting obligations, under section 314, require an opinion on compliance (with AASB 1039), not an expression of opinion on the fair presentation of the financial information. Accordingly, the illustrative example auditor’s reports, contained within this Appendix, are not developed from a classification (general purpose or special purpose) of the concise financial report and are not based on the expression of an opinion on fair presentation.

Instead, the illustrative example auditor’s reports contained within this Appendix are discrete and have been developed from:

- (a) the auditor’s reporting obligations specified in the Act;
- (b) the reporting requirements under ASA 810;
- (c) the principles of auditor’s reporting found in Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report* in relation to a compliance financial reporting framework;
- (d) consideration of the nature of concise reports, including concise financial reports, prepared under the Act and AASB 1039; and
- (e) recognition of the relationship, prescribed in AASB 1039, of a concise financial report to the audited ~~(full) financial report~~ full financial report for the year.

It should be noted that as AASB 1039 does not require parent entity information to be separately disclosed when consolidated financial information is presented in concise financial reports, separate references to the parent entity and consolidated entity are therefore not required in the auditor’s report on a concise financial report.

C. *Qualifications*

Section 314(2)(d) of the Act specifies that — “a copy of any qualification in, and of any statements included in the emphasis of matter section of, the auditor’s report on the financial report”—is to be included in a concise report.

At the time section 314 was introduced into the Act, the word “qualification” was a generic term and had the same meaning and expression as used in the then Auditing Standards (AUSs) issued by the former Auditing and Assurance Standards Board (AuASB) of the Australian Accounting Research Foundation. Specifically, AUS 702.25(b) stated that a “qualified” opinion should be expressed as:

- (a) an “except for” opinion;
- (b) an adverse opinion; or
- (c) an inability to form an opinion.

However, under the current Auditing Standard (ASA 705), the term “qualified” has a specific and different meaning—it refers only to an “except for” type modification to the auditor’s opinion. The terminology used in this Guidance Statement is consistent with ASA 705.

The meaning of the term Emphasis of Matter Paragraph does not differ between the Act, the AUSs, the ASAs and this Guidance Statement.

The term “Other Matter Paragraph” has been introduced to the Australian Auditing Standards applicable for financial reporting periods commencing on or after 1 January 2010. Accordingly, the term is not used in the Act but its use has no consequence under the Act.

The term “Material Uncertainty Related to Going Concern” has been introduced to the Australian Auditing Standards applicable for financial reporting periods commencing on or after 15 December 2016. ~~Accordingly, the term is not used in the Act. Refer paragraph 7 of this guidance statement for details. but its use has no consequence under the Act as it does not result in a qualification to the auditor’s report.~~

The use of differing terminology between the Act and this Guidance Statement, as described above, does not mean that the requirements of section 314 of the Act have changed in so far that only “except for” type modifications are included in a concise report. The requirements of the Act remain unchanged and the term “qualification” in the Act covers all three types of modification to the auditor’s opinion listed above, regardless of how they may be described in this Guidance Statement (or the Auditing Standards).

D. Directors’ Obligations under the Act

This Guidance Statement, including the illustrative auditor’s reports, is prepared to provide guidance to the auditor reporting on a concise financial report prepared under the *Corporations Act 2001*. It is not prepared to provide guidance to directors on their obligations under the Act, especially regarding section 314(2)(d) that requires a copy of any qualification and/or emphasis of matter [from the auditor’s report on the ~~(full) financial report~~full financial report] to be included in the “concise report”.

E. *Illustrative Auditor's Report*

Illustration 1:

Circumstances include the following:

- An unmodified opinion is expressed on the ~~(full) financial report~~ full financial report of an entity other than a listed entity.
- The ~~Concise-concise Financial-financial Report-report~~ is prepared under the *Corporations Act 2001*.
- Established criteria for the preparation of the concise financial report exist.
- The auditor's report on the concise financial report is dated later than the date of the auditor's report on the financial report from which the concise financial report is derived.
- The auditor's report on the ~~(full) financial report~~ full financial report includes a *Material Uncertainty Related to Going Concern* section.
- The auditor's report on the ~~(full) financial report~~ full financial report was not required to communicate key audit matters in accordance with ASA 701.

Report of the Independent Auditor on the Concise Financial Report

[Appropriate Addressee]

Opinion

We have audited the concise financial report of ABC Company (~~the Company~~), which comprises the statement of financial position as at 31 December 20X1, the statement of ~~profit or loss and other~~ comprehensive income, statement of changes in equity, statement of cash flows[#] for the year then ended, and related notes, derived from the ~~audited financial report~~ full financial report of ABC Company for the year ended 31 December 20X1 and the discussion and analysis.

In our opinion, the accompanying concise financial report, including the discussion and analysis of ABC Company, complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

[#] The titles used for financial statements in this example are consistent with those used in AASB 101 *Presentation of Financial Statements* and AASB 1039 *Concise Financial Reports*. AASB 101 permits the use of other appropriate titles, and consequently, auditors should ensure consistency of terms used in the auditor's report with those used in the concise financial report.

~~We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report[§].~~

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards ~~in the preparation of the full financial report~~. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the ~~audited financial report~~ full financial report and the auditor's report thereon. ~~[The concise financial report and the audited financial report~~ full financial report do not reflect the effects of events that occurred subsequent to the date of our report on the ~~audited financial report~~ full financial report.]

The ~~Audited Financial Report~~ Full Financial Report and Our Report Thereon

We expressed an unmodified audit opinion on the ~~audited financial report~~ full financial report in our report dated 15 February 20X2. That report also includes:

- A *Material Uncertainty Related to Going Concern* section that draws attention to Note 6 in the ~~audited financial report~~ full financial report. Note 6 of the ~~audited financial report~~ full financial report indicates that ABC Company incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, ABC Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note 6 of the ~~audited financial report~~ full financial report, indicate that a material uncertainty exists that may cast significant doubt on ABC Company's ability to continue as a going concern. These matters are addressed in Note 5 of the concise financial report.

Responsibilities of the Directors for the Concise Financial Report

The ~~Directors~~ directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's ~~Responsibility~~ Responsibilities for the Audit of the Concise Financial Report

Our responsibility is to express an opinion on whether the concise financial report, in all material respects, complies with AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with ~~the requirements laid down in~~ AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

Report on Other Legal and Regulatory Requirements[†]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's name and signature[§]]

[§] — Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

[†] Include when applicable, such as when a matter has been reported under this heading in the auditor's report on the ~~audited financial report~~ full financial report for the year.

[§] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

[Auditor's address]

[Date of the auditor's report]

Illustration 2:

Circumstances include the following:

- An unmodified opinion is expressed on the ~~audited financial report~~ full financial report of a listed entity.
- The ~~Concise concise Financial financial Report report~~ is prepared under the *Corporations Act 2001*.
- Established criteria for the preparation of the concise financial report exist.
- The auditor's report on the concise financial report is dated later than the date of the auditor's report on the financial report from which the concise financial report is derived.
- The auditor's report on the ~~audited financial report~~ full financial report includes a *Material Uncertainty Related to Going Concern* section.
- The auditor's report on the ~~audited financial report~~ full financial report includes key audit matters in accordance with ASA 701.
- The auditor has elected to include a copy of the auditor's report on the remuneration report.

Report of the Independent Auditor on the Concise Financial Report

[Appropriate Addressee]

Opinion

We have audited the concise financial report of ABC Company (the Company), which comprises the statement of financial position as at 31 December 20X1, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows[#] for the year then ended, and related notes, derived from the ~~audited financial report~~ full financial report of ABC Company for the year ended 31 December 20X1[§].

In our opinion, the accompanying concise financial report of ABC Company 1 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

[#] The titles used for financial statements in this example are consistent with those used in AASB 101 *Presentation of Financial Statements* and AASB 1039 *Concise Financial Reports*. AASB 101 permits the use of other appropriate titles, and consequently, auditors should ensure consistency of terms used in the auditor's report with those used in the concise financial report.

[§] As the concise financial report will be included in a document that contains other information (the concise report), the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited concise financial report is presented.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report^{*}.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the full financial report. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the audited financial report full financial report and the auditor's report thereon. [The concise financial report and the audited financial report full financial report do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial report full financial report.]

The ~~Audited Financial Report~~ Full Financial Report and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial report full financial report in our report dated 15 February 20X2. That report also includes:

- A *Material Uncertainty Related to Going Concern* section that draws attention to Note 6 in the audited financial report full financial report. Note 6 of the audited financial report full financial report indicates that ABC Company incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, ABC Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note 6 of the audited financial report full financial report, indicate that a material uncertainty exists that may cast significant doubt on ABC Company's ability to continue as a going concern. These matters are addressed in Note 5 of the concise financial report.
- The communication of other^{*} key audit matters. [Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the full financial report of the current period.][#]

Responsibilities of the Directors for the Concise Financial Report

The ~~Directors~~ directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Formatted: Font: Not Italic

Auditor's ~~Responsibilities for the Audit of the Concise Financial Report~~ Responsibility

Our responsibility is to express an opinion on whether the concise financial report, complies in all material respects, with AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

^{*}—Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

^{*} In the circumstances where there is no material uncertainty related to going concern, inclusion of the word "other" in the statement for the communication of key audit matters would not be necessary.

[#] The auditor may include additional explanation about key audit matters considered helpful to users of the auditor's report on the concise financial report.

Report on Other Legal and Regulatory Requirements[†]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

Report on the Remuneration Report

The following paragraphs are copies from our Report on the Remuneration Report of ABC Company for the [period year] ended 31 December 20X1.

[Insert the exact wording, including headings, of the Report on the Remuneration Report for the [period year] ended 31 December 20X1.]

[Auditor's name and signature[§]]

[Auditor's address]

[Date of the auditor's report]

[†] Include when applicable, such as when a matter has been reported under this heading in the auditor's report on the ~~(full) financial report~~ full financial report for the year.

[§] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Illustration 3:

Circumstances include the following:

- A modified opinion is expressed on the ~~audited financial report~~ full financial report of a listed entity that does not affect the auditor's opinion on the concise financial report.
- The ~~Concise concise Financial financial Report report~~ is prepared under the *Corporations Act 2001*.
- Established criteria for the preparation of the concise financial report exist.
- The auditor's report on the concise financial report is dated later than the date of the auditor's report on the financial report from which the concise financial report is derived.
- The auditor's report on the ~~audited financial report~~ full financial report includes key audit matters in accordance with ASA 701.
- The auditor has elected not to include a copy of the auditor's report on the remuneration report.

Report of the Independent Auditor on the Concise Financial Report

[Appropriate Addressee]

Opinion

We have audited the concise financial report of ABC Company (the Company), which comprises the statement of financial position as at 31 December 20X1, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows[#] for the year then ended, and related notes, derived from the ~~audited financial report~~ full financial report of ABC Company for the year ended 31 December 20X1[§]. We expressed a qualified opinion on the ~~audited financial report~~ full financial report. The modification, included below does not qualify our opinion on the concise financial report[‡] because [insert reason(s)].

In our opinion, the accompanying concise financial report of ABC Company complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

[#] The titles used for financial statements in this example are consistent with those used in AASB 101 *Presentation of Financial Statements* and AASB 1039 *Concise Financial Reports*. AASB 101 permits the use of other appropriate titles, and consequently, auditors should ensure consistency of terms used in the auditor's report with those used in the concise financial report.

[§] As the concise financial report will be included in a document that contains other information (the concise report), the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited concise financial report is presented.

[‡] An example of a modification to the ~~(full) financial report~~ full financial report for the year that does not affect the concise financial report is a qualification ("except for") on disclosures in the notes to the financial statements where no such notes are included in the concise financial report. A copy of the modification paragraphs are included in a section of this auditor's report and is clearly identified as not affecting the auditor's opinion on the concise financial report.

~~We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report^{*}.~~

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards ~~in the preparation of the full financial report~~. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the ~~audited financial report~~~~full financial report~~ and the auditor's report thereon. ~~[The concise financial report and the audited financial report~~~~full financial report~~ do not reflect the effects of events that occurred subsequent to the date of our report on the ~~audited financial report~~~~full financial report~~.]

The ~~Audited Financial Report~~~~Full Financial Report~~ and Our Report Thereon

We expressed a qualified audit opinion on the ~~audited financial report~~~~full financial report~~ in our report dated 15 February 20X2. The following paragraphs are copied from our report on the ~~full~~ financial report for the year. The modification to the opinion in that report does not apply to our opinion on the concise financial report for the reason(s) stated above. [Insert the exact wording, including headings, of the basis of modification paragraph(s) and the modified opinion paragraph from the auditor's report on the ~~full~~ financial report for the year.]

That report also includes:

- ~~The communication of other^{*} key audit matters. [Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period.]#The communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the full financial report for the year ended 31 December 20X1. We set out below the matters that were key audit matters. All note references below are to the notes in the full financial report (include key audit matters from full financial report).~~
-

Formatted: Indent: Left: 0 cm

Formatted: Not Superscript/ Subscript

Formatted: Not Superscript/ Subscript

Responsibilities of the Directors for the Concise Financial Report

The ~~Directors~~~~directors~~ are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's ~~Responsibilities for the Audit of the Concise Financial Report~~~~Responsibility~~

Our responsibility is to express an opinion on whether the concise financial report, complies in all material respects, with AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

^{*} —Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the Corporations Act 2001.]

[#] —In the circumstances where there is no material uncertainty related to going concern, inclusion of the word "other" in the statement for the communication of key audit matters would not be necessary.

[#] —The auditor may include additional explanation about key audit matters considered helpful to users of the auditor's report on the concise financial report.

Report on Other Legal and Regulatory Requirements[†]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

Report on the Remuneration Report

~~The following paragraphs are copies from our Report on the Remuneration Report for the [period] ended 31 December 20X1.~~

~~[Insert the exact wording, including headings, of the Report on the Remuneration Report for the [period] ended 31 December 20X1.]~~

[Auditor's name and signature[§]]

[Auditor's address]

[Date of the auditor's report]

[†] Include when applicable, such as when a matter has been reported under this heading in the auditor's report on the ~~(full) financial report~~ full financial report for the year.

[§] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Illustration 4:

Circumstances include the following:

- An unmodified opinion is expressed on the ~~audited financial report~~ full financial report of an entity other than a listed entity however, a qualified opinion is expressed on the concise financial report.
- The ~~Concise concise Financial financial Report report~~ is prepared under the *Corporations Act 2001*.
- Established criteria for the preparation of the concise financial report exist.
- The auditor's report on the concise financial report is dated later than the date of the auditor's report on the financial report from which the concise financial report is derived.
- The auditor's report on the ~~audited financial report~~ full financial report includes a *Material Uncertainty Related to Going Concern* section.
- The auditor's report on the ~~audited financial report~~ full financial report was not required to communicate key audit matters in accordance with ASA 701.

Report of the Independent Auditor on the Concise Financial Report

[Appropriate Addressee]

Qualified Opinion

We have audited the concise financial report of ABC Company (the Company), -which comprises the statement of financial position as at 31 December 20X1, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows[#] for the year then ended, and related notes, derived from the ~~audited financial report~~ full financial report of ABC Company for the year ended 31 December 20X1 and the discussion and analysis.

In our opinion, except for the effect on the concise financial report of the matter(s) referred to in the paragraph below, the accompanying concise financial report, including the discussion and analysis of ABC Company, complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Qualified Opinion

[Include a clear description of all the substantive reasons for the qualification and quantification of the effects.][†]

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

[#] The titles used for financial statements in this example are consistent with those used in AASB 101 *Presentation of Financial Statements* and AASB 1039 *Concise Financial Reports*. AASB 101 permits the use of other appropriate titles, and consequently, auditors should ensure consistency of terms used in the auditor's report with those used in the concise financial report.

[†] The qualification effects the opinion on the concise financial report ONLY – for example, a qualification on the discussion and analysis.

~~We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report[§].~~

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards ~~in the preparation of the full financial report~~. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the ~~audited financial report~~ full financial report and the auditor's report thereon. ~~[The concise financial report and the audited financial report~~ full financial report do not reflect the effects of events that occurred subsequent to the date of our report on the ~~audited financial report~~ full financial report.]

The ~~Audited Financial Report~~ Full Financial Report and Our Report Thereon

We expressed an unmodified audit opinion on the ~~audited financial report~~ full financial report in our report dated 15 February 20X2. That report also includes:

- A *Material Uncertainty Related to Going Concern* section that draws attention to Note 6 in the ~~audited financial report~~ full financial report. Note 6 of the ~~audited financial report~~ full financial report indicates that ABC Company incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, ABC Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note 6 of the ~~audited financial report~~ full financial report, indicate that a material uncertainty exists that may cast significant doubt on ABC Company's ability to continue as a going concern. These matters are addressed in Note 5 of the concise financial report.

Responsibilities of the Directors for the Concise Financial Report

The ~~Directors~~ directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's ~~Responsibilities for the Audit of the Concise Financial Report~~ Responsibility

Our responsibility is to express an opinion on whether the concise financial report, in all material respects, complies with AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with ~~the requirements laid down in~~ AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

Report on Other Legal and Regulatory Requirements[†]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's name and signature[§]]

[§] — Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the Corporations Act 2001.]

[†] Include when applicable, such as when a matter has been reported under this heading in the auditor's report on the ~~audited financial report~~ full financial report for the year.

[§] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

[Auditor's address]

[Date of the auditor's report]

GS 001
(March 2017)

Guidance Statement GS 001

Concise Financial Reports Under the Corporations Act 2001

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

Contact Details

Auditing and Assurance Standards Board
Podium Level 14, 530 Collins Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204, Collins Street West
Melbourne Victoria 8007
AUSTRALIA

COPYRIGHT

© 2017 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this Guidance Statement are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source as being the AUASB.

Requests and enquiries concerning reproduction and rights for commercial purposes should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to enquiries@auasb.gov.au. Otherwise, no part of this Guidance Statement may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 1833-7600

Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on 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 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 *Concise Financial Reports Under the Corporations Act 2001* 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.

CONTENTS

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	1-1
Issuance Date	3
Introduction	4
Regulatory Requirements	5-10
Accounting Standard AASB 1039	11-15
Audit Activities	
Engagement Acceptance	16-18
Audit Procedures	19-31
The Auditor’s Report.....	32-49
Conformity with International Pronouncements	50

Appendix 1: Illustrative Examples of the Auditor’s Report on a Concise Financial Report

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 001 *Concise Financial Reports Under the Corporations Act 2001* 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: <TypeHere>

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 001

Concise Financial Reports Under the Corporations Act 2001

Application

1. For audits of a concise financial report prepared under the *Corporations Act 2001* (“the Act”) and in accordance with Accounting Standard AASB 1039 *Concise Financial Reports* (as amended April 2015) (AASB 1039), the auditor complies with the requirements ASA 810 *Engagements to Report on Summary Financial Statements*. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors reporting on such engagements.
2. For audits of other summary financial reports, the auditor complies with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

Issuance Date

3. This Guidance Statement is issued on 1 March 2017 by the AUASB and replaces GS 001 *Concise Financial Reports Under the Corporations Act 2001*, issued in March 2010.

Introduction

4. The auditor’s objective in respect of a concise financial report prepared under the Act, is to express an opinion:
 - (a) whether the concise financial report complies with AASB 1039; and
 - (b) when included, whether the discussion and analysis complies with the requirements of AASB 1039.

Regulatory Requirements

5. The annual financial reporting requirements of a company, registered scheme and disclosing entity are found in section 314(1) of the Act.
6. Section 314(2) of the Act states:

A concise report for a financial year consists of:

- (a) a concise financial report for the year drawn up in accordance with accounting standards made for the purpose of this paragraph; and
- (b) the directors’ report for the year (see sections 298-300A); and
- (c) a statement by the auditor:
 - (i) that the financial report has been audited; and
 - (ii) whether, in the auditor’s opinion, the concise financial report complies with the accounting standards made for the purpose of paragraph (a); and
- (d) a copy of any qualification in, and of any statements included in the emphasis of matter section of, the auditor’s report on the financial report (paragraph 7 of this guidance statement provides clarification regarding the implication of the term “Material Uncertainty Related to Going Concern”); and

- (e) a statement that the report is a concise report and that the full financial report and auditor's report will be sent to the member free of charge if the member asks for them.
7. The term "Material Uncertainty Related to Going Concern" has been introduced to the Australian Auditing Standards applicable for financial reporting periods commencing on or after 15 December 2016. The term is not used in the Act and accordingly is not captured under paragraph 6(d) of this guidance statement; however a concise report includes a copy of any statements included in the Material Uncertainty Related to Going Concern section of the auditor's report on the full financial report.
8. Section 314 of the Act does not require a concise report to include the directors' declaration made under section 295(4) of the Act in respect of the full financial report for the year. Consequently, where the directors of an entity decide to include the directors' declaration as part of the concise report, the auditor, under *ASA 720 The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*, needs to read the declaration, along with other documents comprising the concise report, to identify material inconsistencies with the concise financial report and material misstatements of fact.
9. Section 314(3) of the Act requires the auditor to report on whether the discussion and analysis, if required by the Accounting Standard to be included in the concise financial report¹, complies with the requirements laid down by the Accounting Standard. Furthermore, section 314(3)(b) specifies that the auditor need not otherwise audit the statements made in the discussion and analysis.
10. The requirements of the Act relating to concise financial reports are based on the view that a concise financial report can provide members with information relevant to evaluating the business, without giving them fully detailed accounting disclosures. The concise report will, in many cases, be the only report that is sent to members². The provision, to some members, of less detailed information is expected to be sufficient to meet their needs for an understanding of the financial performance, financial position and financing and investing activities of the company, registered scheme or disclosing entity.

Accounting Standard AASB 1039

11. The Australian Accounting Standards Board issued Accounting Standard AASB 1039 *Concise Financial Reports*, the latest revision of which, dated April 2015, is operative for financial reporting periods beginning on or after 1 January 2009.

Discussion and Analysis

12. The Accounting Standard, inter alia, specifies the minimum content of a concise financial report, including a requirement that the financial statements forming part of the concise financial report, other than those of a listed company, be accompanied by discussion and analysis to assist the understanding of members.
13. AASB 1039 adopts the view that the information reported in the financial statements forming part of the concise financial report will be enhanced by discussion and analysis of the principal factors which affect the financial performance, financial position and financing and investing activities of an entity. According to AASB 1039, the extent of discussion and analysis which is required to be provided in concise financial reports will vary from entity to entity, and from year to year, as is necessary in the circumstances to compensate for the brevity of the concise financial report, compared with the full financial report for the year.

¹ *Discussion and analysis* are not required for listed companies – see AASB 1039 paragraph 24. This is because, unlike other entities, listed companies are required by section 299A of the Act to provide an operational and financial report in the directors' report (which is included in the concise report).

² Unless members request a copy of the full financial report (annual financial report) – see section 314(2)(e) of the Act.

14. AASB 1039 does not require the financial statements, forming part of the concise financial report of listed companies, to be accompanied by discussion and analysis. This is so as to avoid repetition of information required to be included in the directors' report by section 299A of the Act.
15. Whilst AASB 1039 does not mandate specific discussion and analysis disclosures, paragraph 27 of the Standard provides examples of the types of disclosures that may, at least, be expected to accompany the financial statements.

Audit Activities

Engagement Acceptance

16. Given that the concise financial report is an alternative form of reporting to members under the Act, and that the Act prescribes the auditor's reporting requirements, the AUASB takes the view that the audit of the concise financial report is treated, by auditors, as a separate engagement from the audit of the full financial report for the year. This view has been taken also because procedures, additional to those performed on the full financial report for the year, will be necessary when undertaking the audit of the concise financial report, particularly given that AASB 1039 requires, in certain circumstances, the inclusion of other information not found in the full financial report for the year, such as discussion and analysis.
17. In order to avoid any misunderstandings in relation to the audit of the concise financial report, the auditor complies with the engagement acceptance requirements in *ASA 810 Engagements to Report on Summary Financial Statements*. The auditor agrees the terms of the audit engagement with the appropriate person(s) within the entity's governance structure. The auditor records the terms of engagement in writing and obtains written acceptance from the appropriate person representing the entity. These terms may be included in the written terms of the audit engagement for the full financial report. On recurring audits, the terms of the engagement are revised and re-confirmed as appropriate.
18. In addition to the specific requirements in ASA 810, the terms of engagement ordinarily include the objective and scope of the audit of the concise financial report (including the audit of discussion and analysis disclosures in that report). Such inclusions differentiate the engagement to audit the concise report from the engagement to audit the full financial report.

Audit Procedures

Auditing Standards

19. AASB 1039 requires the concise financial report to be derived from the full financial report for the year. Consequently, the audit procedures performed under the Auditing Standards by the auditor when auditing the full financial report for the year are effectively performed on that information in the concise financial report that has been derived from the full financial report for the year. Accordingly, there is no expectation that such audit procedures need be repeated on the relevant information in the concise financial report.
20. Reference to "audit" and "audit procedures" in the illustrative examples of an auditor's report on the concise financial report (see Appendix 1) relate to all procedures that have been performed by the auditor (i.e. regarding both the full financial report and the concise financial report).
21. When selecting and applying procedures in addition to those performed in relation to the full financial report for the year, the auditor complies with ASA 810.
22. Under ASA 810, paragraph 8, the auditor is required to perform specified procedures. Furthermore, the auditor is required to perform additional procedures that the auditor considers necessary as the basis for the auditor's opinion (on the concise financial report), for example, procedures addressing discussion and analysis.

Discussion and Analysis

23. As the inclusion of discussion and analysis is not required in the full financial report for the year of some entities reporting under the Act, the audit of a concise financial report will include procedures to enable the auditor to reach a conclusion on the discussion and analysis, as part of forming an opinion on the concise financial report.
24. These procedures may include, a recalculation of ratios and/or trend analyses which have been included in the discussion and analysis; and ensuring that these disclosures are consistent with the information in the full financial report for the year.
25. Whilst AASB 1039 requires that the financial statements and the specific disclosures in a concise financial report be consistent with the full financial report for the year of the entity, it is recognised that because of the nature of discussion and analysis, such information (for example, a discussion and analysis of the main influences on the costs of the operations of the entity) goes beyond the type of disclosure which is included normally in the audited full financial report for the year.
26. In such circumstances, the auditor selects and applies appropriate procedures to be able to reach a conclusion on the discussion and analysis and evaluates the results of such procedures when forming an opinion on whether the discussion and analysis complies with the requirements of AASB 1039. In selecting and applying procedures and evaluating results, the auditor exercises professional judgement in accordance with *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.
27. Where information of a subjective and/or prospective nature is included in the discussion and analysis, either to comment on, or to augment the entity's financial statements forming part of the concise financial report (for example, a discussion of the impact of significant economic or other events on the operations of the entity), the auditor assesses whether the inclusion of such information in the audited concise financial report has the potential to mislead users.
28. Under ASA 200, the auditor exercises professional judgement in assessing the inclusion of such information in the discussion and analysis. If the auditor considers that this information is overly subjective and/or prospective in nature, and/or that it is information which cannot be quantified or verified, then the auditor refers to Auditing Standard *ASA 705 Modifications to the Opinion in the Independent Auditor's Report*, for requirements and guidance on modifying the auditor's report. Depending on the circumstances, the modification to the auditor's report may be as a result of a disagreement with the directors (those charged with governance) on the adequacy or appropriateness of disclosures in the concise financial report, or may be as a result of a limitation in scope.
29. In view of the matters discussed above, it is generally important that the auditor ascertains from the directors (those charged with governance), at an early stage in the audit, the extent and nature of the discussion and analysis that they intend to include in the concise financial report.
30. In ascertaining the extent and nature of the discussion and analysis at an early stage the auditor seeks to avert any difficulties which might otherwise arise with regard to the inclusion of such information. The directors (those charged with governance) are thus informed at that stage if, in the auditor's opinion, there is any possibility that users of the concise financial report might be misled by the inclusion of overly subjective and/or prospective terminology and information in the discussion and analysis which forms part of the concise financial report.

Representations

31. Given that the Act does not require a directors' declaration to be included in the concise report, prior to issuing the auditor's report, under *ASA 580 Written Representations*, the auditor obtains a written representation from the entity's directors which attests that the

concise financial report (including, when applicable, discussion and analysis disclosures) complies with the requirements of AASB 1039 and the Act.

The Auditor's Report

32. When reporting on a concise financial report, the auditor complies with the Act and ASA 810. As section 314 of the Act prescribes the auditor's reporting obligations, the auditor adheres to the requirements in ASA 810, paragraph 10 in respect of the prescribed reporting obligations.
33. Under ASA 810, paragraph 10(b), the auditor evaluates whether the users of a concise financial report might misunderstand the auditor's opinion. Due to the precision of wording recommended in this Guidance Statement, and the requirements of the Act, an auditor ordinarily concludes that users will not misunderstand the auditor's opinion.
34. When expressing an unmodified opinion on a concise financial report prepared in accordance with the requirements of the Act, the auditor's opinion uses one of the following phrases:
 - (a) In our opinion, the accompanying concise financial report, including the discussion and analysis of ABC Company, complies with Accounting Standard AASB 1039 *Concise Financial Reports* (other than a listed entity); or
 - (b) In our opinion, the accompanying concise financial report, complies with Accounting Standard AASB 1039 *Concise Financial Reports* (for a listed entity).
35. ASA 810, paragraph 16 lists the elements required to be included in an auditor's report.

Modifications to the Opinion, Emphasis of Matter Paragraph, Other Matter Paragraph and Material Uncertainty Related to Going Concern Section

36. Under ASA 810, paragraph 19, where the auditor's report on the full financial report includes a qualified opinion, an emphasis of matter or other matter paragraph, or a material uncertainty related to going concern section, the auditor's report on the concise financial report states this. In addition, the auditor's report on the concise financial report describes:
 - (a) the basis for the qualified opinion on the full financial report, and the effect thereof on the concise financial report;
 - (b) the matter referred to in the emphasis of matter or other matter paragraph or the material uncertainty related to going concern section in the full financial report, and the effect thereof on the concise financial report.
37. Examples:
 - (a) AASB 1039 requires the concise financial report to be derived from, and consistent with, the full financial report for the year. Accordingly, modifications to the auditor's opinion on the full financial report for the year will commonly be applicable to the auditor's opinion on the concise financial report. Certain modifications to the auditor's opinion on the full financial report for the year, however, may not be applicable to the auditor's opinion on the concise financial report, such as those relating solely to disclosures in the notes to the full financial report for the year.
 - (b) The auditor may modify the auditor's report relating to the concise financial report only. An example is when an auditor is of the opinion that the discussion and analysis does not comply with the requirements of AASB 1039.
38. Where the auditor's report on the full financial report contains an adverse or disclaimer of opinion, the auditor's report on the concise financial report must, under ASA 810, paragraph 20:

- (a) state that the auditor's report on the full financial report contains an adverse opinion or disclaimer of opinion;
- (b) describe the basis for that adverse opinion or disclaimer of opinion; and
- (c) state that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the concise financial report.

Key Audit Matters

- 39. Where an auditor's report on the full financial report includes communication of key audit matters in accordance with ASA 701³ and the auditor is satisfied that the concise financial report is derived from and is consistent with the full financial report, the auditor's report on the concise financial report states that the auditor's report on the full financial report includes communication of key audit matters.
- 40. The auditor is not required to describe the individual key audit matters in the auditor's report on the concise financial report. However, the auditor, using professional judgement, may include more detailed reference to key audit matters, either generically or specifically (ie by providing subheadings or descriptions). In making this determination, the auditor considers whether such inclusions are beneficial to the users understanding of the audit of the concise financial report, or whether such inclusions could be misleading if the underlying issues are not relevant to or disclosed in a similar manner in the concise financial report.
- 41. Illustration 2 of Appendix 1, demonstrates the wording used where the auditor states that the auditor's report on the full financial report includes communication of key audit matters. Illustration 3 of Appendix 1, demonstrates the wording that may be used where the auditor includes the key audit matters, that were included in the full financial report's auditor's report, in the concise financial report's auditor's report.

Other Information

Uncorrected Material Misstatement of Other Information included in Full Financial Report

- 42. Where an auditor's report on the full financial report includes a statement that describes an uncorrected material misstatement of the other information in accordance with ASA 720⁴, and the uncorrected material misstatement does not relate to matters dealt with in the information included in a document containing the concise financial report, the auditor's report on the concise financial report states that the auditor's report on the full financial report includes a statement that describes an uncorrected material misstatement of other information; and describes the uncorrected material misstatement of other information and the effect thereof, if any, on the information included in a document containing the concise financial report.
- 43. When an uncorrected material misstatement of the other information has been identified in the auditor's report on the full financial report and that uncorrected material misstatement relates to a matter that is included in the information in a document containing the concise financial report, a material inconsistency between the concise financial report and that information may exist or the information may be misleading. The auditor discusses the inconsistency with management and determines what revisions are required and considers the implications, if any, on the auditor's report on the concise financial report.

Information included in a document containing a concise financial report

- 44. A document that includes a concise financial report may contain some or all of the same matters included in the other information included in the audited annual report or may include matters that are not dealt with in the other information included in the annual report.

³ See ASA 701 *Key Audit Matters*

⁴ See ASA 720 *The Auditor's Responsibilities Relating to Other Information*

Where Information contains matters already dealt with in other information included in the audited annual report

45. Where information is included in a document that includes a concise financial report and that information deals with some or all of the matters as the other information in the annual report, the work already performed on that other information in accordance with ASA 720 may be sufficient.
46. The auditor reads the information included in a document containing the concise financial report, and considers whether there is a material inconsistency between that information and the concise financial report. Where a material inconsistency is identified, the auditor discusses the inconsistency with management and determines what revisions are required and considers the implications, if any, on the auditor's report on the concise financial report.

Where Information contains matters not already dealt with in other information included in the audited annual report

47. Where information is included in a document that includes a concise financial report and that information deals with matters not dealt with in other information in the annual report, the auditor may still find ASA 720 helpful and follows the guidance contained in paragraph 46 of this guidance statement.

*Remuneration Report*⁵

48. Where a company includes a Remuneration Report in the annual directors' report, the auditor reports thereon to members. The auditor, exercising professional judgement, may include a copy of the auditor's report on the remuneration report with the auditor's report on the concise financial report. Illustration 2 of Appendix 1 demonstrates the wording that may be used where the auditor's report on the remuneration report is included in the auditor's report of the concise financial report.

Illustrative Examples

49. The illustrative reports in Appendix 1 provide examples of an auditor's report on a concise financial report.

Conformity with International Pronouncements

50. As this Guidance Statement relates to Australian legislative requirements under the Act, there is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

⁵ See Guidance Statement GS 008 *The Auditor's Report on a Remuneration Report Under Section 300A of the Corporations Act 2001*.

Appendix 1

(Ref: Para.45)

ILLUSTRATIVE EXAMPLES OF THE AUDITOR'S REPORT ON A CONCISE FINANCIAL REPORT

Introduction

A. *Examples Provided in this Appendix*

- (a) Illustration 1: Concise financial report derived from a full financial report of an *unlisted entity* where the auditor's report thereon includes a *material uncertainty related to going concern*.
- (b) Illustration 2: Concise financial report derived from a full financial report of a *listed entity* where the auditor's report thereon includes a *material uncertainty related to going concern* and *key audit matters*.
- (c) Illustration 3: Concise financial report derived from a full financial report of a *listed entity* where the *auditor's report is qualified* but the *qualification does not affect the auditor's opinion on the concise financial report*.
- (d) Illustration 4: Concise financial report derived from a full financial report of an *unlisted entity* where the *auditor's report thereon includes a material uncertainty related to going concern* and the *auditor's opinion on the concise financial report is qualified*.

B. *Form of Reporting*

AASB 1039 does not specify whether a concise financial report prepared under section 314 of the Act is a “general purpose financial report” within the meaning described in Accounting Standard AASB 101 *Presentation of Financial Statements*. The auditor’s reporting obligations, under section 314, require an opinion on compliance (with AASB 1039), not an expression of opinion on the fair presentation of the financial information. Accordingly, the illustrative example auditor’s reports, contained within this Appendix, are not developed from a classification (general purpose or special purpose) of the concise financial report and are not based on the expression of an opinion on fair presentation.

Instead, the illustrative example auditor’s reports contained within this Appendix are discrete and have been developed from:

- (a) the auditor’s reporting obligations specified in the Act;
- (b) the reporting requirements under ASA 810;
- (c) the principles of auditor’s reporting found in Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report* in relation to a compliance financial reporting framework;
- (d) consideration of the nature of concise reports, including concise financial reports, prepared under the Act and AASB 1039; and
- (e) recognition of the relationship, prescribed in AASB 1039, of a concise financial report to the audited full financial report for the year.

It should be noted that as AASB 1039 does not require parent entity information to be separately disclosed when consolidated financial information is presented in concise financial reports, separate references to the parent entity and consolidated entity are therefore not required in the auditor’s report on a concise financial report.

C. *Qualifications*

Section 314(2)(d) of the Act specifies that — “a copy of any qualification in, and of any statements included in the emphasis of matter section of, the auditor’s report on the financial report”—is to be included in a concise report.

At the time section 314 was introduced into the Act, the word “qualification” was a generic term and had the same meaning and expression as used in the then Auditing Standards (AUSs) issued by the former Auditing and Assurance Standards Board (AuASB) of the Australian Accounting Research Foundation. Specifically, AUS 702.25(b) stated that a “qualified” opinion should be expressed as:

- (a) an “except for” opinion;
- (b) an adverse opinion; or
- (c) an inability to form an opinion.

However, under the current Auditing Standard (ASA 705), the term “qualified” has a specific and different meaning—it refers only to an “except for” type modification to the auditor’s opinion. The terminology used in this Guidance Statement is consistent with ASA 705.

The meaning of the term Emphasis of Matter Paragraph does not differ between the Act, the AUSs, the ASAs and this Guidance Statement.

The term “Other Matter Paragraph” has been introduced to the Australian Auditing Standards applicable for financial reporting periods commencing on or after 1 January 2010. Accordingly, the term is not used in the Act but its use has no consequence under the Act.

The term “Material Uncertainty Related to Going Concern” has been introduced to the Australian Auditing Standards applicable for financial reporting periods commencing on or after 15 December 2016. Refer paragraph 7 of this guidance statement for details.

The use of differing terminology between the Act and this Guidance Statement, as described above, does not mean that the requirements of section 314 of the Act have changed in so far that only “except for” type modifications are included in a concise report. The requirements of the Act remain unchanged and the term “qualification” in the Act covers all three types of modification to the auditor’s opinion listed above, regardless of how they may be described in this Guidance Statement (or the Auditing Standards).

D. *Directors’ Obligations under the Act*

This Guidance Statement, including the illustrative auditor’s reports, is prepared to provide guidance to the auditor reporting on a concise financial report prepared under the *Corporations Act 2001*. It is not prepared to provide guidance to directors on their obligations under the Act, especially regarding section 314(2)(d) that requires a copy of any qualification and/or emphasis of matter [from the auditor’s report on the full financial report] to be included in the “concise report”.

E. *Illustrative Auditor's Report*

Illustration 1:

Circumstances include the following:

- An unmodified opinion is expressed on the full financial report of an entity other than a listed entity.
- The concise financial report is prepared under the *Corporations Act 2001*.
- Established criteria for the preparation of the concise financial report exist.
- The auditor's report on the concise financial report is dated later than the date of the auditor's report on the financial report from which the concise financial report is derived.
- The auditor's report on the full financial report includes a *Material Uncertainty Related to Going Concern* section.
- The auditor's report on the full financial report was not required to communicate key audit matters in accordance with ASA 701.

Report of the Independent Auditor on the Concise Financial Report

[Appropriate Addressee]

Opinion

We have audited the concise financial report of ABC Company (the Company), which comprises the statement of financial position as at 31 December 20X1, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows[#] for the year then ended, and related notes, derived from the full financial report of ABC Company for the year ended 31 December 20X1 and the discussion and analysis.

In our opinion, the accompanying concise financial report, including the discussion and analysis of ABC Company, complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report 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.

[#] The titles used for financial statements in this example are consistent with those used in AASB 101 *Presentation of Financial Statements* and AASB 1039 *Concise Financial Reports*. AASB 101 permits the use of other appropriate titles, and consequently, auditors should ensure consistency of terms used in the auditor's report with those used in the concise financial report.

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the full financial report. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the full financial report and the auditor's report thereon. [The concise financial report and the full financial report do not reflect the effects of events that occurred subsequent to the date of our report on the full financial report.]

The Full Financial Report and Our Report Thereon

We expressed an unmodified audit opinion on the full financial report in our report dated 15 February 20X2. That report also includes:

- A *Material Uncertainty Related to Going Concern* section that draws attention to Note 6 in the full financial report. Note 6 of the full financial report indicates that ABC Company incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, ABC Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note 6 of the full financial report, indicate that a material uncertainty exists that may cast significant doubt on ABC Company's ability to continue as a going concern. These matters are addressed in Note 5 of the concise financial report.

Responsibilities of the Directors for the Concise Financial Report

The directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's Responsibilities for the Audit of the Concise Financial Report

Our responsibility is to express an opinion on whether the concise financial report, in all material respects, complies with AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

Report on Other Legal and Regulatory Requirements[†]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's name and signature[§]]

[Auditor's address]

[Date of the auditor's report]

[†] Include when applicable, such as when a matter has been reported under this heading in the auditor's report on the full financial report for the year.

[§] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Illustration 2:

Circumstances include the following:

- An unmodified opinion is expressed on the full financial report of a listed entity.
- The concise financial report is prepared under the *Corporations Act 2001*.
- Established criteria for the preparation of the concise financial report exist.
- The auditor's report on the concise financial report is dated later than the date of the auditor's report on the financial report from which the concise financial report is derived.
- The auditor's report on the full financial report includes a *Material Uncertainty Related to Going Concern* section.
- The auditor's report on the full financial report includes key audit matters in accordance with ASA 701.
- The auditor has elected to include a copy of the auditor's report on the remuneration report.

Report of the Independent Auditor on the Concise Financial Report

[Appropriate Addressee]

Opinion

We have audited the concise financial report of ABC Company (the Company), which comprises the statement of financial position as at 31 December 20X1, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows[#] for the year then ended, and related notes, derived from the full financial report of ABC Company for the year ended 31 December 20X1[§].

In our opinion, the accompanying concise financial report of ABC Company, complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report 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.

[#] The titles used for financial statements in this example are consistent with those used in AASB 101 *Presentation of Financial Statements* and AASB 1039 *Concise Financial Reports*. AASB 101 permits the use of other appropriate titles, and consequently, auditors should ensure consistency of terms used in the auditor's report with those used in the concise financial report.

[§] As the concise financial report will be included in a document that contains other information (the concise report), the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited concise financial report is presented.

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the full financial report. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the full financial report and the auditor's report thereon. [The concise financial report and the full financial report do not reflect the effects of events that occurred subsequent to the date of our report on the full financial report.]

The Full Financial Report and Our Report Thereon

We expressed an unmodified audit opinion on the full financial report in our report dated 15 February 20X2. That report also includes:

- A *Material Uncertainty Related to Going Concern* section that draws attention to Note 6 in the full financial report. Note 6 of the full financial report indicates that ABC Company incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, ABC Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note 6 of the full financial report, indicate that a material uncertainty exists that may cast significant doubt on ABC Company's ability to continue as a going concern. These matters are addressed in Note 5 of the concise financial report.
- The communication of other* key audit matters. [Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the full financial report of the current period.]#

Responsibilities of the Directors for the Concise Financial Report

The directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's Responsibilities for the Audit of the Concise Financial Report

Our responsibility is to express an opinion on whether the concise financial report, complies in all material respects, with AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

Report on Other Legal and Regulatory Requirements†

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

Report on the Remuneration Report

The following paragraphs are copies from our Report on the Remuneration Report of ABC Company for the [year] ended 31 December 20X1.

[Insert the exact wording, including headings, of the Report on the Remuneration Report for the [year] ended 31 December 20X1.]

* In the circumstances where there is no material uncertainty related to going concern, inclusion of the word "other" in the statement for the communication of key audit matters would not be necessary.
The auditor may include additional explanation about key audit matters considered helpful to users of the auditor's report on the concise financial report.
† Include when applicable, such as when a matter has been reported under this heading in the auditor's report on the full financial report for the year.

[Auditor's name and signature[§]]

[Auditor's address]

[Date of the auditor's report]

[§] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Illustration 3:

Circumstances include the following:

- A modified opinion is expressed on the full financial report of a listed entity that does not affect the auditor's opinion on the concise financial report.
- The concise financial report is prepared under the *Corporations Act 2001*.
- Established criteria for the preparation of the concise financial report exist.
- The auditor's report on the concise financial report is dated later than the date of the auditor's report on the financial report from which the concise financial report is derived.
- The auditor's report on the full financial report includes key audit matters in accordance with ASA 701.
- The auditor has elected not to include a copy of the auditor's report on the remuneration report.

Report of the Independent Auditor on the Concise Financial Report

[Appropriate Addressee]

Opinion

We have audited the concise financial report of ABC Company (the Company), which comprises the statement of financial position as at 31 December 20X1, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows[#] for the year then ended, and related notes, derived from the full financial report of ABC Company for the year ended 31 December 20X1[§]. We expressed a qualified opinion on the full financial report. The modification, included below does not qualify our opinion on the concise financial report[‡] because [insert reason(s)].

In our opinion, the accompanying concise financial report of ABC Company, complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report 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.

[#] The titles used for financial statements in this example are consistent with those used in AASB 101 *Presentation of Financial Statements* and AASB 1039 *Concise Financial Reports*. AASB 101 permits the use of other appropriate titles, and consequently, auditors should ensure consistency of terms used in the auditor's report with those used in the concise financial report.

[§] As the concise financial report will be included in a document that contains other information (the concise report), the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited concise financial report is presented.

[‡] An example of a modification to the full financial report for the year that does not affect the concise financial report is a qualification ("except for") on disclosures in the notes to the financial statements where no such notes are included in the concise financial report. A copy of the modification paragraphs are included in a section of this auditor's report and is clearly identified as not affecting the auditor's opinion on the concise financial report.

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the full financial report. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the full financial report and the auditor's report thereon. [The concise financial report and the full financial report do not reflect the effects of events that occurred subsequent to the date of our report on the full financial report.]

The Full Financial Report and Our Report Thereon

We expressed a qualified audit opinion on the full financial report in our report dated 15 February 20X2. The following paragraphs are copied from our report on the full financial report for the year. The modification to the opinion in that report does not apply to our opinion on the concise financial report for the reason(s) stated above. [Insert the exact wording, including headings, of the basis of modification paragraph(s) and the modified opinion paragraph from the auditor's report on the full financial report for the year.]

That report also includes:

- The communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the full financial report for the year ended 31 December 20X1. We set out below the matters that were key audit matters. All note references below are to the notes in the full financial report (include key audit matters from full financial report).

Responsibilities of the Directors for the Concise Financial Report

The directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's Responsibilities for the Audit of the Concise Financial Report

Our responsibility is to express an opinion on whether the concise financial report, complies in all material respects, with AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

Report on Other Legal and Regulatory Requirements[†]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's name and signature[§]]

[Auditor's address]

[Date of the auditor's report]

[†] Include when applicable, such as when a matter has been reported under this heading in the auditor's report on the full financial report for the year.

[§] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Illustration 4:

Circumstances include the following:

- An unmodified opinion is expressed on the full financial report of an entity other than a listed entity however, a qualified opinion is expressed on the concise financial report.
- The concise financial report is prepared under the *Corporations Act 2001*.
- Established criteria for the preparation of the concise financial report exist.
- The auditor's report on the concise financial report is dated later than the date of the auditor's report on the financial report from which the concise financial report is derived.
- The auditor's report on the full financial report includes a *Material Uncertainty Related to Going Concern* section.
- The auditor's report on the full financial report was not required to communicate key audit matters in accordance with ASA 701.

Report of the Independent Auditor on the Concise Financial Report

[Appropriate Addressee]

Qualified Opinion

We have audited the concise financial report of ABC Company (the Company), which comprises the statement of financial position as at 31 December 20X1, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows[#] for the year then ended, and related notes, derived from the full financial report of ABC Company for the year ended 31 December 20X1 and the discussion and analysis.

In our opinion, except for the effect on the concise financial report of the matter(s) referred to in the paragraph below, the accompanying concise financial report, including the discussion and analysis of ABC Company, complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Qualified Opinion

[Include a clear description of all the substantive reasons for the qualification and quantification of the effects.][†]

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report 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 qualified opinion.

[#] The titles used for financial statements in this example are consistent with those used in AASB 101 *Presentation of Financial Statements* and AASB 1039 *Concise Financial Reports*. AASB 101 permits the use of other appropriate titles, and consequently, auditors should ensure consistency of terms used in the auditor's report with those used in the concise financial report.

[†] The qualification affects the opinion on the concise financial report ONLY – for example, a qualification on the discussion and analysis.

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the full financial report. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the full financial report and the auditor's report thereon. [The concise financial report and the full financial report do not reflect the effects of events that occurred subsequent to the date of our report on the full financial report.]

The Full Financial Report and Our Report Thereon

We expressed an unmodified audit opinion on the full financial report in our report dated 15 February 20X2. That report also includes:

- A *Material Uncertainty Related to Going Concern* section that draws attention to Note 6 in the full financial report. Note 6 of the full financial report indicates that ABC Company incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, ABC Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note 6 of the full financial report, indicate that a material uncertainty exists that may cast significant doubt on ABC Company's ability to continue as a going concern. These matters are addressed in Note 5 of the concise financial report.

Responsibilities of the Directors for the Concise Financial Report

The directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's Responsibilities for the Audit of the Concise Financial Report

Our responsibility is to express an opinion on whether the concise financial report, in all material respects, complies with AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

Report on Other Legal and Regulatory Requirements[†]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's name and signature[§]]

[Auditor's address]

[Date of the auditor's report]

[†] Include when applicable, such as when a matter has been reported under this heading in the auditor's report on the full financial report for the year.

[§] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4**

Meeting Date: 1 March 2017

Subject: Audit Committee Guide Revision

Date Prepared: 23 January 2017

☒ **Action Required**

☐ **For Information Purposes Only**

Objective:

To present to the AUASB, and to receive AUASB input on the second draft of the Audit Committee Guide Revision as prepared by the three authors, the Australian Institute of Company Directors (AICD), the Institute of Internal Auditors Australia (IIA) and the Australian Auditing and Assurance Standards Board (AUASB).

Background:

At the 26 July 2016 AUASB meeting, the AUASB approved a project plan for all three authors, AICD, IIA and the AUASB, to work jointly, to take into account changes in the regulation and operation of audit committees since the guide was last issued in February 2012.

This project is a high level update/revision only – the project is not intended to be a re-write.

At the 29 November 2016 AUASB meeting, the AUASB was not supportive of the first draft revision. The AUASB had several concerns including but not limited to the target audience, appropriateness of best practice, granularity of content, accuracy of content, terminology – use of word assurance for not external audit sections; and appendix 4 – differences between internal and external audit. The AUASB requested significant amendments be brought to the 1 March 2017 AUASB meeting.

AUASB Technical Group Update

Since the 29 November 2016 AUASB meeting, the three author organisations have held 2 teleconferences and have exchanged numerous emails to progress the revision of the guide. Only a clean version of this document has been provided, as the mark-up is too extensive.

The technical group request that the AUASB review the updated draft (agenda item x.2) in the context of:

- The target audience for this publication is the smaller end of the market, it is not expected that audit committees of the larger ASX entities would use this guide; accordingly the guide is written as a *good* practice guide and not a *best* practice guide

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

- Areas that are not legislated are prefixed with “may” in order not to be definitive. This guide does not create requirements and it is important that it is not seen to raise expectations beyond current legislative requirements.
- The use of the term assurance has been limited, and is not as widely used as the previous draft. There is a new appendix 6, that demonstrates the differences in terminology across internal and external audit.
- The use of common external audit language has been restricted where possible or the difference in terminology between internal audit and external audit has been explained in appendix 6.
- The content that was deemed to granular has either been removed, or has been moved into an appendix.
- Inaccuracies have been corrected/table comparing internal and external audit has been removed.

Extract of original timetable – AUASB input/timing:

Original timetable

6 February – Draft 2 goes to all parties for review (including ASIC)
 3 March – review comments due back (this timing allowed for the AUASB meeting on 1 March)
 20 March – final draft to all parties for review
 3 April – review comments due back
 5 April – final document sent for sign off
 10 April – sign off occurs and sent to production for proofing, editing, etc

Extract of original timetable – AUASB input/timing:

Proposed amended timetable

30 January – Draft 2 goes to all parties for review
 15 February – 1st round review comments due back (please indicate if this is not feasible)
 20 February – Send ASIC Draft 2 with the first round of review comments included, copy to AUASB and IIA-A also (allowing for AUASB meeting on 1 March – second mail out only)
 7 March – Final review comments on either Draft 2 or amended Draft 2 received from all parties, including ASIC
 10 March – Meet with ASIC if necessary to discuss comments
 17 March – Final draft to all parties for review
 3 April – review comments due back
 5 April – final document sent for sign off
 10 April – sign off occurs and sent to production for proofing, editing, etc

Material Presented

Agenda Item 4	AUASB Board Meeting Summary Paper
Agenda Item 4.1	Draft 2 Audit Committee Guide (clean)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Input	Input	AUASB	1 March 2017	

AUDIT COMMITTEES
A GUIDE TO GOOD PRACTICE
3rd Edition

A joint publication from the Auditing and Assurance Standards Board, Australian Institute of
Company Directors and The Institute of Internal Auditors-Australia

Copyright

Copyright in this material is strictly reserved. Any disputes arising out of the Material are subject to Australian copyright law. No part of the Material covered by copyright should be copied or reproduced in any form or by any means without the joint written permission of the Auditing and Assurance Standards Board, the Australian Institute of Company Directors and the Institute of Internal Auditors-Australia. The Auditing and Assurance Standards Board, Australian Institute of Company Directors and the Institute of Internal Auditors-Australia endeavour to contact copyright holders and request permission to reproduce all copyright Material. Where they have been unable to trace or contact copyright holders, if notified, the Auditing and Assurance Standards Board, the Australian Institute of Company Directors and the Institute of Internal Auditors-Australia will ensure full acknowledgement of the use of copyright Material.

Disclaimer

The Material has been prepared for information purposes only and is not intended to embody any professional or legal standard. The Material does not constitute legal, accounting or other professional advice. While all reasonable care has been taken in its preparation, neither the Auditing and Assurance Standards Board, Australian Institute of Company Directors, Institute of Internal Auditors-Australia, nor any contributor, makes any express or implied representations or warranties as to the completeness, currency, reliability or accuracy of the Material. The Material should not be used or relied upon as a substitute for professional advice or as a basis for formulating business decisions. To the extent permitted by law, the Auditing and Assurance Standards Board, the Australian Institute of Company Directors, the Institute of Internal Auditors-Australia and all contributors exclude all liability for any loss or damage arising out of the Material.

Any links to third party websites are provided for convenience only and do not represent endorsement, sponsorship or approval of those third parties, any products and services offered by third parties, or as to the accuracy or currency, of the information included in third party websites.

© Auditing and Assurance Standards Board, Australian Institute of Company Directors and Institute of Internal Auditors-Australia 2017.

Third edition published July 2017 by:

The Auditing and Assurance Standards Board, the Australian Institute of Company Directors, the Institute of Internal Auditors-Australia

Related publications:

1997: Audit Committees: best practice guide

2001: Audit Committees: best practice guide 2e

2008: Audit Committees: a guide to good practice

2012: Audit Committees: a guide to good practice 2e

National Library of Australia Cataloguing-in-Publication entry

Title: Audit Committees: a guide to good practice

ISBN 978-1-876604-05-9

1. Audit committees-Australia. 2. Finance, Public-Australia-Auditing, 3.

Expenditure, Public-Australia-Auditing. 4. Administrative agencies-Australia-

Auditing. 4. Executive departments-Australia-Auditing

Table of Contents

1.	Introduction	5
	Who should use this guide?	5
	Purpose of this guide	5
	Recent developments regarding audit committees	6
2.	The board and board committees.....	7
3.	Role of the audit committee	8
4.	Relevant regulatory requirements, standards and guidance	9
	Corporations Act 2001.....	9
	Australian Securities Exchange Listing Rules and Corporate Governance Guidelines ...	10
	AASB Accounting Standards	11
	AUASB Auditing Standards.....	11
	International Professional Practices Framework.....	12
	Accounting Professional and Ethical Standards Board.....	12
	Australian Securities and Investments Commission.....	12
	Australian Prudential Regulatory Authority	13
	Standards Australia	13
5.	Responsibilities of the audit committee.....	13
	Corporate reporting.....	14
	Financial reporting overview.....	14
	Management representations.....	15
	Financial reporting considerations	15
	Other external reporting.....	17
	External audit	17
	Appointment and assessing potential and continuing auditors.....	17
	Facilitating the audit process	17
	Establishing ongoing communications with the auditor	18
	Maintaining auditor independence	18
	Assessing the quality of audits conducted.....	18
	Internal audit.....	19
	Reporting arrangements	19
	Risk management and internal control.....	20
	Fraud and corruption	21
	Compliance	22
	Ethics and organisational culture.....	23
6.	Relationships	23
	Board.....	23
	External Auditor	24
	Internal Auditor.....	28
7.	Developing an effective charter	30

8.	Membership.....	31
	Audit committee composition	31
	Selection of audit committee members	31
	Independent and non-executive members	32
	Audit committee chair	33
	Induction of new members.....	34
	Ongoing training.....	35
	Rotation	35
9.	Conducting meetings.....	35
	Frequency of meetings.....	35
	Structure of meetings	36
	Attendance	37
10.	Reporting by the audit committee	37
	To the board.....	37
	To the shareholders	38
	To other stakeholders	39
11.	Assessing performance	39
	Assessing the audit committee's performance	39
	Evaluation of individual audit committee members	40
	Further reading.....	41
	Appendix 1	42
	Sample audit committee charter.....	42
	Appendix 2.....	46
	Self-assessment guide for audit committees.....	46
	Appendix 3.....	50
	Management representation letter	50
	Appendix 4.....	52
	Role of the audit committee within the governance environment of the organisation	52
	Appendix 5.....	53
	Interactions with the Audit Committee within the IAASB Audit Quality Framework.....	53
	Appendix 6.....	55
	Key definitional differences between external audit and internal audit.....	55
	Appendix 7.....	57
	Example calendar of events	57
	Glossary terms	59
	List of Acronyms	61
	Contact details	62

1. Introduction

An audit committee is a committee of a board of directors (board), operating under delegation of authority from the board. Its objectives are clearly defined and documented in its charter and its efficiency and effectiveness is measured by reference to its objectives.

An independent audit committee is a fundamental component of good corporate governance.¹

Typically, an audit committee:

1. focuses on issues relevant to the integrity of an entity's financial reporting
2. oversees external audit, internal audit², risk management, internal control and compliance
3. liaises with the board, internal auditors and external auditors³ and management.

Some entities establish one committee with the responsibility for all of these tasks, such as an audit and risk management committee. Larger entities may establish more than one committee, such as an audit committee, a risk and compliance committee, health and safety committee and an environmental committee depending on the nature and extent of the entity's operations.

Who should use this guide?

This guide is primarily for directors and audit committees of Australian listed companies. Directors, boards of management and audit committees of not-for-profit, public sector⁴, and other private sector entities, may also find this guide to be a useful reference.

There is no “one size fits all” good practice solution for audit committees. The nature of the business, the regulatory environment, ownership structure, legal requirements, and audit committee membership influence the objectives and activities of an audit committee. Smaller entities with limited resources might find it impractical to meet all of the practices outlined in this guide. They may use this guide to assess the elements of good practice that are relevant for their financial reporting, corporate governance, risk management and internal control and exercise them at the board or committee level.

Purpose of this guide

This guide provides a practical introduction to the role and responsibilities of an audit committee. It explains the context in which an audit committee typically operates and outlines good practice.

While the guide assists the board and audit committee members, it may also be helpful to risk and compliance managers, internal auditors, external auditors and senior management, as it explains the expectations and accountabilities between the audit committee and these other parties.

Clarifying the roles and responsibilities between the audit committee, risk and compliance managers and auditors (both internal and external) assists their communication, efficiency and effectiveness. Using this guide assists audit committees in assessing an entity's external

¹ See Principle 4 *Safeguard Integrity in Corporate Reporting*, Recommendation 4.1 of the 3rd edition of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

² See glossary for definitions.

³ See glossary for definitions.

⁴ Federal and state bodies should also consider their own specific guidance relating to the operation of their audit committees.

financial and other internal and external reporting requirements. It also assists in assessing the effectiveness of an entity's risk management and internal control systems.

This third edition of the guide reflects developments in audit committee practice, legislation and guidance from regulatory bodies and in leading global board practices since the previous edition was published in 2012. It has been produced by the Auditing and Assurance Standards Board, the Australian Institute of Company Directors and the Institute of Internal Auditors-Australia.

The guide does not attempt to advise directors or members of audit committees about their legal duties. For a general discussion of directors' duties refer to *Duties and Responsibilities of Directors and Officers 21st Edition* by Professor Robert Baxt AO, published by the Australian Institute of Company Directors in 2016.

Recent developments regarding audit committees

Since the previous edition of this guide was published in 2012, some of the key developments in Australia include:

- January 2017 – The Institute of Internal Auditors Inc. (IIA) issued a revised *International Professional Practices Framework* (IPPF). The IPPF has been adopted by the Institute of Internal Auditors-Australia (IIA-A) and was effective from 1 January 2017. The changes mainly affect the International Standards for the Professional Practice of Internal Auditing and have generally been made for clarification purposes.
- December 2016—revised Australian Auditing Standards came into effect, some of which impact the operation of audit committees as they change the requirement in relation to the auditor reporting to the board. For example, Auditing Standard ASA 700 series, including the new ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* and related consequential changes to other relevant auditing standards, such as ASA 260 *Communication with Those Charged with Governance* and ASA 570 *Going Concern*.
- August 2016 – The IIA issued *Supplemental Guidance: Applying the International Practices Framework as a Professional Services Firm* which provides some distinction to the services of internal auditing as distinct from external auditing.
- March 2014—the ASX Corporate Governance Council (“The Council”)⁵ released the 3rd edition of the *ASX Corporate Governance Council Principles and Recommendations* (“ASX Principles and Recommendations”). These revised guidelines came into effect from 1 July 2014.
- February 2014 – the International Auditing and Assurance Standards Board (IAASB) issued *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality* which encourages stakeholders to challenge themselves to do more to increase audit quality in their particular environments.

⁵ The ASX Corporate Governance Council was formed in August 2002 and brings together various business, shareholder and industry groups to enhance corporate governance practices in Australia. Its ongoing mission is to ensure that the principles-based framework it developed for corporate governance continues to be a practical guide for listed entities, their investors and the wider Australian community.

- January 2014—Revised Prudential Standard CPS 510 *Governance* came into effect on 1 January 2015 and was introduced along with the new CPS 220 *Risk Management*. Updated versions of these guides come into effect from 1 July 2017.

2. The board and board committees

The *Corporations Act 2001* (“The Act”) requires every company to have at least one director and public companies must have at least three directors.⁶⁷ Collectively, the directors are known as the board of directors (board) and its overriding responsibility is to supervise the company on behalf of shareholders and other stakeholders.

The boards of larger entities often establish committees of directors to better use their time and to help deal with complex or specialised areas, such as financial reporting and audit, compliance, risk management, sustainability or health and safety.

Committees make recommendations for action to the full board, which retains collective responsibility for decision-making.

Involvement in committees allows directors to deepen their knowledge of the organisation, become more actively engaged and fully utilise their experience. Additionally, the existence of committees can indicate to investors that the board has identified particular areas for closer scrutiny.

Examples of committees include audit, risk, remuneration, nomination and investment committees. The nature and type of committees will vary from industry to industry and according to the size of the organisation. For example, a resources company may have an environmental committee, an airline may have a safety committee, and a charity may have a fundraising committee.

Committees may be ongoing in nature like the audit committee, usually referred to as standing committees, or may be formed for a specific short term project or goal.

The Act allows boards to delegate some of their powers to a committee of directors unless the company’s constitution disallows it.⁸ The delegation must be recorded in the minute book.

When directors delegate a power under s198D of The Act they are required to remain responsible for the exercise of the power by the delegate as if it had been exercised by the directors themselves.⁹ There is a limited exception where the director who delegates will not be held responsible if that director believed:

- On reasonable grounds at all times that the delegate would exercise the power in conformity with the duties imposed by the Act and the company’s constitution; and
- On reasonable grounds and in good faith (and after making proper inquiries if circumstances so required) that the delegate was reliable and competent in relation to the power delegated.

⁶ This requirement does not include alternative directors, and two of the three directors (one for proprietary companies) need to ordinarily reside in Australia.

⁷ Section 201A of the *Corporations Act 2001*

⁸ Section 198D of the *Corporations Act 2001*

⁹ Section 190 of the *Corporations Act 2001*

The rest of the board can reasonably rely on the information or advice given by a committee so long as it is independently assessed by the board and is relied upon in good faith.

¹⁰However, this delegation of authority does not lessen the board's overall duties and responsibilities.

The limits of delegation are discussed more fully in ASIC guidance ¹¹, as well as the Centro case (ASIC v Healey (2011)). Justice Middleton said “....Each director then needed to formulate his own opinion, and apply that opinion to the task of approving the financial statements.”

Under The Act, directors are required to declare that the financial statements and notes comply with accounting standards and give a true and fair view of the financial position and performance of the company.¹² Overall responsibility for the content of the annual financial statements and notes sits with the board.

The 3rd edition of the *ASX Principles and Recommendations* recommends that the board establish three committees – audit, remuneration and nomination. In addition it recommends that boards should have a committee or committees to oversee risk. In some cases this function is combined with the audit committee. In other cases it is a standalone committee of the board.

Similarly, APRA's prudential standards, applying to APRA-regulated entities, include the requirement for the establishment of the audit committee and a remuneration committee.¹³ These requirements are imposed on authorised deposit taking institutions (for example banks, building societies and credit unions) and general and life insurers as well as regulated superannuation funds.

3. Role of the audit committee

The audit committee plays a key role in assisting the board to fulfil its corporate governance and oversight responsibilities in areas such as:

- corporate reporting, including external financial reporting, the directors report and annual report
- external audit
- internal audit
- risk management and internal control
- compliance
- ethics and organisation culture
- fraud and corruption

The main objectives of an appropriately established and effective audit committee may include assisting the board to discharge its responsibility to exercise due care, diligence and skill in relation to the following areas:

- Promoting and monitoring an ethical culture throughout the entity
- Ascertaining that a code of conduct is appropriately designed and implemented and compliance with the code is monitored
- Reviewing the effectiveness of risk oversight and management
- Assessing the entity's fraud risk and action to mitigate fraud risk

¹⁰ Section 189 of the *Corporations Act 2001*

¹¹ ASIC INFO 183 *Directors and Financial Reporting*

¹² Section 295 of the *Corporations Act 2001*

¹³ Prudential Standard CPS 510 *Governance*

- Assessing the effectiveness of the internal control system in relation to accounting and financial records and reporting
- Assessing the adequacy of financial management practices
- Exercising oversight of systems in place to protect an entity's assets
- Reviewing the adequacy of internal and external reporting (financial and non-financial) to users of financial reports
- Exercising oversight over compliance with applicable laws, regulations, standards and best practice guidelines
- Providing a formal forum for communication between the board and senior financial management
- Obtaining an independent, effective and efficient external audit, including assessing audit quality and independence matters
- Facilitating effective communication between the board and the internal and external auditors, and providing timely and appropriate responses to matters arising from audits
- Considering significant matters that were raised during the assurance processes of both internal audit and external audit.

The audit committee's responsibilities are typically documented in its charter. Ideally, the audit committee's annual work plan is derived from its charter to ascertain that the committee fulfils its responsibilities.

The audit committee can assist directors to fulfil their responsibilities and facilitate decision making by:

- facilitating open communication between board members and senior management, risk and compliance managers, internal and external auditors
- focusing on matters within the audit committee's charter, thereby allowing the full board to spend more time on other matters.

To be effective, the audit committee must be independent from management and free from any undue influence. Members of the audit committee should not have any executive powers, management functions, or delegated financial responsibility of the entity.

4. Relevant regulatory requirements, standards and guidance

Audit committee members need to be aware of legislation, regulatory requirements, standards and guidance that are relevant to the operation of the audit committee, either directly, by establishing requirements for boards and audit committees, or indirectly, by establishing requirements for other parties reporting to, or working with, the audit committee, such as the internal auditors and external auditors.

For those entities that operate in multiple jurisdictions, the audit committee would also need to consider the relevant legislation and regulations in those jurisdictions.

The legislation, regulatory bodies and the accompanying regulation, standards and guidance listed below may be relevant.

Corporations Act 2001

The *Corporations Act 2001* ("The Act") is the principal legislation regulating companies in Australia. It covers matters such as the formation and operation of companies, duties of officers, takeovers and fundraising. It is a key point of reference for the audit committee on financial reporting and external audit requirements.

Australian Securities Exchange Listing Rules and Corporate Governance Guidelines

The ASX Listing Rules require entities included in the S&P/ASX All Ordinaries Index at the beginning of their financial year to have an audit committee.¹⁴ They also require the S&P/ASX 300 listed entities to comply with the 3rd edition of the *ASX Corporate Governance Council Principles and Recommendations* (“*ASX Principles and Recommendations*”) on the composition, operation and responsibility of the audit committee.

ASX Listing rule 12.7

An entity which was included in the S&P All Ordinaries Index at the beginning of its financial year must have an audit committee during that year. If the entity was included in the S&P/ASX 300 Index at the beginning of its financial year it must also comply with the recommendations set out by the ASX Corporate Governance Council in relation to composition and operation of the audit committee for the whole of that financial year, unless it had been included in that index for the first time less than three months before the beginning of that financial year. An entity that is included in the S&P/ASX 300 Index for the first time less than three months before the first day of its financial year but did not comply with the recommendations set by the ASX Corporate Governance Council in relation to composition and operation of the audit committee at that date must take steps so that it complies with those recommendations within three months of the beginning of the financial year.

Principle 4 of the *ASX Principles and Recommendations* states that:

A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

The supporting recommendation for a listed entity in relation to the audit committee for that principle is:

Recommendation 4.1

- (a) The board should have an audit committee which:
- consists only of non-executive directors
 - consists of a majority of independent directors
 - is chaired by an independent chair, who is not the chair of the board
 - has at least three members; and

The board should disclose the:

- charter of the audit committee
- relevant qualifications and experience of the audit committee
- number of times the committee met during the period and the individual attendances of the members at those meetings; or

- (b) If the board does not have an audit committee, this is disclosed as well as the processes that the board employs that independently verifies and safeguards the integrity of the corporate reporting function.

Where a listed entity does not have a stand-alone risk committee, then the audit committee may be charged with the responsibilities of a risk committee, the responsibilities of which are set out in Principle 7 of the *ASX Principles and Recommendations* that states:

¹⁴ See ASX Listing Rule 12.7.

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

AASB Accounting Standards

The Act requires the entity's financial report to comply with the Accounting Standards¹⁵ made by the Australian Accounting Standards Board (AASB)¹⁶ and that the financial report be "true and fair"¹⁷. Compliance with these requirements underpins the audit committee's monitoring and oversight of the entity's financial reporting. In the rare circumstance that the financial statements and notes prepared in compliance with the accounting standards would not give a true and fair view, additional information to ensure it is "true and fair" must be included in the notes to the financial statements in accordance with The Act and the accounting standards.

Since July 2005 the standards made by the AASB incorporate the equivalent International Financial Reporting Standards (IFRS).¹⁸ Those entities whose financial statements comply with IFRS are required to provide an explicit and unreserved statement of such compliance in the notes.

AUASB Auditing Standards

The Act requires the entity's financial report to be audited in accordance with the Auditing Standards¹⁹ made by the Auditing and Assurance Standards Board (AUASB).^{20 21} While not creating obligations for the entity itself, the Australian Auditing Standards establish the mandatory requirements and provide application and other explanatory material for the external auditor of the entity.

This includes requirements for the external auditor to:

- agree with the entity the terms of the audit engagement
- communicate with the entity:
 - the auditor's responsibility for forming and expressing an opinion on the financial report prepared by management
 - an overview of the planned scope and timing of the audit
 - significant qualitative aspects of the entity's accounting practices
 - significant difficulties, if any, encountered during the audit
 - significant matters arising during the audit that were discussed or subject to correspondence with management, including significant deficiencies in internal control identified during the audit
 - circumstances that affect the form and content of the auditor's report including where:
 - the auditor expects to modify the opinion;
 - a material uncertainty related to going concern is reported;
 - a key audit matter (KAM) is communicated;

¹⁵ Section 296 of the *Corporations Act 2001*

¹⁶ Section 336 of the *Corporations Act 2001*

¹⁷ Section 297 of the *Corporations Act 2001*

¹⁸ Australian Accounting Standards may include additional paragraphs that do not appear in the equivalent IFRS. They are identified by the prefix "Aus" and generally relate to identifying the entities required to apply the standard and to matters affecting not-for-profit entities.

¹⁹ Section 307A of the *Corporations Act 2001*

²⁰ Auditing Standards made by the AUASB conform with equivalent International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB). Australian Auditing Standards may include additional paragraphs that do not appear in the equivalent ISA. Such paragraphs are identified by the prefix "Aus" and generally relate to Australian-specific legislative requirements and established audit practices.

²¹ Section 336 of the *Corporations Act 2001*

- an emphasis of matter or other matter is included; and
- there is an uncorrected material misstatement of the other information any other matters that are significant to the oversight of the financial reporting process
 - independence statements .
- seek management representations (refer Appendix 3).

The audit committee can expect to interact with the external auditor on these matters and plays a key role in establishing an appropriate relationship with the external auditor.

International Professional Practices Framework

The *International Professional Practices Framework* (IPPF) is promulgated by the IIA to provide consistent standards for the internal auditing profession. Members of the IIA agree to conform with the Core Principles for the Professional Practice of Internal Auditing, the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* (Standards).

The Standards is a set of principles-based mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organisational and individual levels
- Interpretations, which clarify terms or concepts within the Standards.

The Standards applies to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming with the Standards related to individual objectivity, proficiency and due professional care. In addition, internal auditors are accountable for conforming with the Standards that are relevant to the performance of their job responsibilities. Chief audit executives (CAEs) are additionally accountable for overall conformance by the internal audit activity with the Standards.

Accounting Professional and Ethical Standards Board

The Accounting Professional and Ethical Standards Board (APESB) is an independent, national body that sets the code of ethics and professional standards by which members of Australia's three professional accounting bodies abide.

Audit committee members who are members of an Australian professional accounting body must comply with the standards issued by the APESB and, in particular, APES 110 *Code of Ethics for Professional Accountants* (the Code), which includes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Audit committee members should be aware that auditors and other advisers that deal with the audit committee, who are members of an Australian professional accounting body, must comply with the Code, including the requirements to be independent and to comply with Australian Auditing Standards issued by the AUASB, where relevant.

Australian Securities and Investments Commission

The Australian Securities and Investment Commission ("ASIC") is Australia's corporate, markets and financial services regulator, established under the *Australian Securities and Investment Commission Act 2001* ("ASIC Act") and most of its work is carried out under The Act. Its role includes maintaining, facilitating and improving the performance of the Australian financial system and entities in that system, thereby promoting confident and informed participation by investors and consumers in the financial system.

ASIC has responsibility for the surveillance, investigation and enforcement of the financial reporting requirements of The Act, including the enforcement of auditor independence and audit quality requirements, as well as audit inspection and information gathering powers under the ASIC Act.

The *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, further enhances ASIC's audit inspection and reporting powers by allowing ASIC to issue an audit deficiency report about specified failures by an individual audit firm and to communicate directly with the audit committee (or board or senior management), subject to certain requirements.

ASIC provides guidance to assist directors and audit committees in their role in ensuring the quality of the external audit of a financial report.²²

Australian Prudential Regulatory Authority

The Australian Prudential Regulatory Authority (APRA) is the prudential regulator that oversees banks, credit unions, building societies, life and general insurance, reinsurance companies, private health insurers, friendly societies and superannuation funds (excluding self-managed funds).

APRA formulates, promulgates and enforces prudential policy and practice through Prudential Standards, which are supported by law, and Guidance Notes.

Audit committees of APRA-regulated entities will need to have regard to applicable APRA prudential requirements, for example, for risk management, governance, internal control systems and annual reporting requirements. Some of these requirements are referred to in this publication where they specifically relate to audit committees, for example CPS 510 *Governance*. However the requirements are extensive and can be different for different forms of organisations, such as banks, life insurance companies and superannuation funds. Therefore, we recommended you refer directly to the APRA website for the details of the requirements and who they apply to.

Standards Australia

Where audit committees are responsible for overseeing and monitoring risk management and compliance, joint Australian/New Zealand Standards issued by Standards Australia may be useful.²³

AS/NZS ISO 31000: 2009 and SA/SNZ HB 436:2013 provides principles and generic guidance for the design and implementation of risk management plans and frameworks which can be used by any public, private or community enterprise, association, group or individual.

NZS/AS 3806-2006 provides principles and guidance for designing, developing, implementing, maintaining and improving a flexible, responsive, effective and measurable compliance program within an organisation.

5. Responsibilities of the audit committee

It is important to clearly define the responsibilities of the audit committee in its charter, which should be formally approved by the board and communicated to shareholders. Ideally, the audit committee's annual work plan is derived from its charter.

²² ASIC INFO 196 *Audit Quality – the Role of Directors and Audit Committees*

²³ AS/NZS ISO 31000: 2009 *Risk Management – Principles and guidelines*, SA/SNZ HB 436:2013 *Risk Management – Companion to AS/NZS ISO 31000:2009* and NZS/AS 3806-2006 *Compliance programs*

Over time, audit committee responsibilities have expanded from a financial focus to an approach focused on entity risks. This has broadened the audit committee mandate and scope of inquiry, including their need to keep abreast of new risks driven by technology, economic instability, health threats, cybercrime, terrorism, increased regulation, and other factors. There is also an increasing focus on corporate culture. Therefore, audit committees need to stay attuned to their responsibilities which may need to be revised or expanded by the Board of Directors from time-to-time.

With increased outsourcing of non-critical operations to third parties, audit committees need to consider the entity's overarching governance arrangements. One such risk governance model, referred to by the IIA as well as in the APRA Prudential Practice Guide relating to CPS 220 *Risk Management* is the three lines of defence risk management and assurance model. Further information on this is provided in Appendix 4.

The audit committee needs to have an understanding of all assurance providers, awareness of what is being assured and the type of assurance, nature of reporting within the entity's discrete governance structures, alignment between assurance and high-level risk exposures, consolidated risk and assurance profiles and reporting of assurance activities. The term 'assurance' can mean different things to different organisations/individuals engaged with the audit committee. Appendix 6 explains how these terms are used by external audit practitioners versus internal audit practitioners.

As previously set out, the key responsibilities of the audit committee are discussed in more detail below.

Corporate reporting

Financial reporting overview

The audit committee plays a key role in reviewing financial information before it is presented to the board for approval and publication, including the financial report and other financial information in an entity's financial reporting cycle, namely the concise financial report (if applicable), half year review and the annual report.

The audit committee may also report to the board on profit announcements, analyst briefings, investor presentations and announcements made under continuous disclosure obligations and other media releases containing financial information about the entity.

It is important to note that the board retains ultimate responsibility for financial reporting and cannot delegate that responsibility to the audit committee, or to management or external advisers. The audit committee will make use of knowledge gained from considering risk management, internal control and compliance activities, and from discussing matters with management, the internal auditor and the external auditor.

In the court case *ASIC v Healey* (2011) 196 FCR 291 at 339 and 298 (also known as *Centro*), Justice Middleton held that:

“... whilst an audit committee has an important role of monitoring and oversight, this is not to the exclusion of the role of a director to consider the financial accounts for him or herself in the way I have attempted to explain. This does not involve a director being familiar with every accounting standard, but sufficiently aware and knowledgeable to understand what is being approved or adopted.”

Justice Middleton further held that:

“... What each director is expected to do is to take a diligent and intelligent interest in the information available to him or her, to understand that information, and apply an enquiring mind to the responsibilities placed upon him or her. Such a responsibility arises in this proceeding in adopting and approving the financial statements. Because of their nature and importance, the directors must understand and focus upon the content of financial statements, and if necessary, make further enquiries if matters revealed in the financial statements call for such enquiries.”

Management representations

When the audit committee is making their assessments and performing their procedures, they consider representations signed by management as one of their procedures in making their assessments. These may include representations on:

- How they selected and applied critical accounting policies and any changes in significant accounting policies, or their application, during the reporting period
- Whether they made a specific assessment of the entity's ability to continue as a going concern and how they made that assessment; if not, the basis for using the going concern assumption in preparing the financial statements and note disclosures
- The methods used to account for significant, complex or unusual transactions, or transactions in emerging areas for which there may be no specific accounting standard, including management's reasoning in determining the appropriateness of those methods
- The process used to determine that all relevant information has been brought to the attention of senior management to enable consideration of whether disclosure is required in the financial report
- Significant estimates and judgements in the financial report and the processes used by management in making those estimates and judgements. Management should comment on the impact of different assumptions, where these could have a significant impact on the financial report
- Other significant matters that do, or may, impact on the financial position of the entity and management's decision on disclosure or otherwise in the financial report
- The processes for identifying related party transactions and the nature, extent and reasonableness of related party transactions identified
- The processes for ensuring and monitoring compliance with laws, regulations and other requirements on external reporting by the entity of financial and non-financial information. Requirements include IFRS, the Act, the ASX listing rules, APRA and, where applicable, the legislation and regulations of other countries in which the entity operates.

The audit committee may review the declarations²⁴ required by The Act of the chief executive officer (CEO) and chief financial officer (CFO) in respect of the financial report and financial records.

Financial reporting considerations

For all financial reports, the audit committee needs to consider whether:

- The financial report complies with applicable legislation and accounting standards
- The financial statements and note disclosures present a true and fair view of the entity's financial position and performance, and if not, additional disclosures are required

²⁴ Section 295(A) of the *Corporations Act 2001*

- The financial statements and note disclosures have been prepared on the basis that the entity is a going concern, and if not, that they appropriately reflect the entity's inability to continue as a going concern
- Other information in the annual report is consistent with the financial report and other information known to the audit committee. For example, information in the directors' report or other management report/s relating to the entity's operations, financial position, business strategies and future prospects
- There is any information known to them gained in their role as a director of the entity that should be disclosed.

In considering the above, at the end of the audit of the financial report, through discussion and communication with the external auditor, the audit committee considers:

- Significant accounting estimates including understanding how the auditor exercised judgement and professional scepticism
- Recently issued regulatory and professional pronouncements to understand the impact on the financial statements
- Uncorrected misstatements identified by the auditor and considers:
 - the nature and extent of unadjusted misstatements
 - why these uncorrected misstatements have not been corrected by management
 - any qualitative issues relating to the uncorrected misstatement
 - whether these uncorrected misstatements indicate indications of fraudulent financial reporting
- Circumstances affecting the form and content of the auditor's report including consideration of any:
 - proposed modifications to the opinion in the auditor's report
 - proposed material uncertainty related to going concern
 - KAMs
 - proposed Emphasis of Matter paragraph or other matters paragraph
 - uncorrected material misstatement of the other information
- Any other matters identified by the auditor including:
 - significant deficiencies in internal controls identified during the audit and indications of fraudulent financial reporting
 - significant matters of non-compliance with laws and regulations
 - significant matters raised and discussed with management during the audit (may or may not be a KAM)
 - events or conditions identified by the auditor in the auditor's assessment of the going concern assumption
 - other matters of governance interest that arose during the audit, for example material misstatements of fact or material inconsistencies in information accompanying the audited financial report.

Based on the review by the audit committee of all available information, including representations, the review and consideration of the financial statements and note disclosures, and other information, the audit committee considers whether it is appropriate to make a recommendation to the board regarding approval of the financial report and the directors' declaration.²⁵

²⁵ The *Corporations Act 2001* in section 295(4) sets out the requirements of the directors' declaration regarding the financial report.

Other external reporting

In relation to other external reporting,²⁶ the audit committee should ideally:

- Review documents and reports to regulators for consistency with the financial report and other information²⁷ known to the audit committee
- Review the reporting of the entity's main corporate governance practices as required under the ASX listing rules for completeness and accuracy
- Review any non-IFRS financial information,²⁸ including the reconciliation between the non-statutory (or underlying) profit and statutory profit, if applicable
- Review any analyst briefings, investor presentations and media releases for consistency with the financial report and ASIC guidelines in respect of communication of non-statutory profit information
- Review the processes established for the purposes of continuous disclosure reporting to the ASX.

Based on its review and consideration of the other external reports, the audit committee should recommend to the board whether the reports should be approved.

External audit

The audit committee has a key role in the entity's relationship with the external auditor and in promoting audit quality. The importance of this role is emphasised in the IAASB publication *A Framework for Audit Quality*. Refer to Appendix 5 for information on this framework and the role of the audit committee within it. In addition, ASIC provides guidance²⁹ to assist directors and audit committees in their role in promoting the quality of the external audit of a financial report.

The audit committee's responsibilities typically include:

Appointment and assessing potential and continuing auditors

Recommending the appointment of an auditor to the board or assessing potential and continuing auditors including understanding the:

- audit tender or selection process
- auditor's commitment to audit quality
- auditor's resources devoted to the audit
- auditor's reliance on experts and other auditors, (including using the work of other auditors, coverage of components within a group and reliance on internal auditors)
- accountability for audit quality by the auditor's engagement partner, review partner, specialists and audit team members.

Facilitating the audit process

- The audit committee agrees the audit fee (including any fee variations) and makes a recommendation thereon to the board. In addition, the audit committee may recommend to the board, if appropriate, the extension of the rotation period of the external audit engagement partner subject to certain requirements³⁰.

²⁶ Other external reporting may include corporate social responsibility (CSR), sustainability, greenhouse gas and energy and occupational health and safety reporting.

²⁷ Other information could include regular performance reporting by management, encompassing both financial and non-financial performance to assist the audit committee understand the overall control environment

²⁸ See ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information*

²⁹ ASIC information sheet 196 *Audit Quality: The Role of Directors and Audit Committees*

³⁰ Under the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, the audit committee of a listed entity may recommend to the board that the rotation period of the audit engagement partner be extended from five up to a maximum of seven years. The recommendation may be endorsed by a resolution passed by members of the audit committee and be in writing, stating the audit committee is satisfied that approval of the extension is consistent with maintaining the quality of the audit and would not give rise to a conflict of interest.

- Facilitating the audit process by supporting the audit and ensuring company management and staff are accountable, supportive and helpful of the audit process.

Supporting the audit includes understanding that a high quality and comprehensive audit is able to be conducted for the agreed fee and that financial reporting and audit processes have been planned to ensure that an effective quality audit can be conducted within the financial reporting timeframes.

Establishing ongoing communications with the auditor

Establishing ongoing communications with the auditor so as to:

- address any risk or areas of concern
- ensure access to directors and audit committees

Ensuring access includes the auditor attending all appropriate audit committee meetings and the auditor meeting with the audit committee separately from management without discussions being shared with management.³¹

Australian Auditing Standards include requirements for the external auditor to communicate certain matters to the audit committee.³²

Such communications include written communications provided by the external auditor to the audit committee at the end of the audit of the financial report. This communication may include, for example, a discussion of Key Audit Matters (KAMs), audit materiality, the appropriateness of accounting policies adopted by the entity and information about changes to accounting standards, both current and proposed, that may be relevant to the entity's financial report.

Maintaining auditor independence

Maintaining and reviewing auditor independence and objectivity by considering whether the external auditor's relationships and services with the entity and other relevant organisations might impair, or appear to impair, the external auditor's independence. Under The Act the audit committee of a listed entity must provide written advice to the board regarding the provision of non-audit services by the external auditor.³³ Some audit committees may establish policies on the extent to which the external auditor can provide other assurance, or non-assurance, services and monitor the application of the policies to consider the possible implications for the auditor's independence.

The independence requirements applying to external auditors are legally enforceable under The Act³⁴ which contains specific provisions that address conflict of interest situations, auditor rotation requirements and identifying and evaluating threats to independence and applying appropriate safeguards.

The term 'independence' can mean different things to different organisations/individuals engaged with the audit committee. Appendix 6 explains how this term is used by external audit practitioners versus internal audit practitioners.

Assessing the quality of audits conducted

Assessing the quality of audits conducted and evaluating the performance of the auditor including considering:

- the auditor's internal quality and standards (reference may be made to the audit firms transparency report lodged with ASIC)
- the audit process (including the auditor's demonstration of professional scepticism)
- the timeliness of communications and usefulness and relevance of issues
- other information (including firms audit transparency reports)
- findings from ASIC's audit inspections and surveillances.

³¹ The IAASB Publication *A Framework for Audit Quality* suggests at least one meeting annually.

³² See *Relationships – External Auditor* on page 23 of this guide.

³³ See *Corporations Act 2001*, section 300 (11B) – (11E).

³⁴ Divisions 3,4 and 5 of Part 2M.4 and s307C of the *Corporations Act 2001*

Internal audit

The IIA defines the mission of internal audit as:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.”³⁵

Internal audit provides the board of directors, audit committee, chief executive officer, senior executives and stakeholders with an independent view on whether an entity has an appropriate risk and control environment, while acting as a catalyst for a strong risk and compliance culture.³⁶

The terms ‘independence/independent’ can mean different things to different organisations/individuals engaged with the audit committee. Appendix 6 explains how these terms are used by external audit practitioners versus internal audit practitioners.

Reporting arrangements

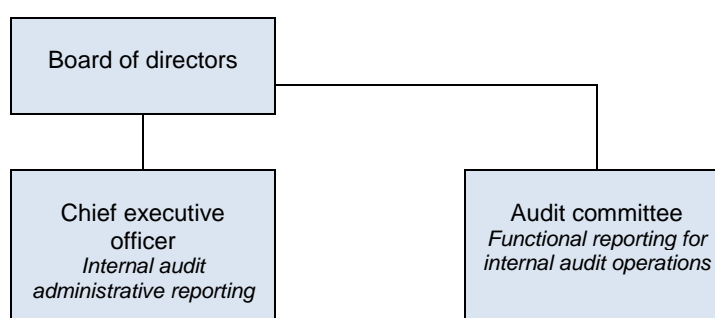
Good practice reporting arrangements for internal audit are:

- Functionally to the audit committee through the chair
- Administratively to the chief executive officer³⁷.

Functional reporting generally involves the audit committee:

- Reviewing and approving the internal audit charter
- Reviewing the internal audit structure, independence and access to senior management, the audit committee and the board
- Approving decisions regarding appointment and replacement of the chief audit executive (CAE)
- Reviewing and approving the strategic internal audit plan, often for a 2-3 year period
- Reviewing and approving the annual internal audit plan
- Approving any changes to the annual internal audit plan
- Reviewing reports on the results of internal audit engagements, audit-related activities, audit team capability, audit performance and other important matters
- Considering the overall effectiveness of the CAE and the internal audit function
- Making enquiries of the CAE to determine any scope of budget limitations that may impede the execution of internal audit responsibilities
- Meeting privately with the CAE at least once a year without the chief executive officer or other management present.

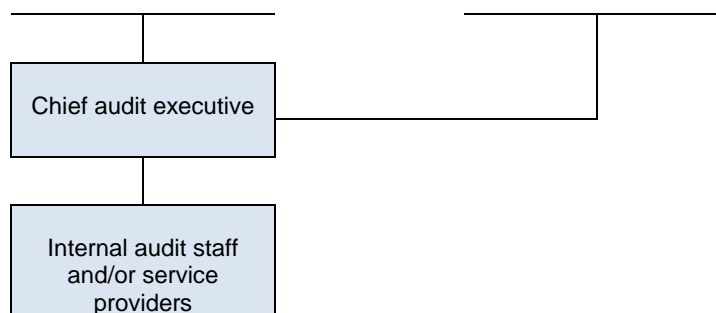
This can be shown diagrammatically as:



³⁵ Source: the ‘International Professional Practices Framework issued by the Institute of Internal Auditors.

³⁶ Not all entities will have an internal audit function.

³⁷ Includes the allocation of internal audit resources and determination of budget, provision of corporate services to internal audit and human resource administration.



Internal audit work is risk-based and encompasses both financial and non-financial operations.

Risk management and internal control

While the board retains overall responsibility for risk management and internal control, it typically delegates elements of this responsibility to the audit committee (or the audit and risk management committee or a separate risk management committee, as applicable).

The risk management and internal control framework within an entity is a key expression of its attitude to the control environment.

Risk occurs when entities try to achieve objectives in an uncertain environment³⁸. It is usually measured in terms of likelihood and consequence. Risk management is an inherent part of the management process and incorporates the principles of corporate governance, accountability, communication and strategic alignment. It should be applied at all levels of an entity including:

- Enterprise-wide (strategic)
- Business unit (operational)
- Project-specific (tactical)
- Internal audit (planning, objectives and scoping).

To manage identified risks, an organisation's internal control framework typically comprises three layers:

- Systems and processes (IT risk, business continuity, security)
- Capability
- Culture (leadership, behaviour, attitudes).

The three most commonly used sources of guidance on the elements of an effective risk management and internal control framework are the:

- Australia/New Zealand Standard on Risk Management (AS/NZS ISO 31000:2009) and accompanying handbooks published by Standards Australia
- Enterprise Risk Management Conceptual Framework (published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO))
- Internal control – Integrated Framework (also published by COSO).

The board retains responsibility for establishing an appropriate “tone at the top” - the corporate environment or culture, which disseminates throughout the entity and may be seen by some as equal to the internal control environment. This tone can be the most important factor contributing to the integrity of the entity's key business processes, including financial reporting.

³⁸ AS/NZS ISO 31000:2009 *Risk Management – Principles and guidelines* states that ‘Risk’ is the effect of uncertainty on objectives.

The board is also responsible for agreeing on the entity's risk appetite and monitoring the strategic risks facing the entity. This should be formally documented in a risk appetite statement from the board that clearly outlines the risks the entity is willing to take or accept in pursuit of its strategic objectives. The purpose of a risk appetite statement is to convey to the CEO and management the board expectations on how risk is to be managed within the entity.

A risk appetite statement explicitly outlines the risks to be avoided and for which the board has no tolerance. It considers the entity's risk universe across all risk categories, with all business decisions to be made in the context of the approved risk appetite statement.

APRA-regulated entities must comply with Prudential Standard CPS 220 *Risk Management*. Part of the requirements of this standard, relevant to this section, includes the need for the organisation to maintain:

- a risk management framework appropriate to the size, business mix and complexity or the organisation
- a board-approved risk appetite statement
- a board-approved risk management strategy.

The board is likely to delegate the following responsibilities to the audit committee:

- Consider the impact of the culture on risk management and internal control
- Monitoring changes in the economic and business environment, including consideration of emerging trends and other factors related to the entity's risk profile
- Reviewing the effectiveness of processes for identifying the entity's material risks and the appropriateness of the risk management procedures to maintain activities within the board's risk appetite
- Reviewing disclosures in the annual corporate governance statement in relation to recognition and management of material business risks
- Considering the adequacy and effectiveness of the internal control and risk management framework by reviewing reports from management, internal audit and external audit, and by monitoring management responses and actions to correct any noted deficiencies
- Assessing adequacy of entity processes to manage insurable risks and the adequacy of insurance cover, and if applicable, the level of self-insurance
- Reviewing the business continuity planning process and be assured that material risks are identified and appropriate continuity plans are in place

Fraud and corruption

The audit committee may be responsible for overseeing the systems and programs implemented by management for fraud and corruption prevention, deterrence and detection, particularly in the context of financial accounting and reporting.

The existence of fraud and corruption prevention systems and programs is a key expression of the attitude of the board, audit committee and management to minimising opportunity for fraud and corruption.

Good audit committee practices in overseeing fraud and corruption prevention typically include:

- Reviewing management's efforts to create and maintain a strong internal control environment, including the design and implementation of anti-fraud and corruption strategies and programs

- Enquiring of management and the external auditor³⁹ regarding their assessments of the risk of material misstatement in the financial report due to fraud, including the nature, extent and frequency of such assessments
- Enquiring of management, the internal auditor and the external auditor whether they have knowledge of any actual, suspected or alleged fraud or corruption affecting the entity, and how the entity responded to such instances, including changes made to the control environment

The board has a legal responsibility to ensure the entity does not engage in corrupt or illegal business activities. The board is likely to delegate to the audit committee responsibility for monitoring the entity's policies and procedures that control or prohibit behaviours indicative of corrupt or illegal activities.

Compliance

Compliance encompasses adherence to policies, plans, procedures, laws, regulations, standards, contracts or other requirements. Non-compliance can have potential financial, non-financial or reputational impacts on an entity.

Compliance continues to be a primary concern for the boards, audit committees and senior management of most entities, with reputation risk pushed to new levels. In addition to the complexity and pace of legislative and regulatory change, coupled with an increase in regulatory scrutiny and enforcement, the public reporting of adverse findings can attract media and social media attention that can rapidly attack an entity's reputation. Consequently, an effective compliance framework may assist protection against reputation risk.

The audit committee often directs internal auditors to assess the effectiveness of the entity's compliance framework including identification, risk assessment, awareness, monitoring, handling breaches, continuous improvement, the compliance register, reporting, and cross-border obligations.

AS/ISO19600:2015 *Compliance management systems – guidelines* provides guidance for establishing, developing, implementing, evaluating, maintaining and improving an effective and responsive compliance management system within an organisation.

Good audit committee practices will often include oversight of compliance programs, including:

- Monitoring the impact of changes in key laws, regulations (for example, work health and safety legislation), accounting standards, internal policies, standards of good corporate governance and other community expectations affecting the entity's operations. This will normally involve receiving reports and briefings from key senior management, and meeting periodically with them.⁴⁰
- Review the effectiveness of the entity's systems, policies and practices that relate to compliance with laws, regulations, internal policies and accounting standards, and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance

³⁹ See Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*. Although intended for external auditors, this auditing standard contains information in its appendices that may be helpful for audit committee members. For example, it provides an extensive list of factors that indicate an incentive, pressure or opportunity to commit fraud, and examples of circumstances that indicate the possibility of fraud.

⁴⁰ In this context, senior management might include the compliance officer, legal counsel, chief financial officer, head of human resources or tax manager.

- Obtain regular updates from management and the head of compliance about compliance matters that may have a material impact on the entity's financial statements, strategy, operations or reputation, including material breaches of laws, regulations, standards and company policies
- Review and monitor related party transactions
- Review processes and procedures designed to ensure compliance with the ASX listing rules on continuous disclosure
- Approving and reviewing the policies, processes and framework for identifying, analysing and addressing complaints relating to the entity's compliance obligations. This includes both whistleblowing procedures for employees and customer complaint handling processes.

Ethics and organisational culture

Within entities, ethics programs are a key expression of an entity's values. Unethical behaviour can have potential financial, non-financial or reputational impacts on an entity.

Good audit committee practices will often include oversight of ethics/culture programs, including:

- Considering the impact of the culture on compliance
- Ensuring a code of conduct is in place, there is an effective implementation process to support its adoption, and the entity has a program for monitoring compliance with the code
- Approving and reviewing the policies, processes and framework for identifying, analysing and addressing complaints relating to the entity's ethical obligations.
- Staying informed on significant ethical issues, as well as independent investigations and disciplinary action in relation to unethical behaviour

6. Relationships

Board

Role

The audit committee assists the board in fulfilling some of its corporate governance and oversight responsibilities, whereas the role of the board is that of a constituting and governing body.

Responsibilities

The board:

- Establishes the audit committee with an appropriate charter, membership and level of resources to effectively carry out its activities
- Ensures there is an appropriate reporting mechanism in place between the board and the audit committee
- Periodically reviews the performance of the audit committee as a whole, and of each audit committee member. The audit committee performance review can be (and often is) by self-assessment (see the self-assessment tool in Appendix 2), but should preferably be part of a whole of board review.

It is important for the members of the audit committee and the board to recognise that delegation of activities to the audit committee does not absolve individual directors from their responsibilities. Individual directors are obliged to reach their own decisions based on a proper assessment of the information, which includes audit committee reports.

General responsibilities of directors, which extend to audit committee interaction and involvement, typically include:

- Duty to act in good faith in the best interests of the entity
- Duty to act with care and diligence
- Duty to avoid a conflict in the position of a director and/or any interest that a director may have
- A range of duties that prohibit the misuse of information obtained by directors.⁴¹

External Auditor

Role

The scope of the external auditor's engagement usually emanates from a regulatory requirement, such as a requirement under The Act, or other relevant legislation, to audit or review the entity's financial report.⁴²

The external auditor must be independent from the entity's governance, internal control and ownership structures. The external auditor gains an understanding of the entity, its environment and its internal controls, makes risk assessments about the financial report, and obtains sufficient appropriate audit evidence to support the auditor's report on the financial report.

External auditors cannot use internal auditors to provide direct assistance in an audit or review conducted in accordance with Australian Auditing Standards. For a group audit, this prohibition extends to the use of internal auditors to provide direct assistance in an audit or a review of a component, including an overseas component, conducted in accordance with Australian Auditing Standards. This prohibition creates a clearer division of responsibility between external and internal audit teams to safeguard against conflicts of interest and supports stakeholders' expectations that external auditors should be free from threats to their independence.

As an independent party with knowledge of the entity's financial affairs, the external auditor can provide the audit committee with valuable, objective insight into aspects of the entity's governance and internal control, including its risk management. In turn, the audit committee aids the effectiveness of the external auditor. The importance of effective two-way communication in the promotion of audit quality is emphasised in *A Framework for Audit Quality* referred to in Appendix 5.

For the external auditor, communication and consultation with the audit committee helps to facilitate an effective and efficient audit and the communication of matters arising from the audit. External auditors seek a constructive relationship with the audit committee while maintaining their independence, objectivity and an attitude of professional scepticism.

External auditors are required to respond to questions relating to certain aspects of the audit raised by the members of a listed entity at the entity's annual general meeting (AGM).⁴³ The relevant matters that members may query include the content of the auditor's report, the conduct of the audit, the accounting policies adopted by the entity and the independence of the auditor.

Responsibilities

⁴¹ See *Duties and Responsibilities of Directors and Officers 21st Edition* by Professor Robert Baxt AO, Australian Institute of Company Directors, 2016.

⁴² Sections 307, 308, 309 and 314(2)(c) of the *Corporations Act 2001*.

⁴³ Not all listed entities are required to hold an annual general meeting, such as listed trusts.

As set out in Australian Auditing Standards, the external auditor has responsibilities for effective communication with those charged with governance (which may include the audit committee) in an audit of a financial report.

Promoting effective two-way communication

Effective two-way communication⁴⁴ assists:

- The audit committee in fulfilling its responsibility to oversee the financial reporting process
- The auditor in obtaining information relevant to the audit from the audit committee
- Both the audit committee and the auditor in establishing a constructive working relationship.

The auditing standards ⁴⁵ provide an overarching framework for the external auditor's communication with those charged with governance and identifies some specific matters to be communicated with them.

Additional matters to be communicated are identified in other auditing standards.⁴⁶ The key requirements are listed below:

Establishing whether the preconditions for an audit are present

In establishing whether the preconditions for an audit are present⁴⁷ discussions are needed with management and the audit committee to assist the auditor in:

- Determining whether the financial reporting framework to be applied by management in the preparation of the financial report is acceptable
- Obtaining the agreement of management that it acknowledges and understands its responsibility for preparation of the financial report, for the internal control system related to preparation of the financial report, and for providing access by the auditor to all relevant information and persons for the purposes of obtaining audit evidence.

Agreeing the terms of the audit engagement

- Discussing and agreeing the terms of the audit engagement,⁴⁸ including who to communicate with, when and how to communicate
- Communicating the auditor's responsibilities in relation to the audit.

Establishing and maintaining independence

- Confirming their independence⁴⁹ in accordance with ethical and regulatory requirements
- Communicating any relationships that might have a bearing on their independence, including the provision of other assurance and non-assurance services to the entity and relevant external organisations
- Communicating an analysis of fees for audit and non-audit services, together with disclosure of the safeguards the audit firm has in place to protect auditor independence when non-audit services provided are significant
- Notifying the audit committee of any contraventions to the auditor's independence requirements
- Communicating any other safeguards applied to eliminate threats to their independence, such as plans for audit partner rotation.

⁴⁴ See ASA 260 *Communication With Those Charged With Governance*.

⁴⁵ ASA 260 *Communication with Those Charged with Governance*

⁴⁶ See ASA 260, Appendix 1, which lists other auditing standards that require specific matters to be communicated to those charged with governance.

⁴⁷ See ASA 210 *Agreeing the Terms of Audit Engagements*.

⁴⁸ See ASA 210 *Agreeing the Terms of Audit Engagements*.

⁴⁹ See ASA 260 *Communication With Those Charged With Governance*.

Discussing elements of audit planning

- Discussing the overall audit strategy, scope and timing,⁵⁰ including any limitations – based on the auditor’s consideration of materiality, high risk areas affecting the financial report and their plans to examine the effectiveness of internal controls
- Discussing proposed co-ordination with the internal audit function, including any planned use of internal audit work
- Discussing the nature and extent of specialised skill or knowledge needed, including the use of auditor’s and management’s experts
- Discussing the auditor’s preliminary views about matters that may require significant auditor’s attention and therefore may be KAMs that are required to be included in the auditor’s report.

Matters requiring significant auditor’s attention

- Discussion with the audit committee⁵¹ (as representatives of those charged with governance) about KAMs is required for listed entities. This recognises their important role in overseeing the financial reporting process, and provides the opportunity for them to understand the auditor’s decisions in relation to KAMs and how those matters are described in the auditor’s report. It also enables the audit committee to consider the quality of those disclosures relevant to KAMs in the financial report, within the context of the communication in the auditor’s report
- Audit committees of entities where the auditor is not required to report KAMs in the auditors’ report may nonetheless find a discussion about KAMs with the external auditor useful for comparison with the audit committees understanding of risk in the preparation of the financial report.

Communicating considerations of group audits

- The group engagement team communicates the following with the audit committee:
 - an overview of the work to be performed on the financial information of the components
 - an overview of the nature of the group engagement team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components
 - instances where the group engagement team’s evaluation of a component auditor gave rise to concerns about the quality of that auditor’s work
 - any limitations on the group audit
 - fraud or suspected fraud involving group or component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial report.

Discussing significant related party relationships and transactions

- Discussion with the audit committee to discuss any concerns regarding internal processes for communicating information about related parties to management and the auditors

⁵⁰ See ASA 300 *Planning and Audit of a Financial Report*.

⁵¹ While the auditor may agree with the entity on preferred lines and forms of communications, the auditor should continue to use judgement to determine whether communication with the audit committee is sufficient and appropriate. The auditor should take into account such things as the nature of the matters, the governance structure, legal requirements and the composition of the audit committee (for example, the extent to which the members of the board are represented on the audit committee).

- Discussing with the audit committee the nature, extent and business rationale of significant related party relationships and transactions,⁵² including those involving actual conflicts of interests.

Enquiring about fraud

- Discussion with the audit committee and others (including management) regarding the exercise of oversight of management's processes for identifying and responding to the risks of fraud and the internal controls that management has established to mitigate these risks
- Enquiry of the audit committee and others (including management and internal audit), to determine whether they have any knowledge of actual, suspected or alleged fraud⁵³ affecting the entity
- Communicating with the audit committee on fraud or suspected fraud involving group or component management or employees.

Communicating significant findings from the audit

- Communicating significant findings from the audit⁵⁴ with the audit committee and/or directly to the board⁵⁵
- Communicating views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial report disclosures
- Discussing significant difficulties, if any, encountered during the audit
- Discussing significant matters raised with management during the audit, including any disagreements with management, whether resolved or unresolved, relating to the financial report
- Communicating circumstances that affect the form and content of the auditor's report
- Advising on representations the auditor is seeking from management⁵⁶
- Communicating significant deficiencies in internal controls identified during the audit⁵⁷
- Communicating identified fraud, information that indicates a fraud might exist, or weaknesses in the design or implementation of internal control to prevent, deter, detect and report on fraud
- Communicating significant matters of non-compliance with laws and regulations and the appropriate remedies⁵⁸
- Communicating uncorrected misstatements identified by the auditor⁵⁹ to assess the following:
 - The nature and extent of misstatements
 - Why these misstatements have not been corrected by management
 - Any qualitative issues relating to the misstatements

⁵² See ASA 550 *Related Parties*.

⁵³ See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

⁵⁴ See ASA 260 *Communication With Those Charged With Governance*.

⁵⁵ While the auditor may agree with the entity on preferred lines and forms of communications, the auditor should continue to use judgement to determine whether communication with the audit committee is sufficient and appropriate. The auditor should take into account such things as the nature of the matters, the governance structure, legal requirements and the composition of the audit committee (for example, the extent to which the members of the board are represented on the audit committee).

⁵⁶ See ASA 580 *Written Representations*.

⁵⁷ See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

⁵⁸ See ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

⁵⁹ See ASA 450 *Evaluation of Misstatements Identified during the Audit*.

- Whether these misstatements provide any indication of fraudulent financial reporting
- Communicating events or conditions identified by the auditor that may cast doubt on the entity's ability to continue as a going concern⁶⁰
- Communicating matters of governance interest that arose during the audit of the financial report that are relevant to the oversight of financial reporting. Such matters typically include:
 - modifications in audit strategy based on a revised consideration of risks
 - material risks and exposures regarding the financial report
 - industry, regulatory, or other external factors
 - material misstatements of fact or material inconsistencies in information accompanying the audited financial report

It is highly desirable that the external auditor discusses all issues to be raised at the audit committee meeting with the CEO, CFO and the audit committee chair before the meeting. This ensures that all relevant information has been obtained and all participants in the meeting are fully informed.

Responding to questions

- Responding in a timely manner to reasonable audit committee questions and communications.

Internal Auditor

Role

Internal audit, where it exists, acts as an agent for the audit committee. The effectiveness of the internal audit function depends to a large extent on the scope of their work and a reporting line that is independent from management.

Internal audit activities should be conducted in a manner consistent with the IPPF, including the *Core Principles for the Professional Practice of Internal Auditing*, the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Internal audit requires professionals with an appropriate level of understanding of the business culture, systems and processes to provide assurance the controls in place are sufficient to manage risks, governance processes are adequate and organisational objectives are met.

Ultimately, internal audit assists the audit committee in its role with monitoring and oversight which typically falls into two distinct categories:

1. Assurance services
2. Consulting services

Consulting services provide advisory and related client service activities, the nature and scope of which are agreed with management. When performing consulting services, internal audit must not assume management responsibility.

Internal auditors must communicate the results of engagements, and include their objectives and scope, as well as applicable conclusions, recommendations and action plans.

Responsibilities

The scope of internal audit's work can vary between entities, depending on the authority and resources provided to the internal audit function. In some organisations, internal audit may comprise a separate division with autonomy, authority and resources to design an optimal

⁶⁰ See ASA 570 *Going Concern*.

work program. In other organisations, internal auditors may be third parties contracted to examine particular areas of the business or to provide an equivalent function to an in-house internal audit. Consequently, the effectiveness of internal audit will often depend on setting the appropriate scope, budget and reporting lines for their work programs.

The audit committee has an important role in ensuring that all entity risks are considered, so that the internal audit effort is directed to those areas where examination of performance is most needed.

Internal audit responsibilities to the audit committee typically include:

Discussing elements of internal audit planning

- Providing a draft of the risk-based internal audit plan for input and formal approval. In developing the draft internal audit plan, the CAE should consider all entity risks, including organisational, financial, compliance and strategic risks. The draft plan should detail internal audit objectives, work schedules, staffing requirements, budgets and a description of any limitations placed on internal audit's scope of work
- The internal audit plan might also include financial or compliance audits, operational reviews, risk and control self-assessments, system-based audits, performance audits, IT audits and so on, and/or specific one-off assignments. It should evaluate and monitor the adequacy and effectiveness of the internal control systems. The plan should:
 - Provide details of the internal audit staff structure, including staff skills, experience and qualifications
 - Consider the activities of other assurance providers, both internal and external to the entity
 - Advise on the coordination of the internal audit plan with the external audit plan.
- Discussing any changes to the internal audit plan
- Holding periodic discussions with the chair, and with all audit committee members, without the presence of management.

Communicating on independence

- Advising on internal audit independence
- Reporting any non-audit activities provided by internal audit.

Communicating matters arising from internal audit work

- Submitting activity reports, highlighting significant findings, their effect, or potential effect, and recommendations and advising the actions taken, or proposed, by management
- Submitting reports on any major variances from internal audit objectives, work schedule and budget
- Reporting on any identified conflicts of interest
- Advising changes to the risk profile of the entity and the implications of these for the internal audit plan.

Responding to requests

- Performing audits that may be requested by the audit committee
- Providing any other information requested by the audit committee
- Providing assurance to management on the adequacy of governance, risk management, control and compliance, and being available to management to assist with the improvement of processes and control activities.

Engaging with the audit committee on matters associated with governance, risk management, control and other matters

- Internal audit provides a key source of information for members of the audit committee on governance, risk management and internal control, and other matters affecting the entity's operations.

Annual reporting

- Providing an annual report of its work to the audit committee, including an assessment on the effectiveness of the organisation's control system
- Advising the audit committee and management of patterns, trends and systemic issues identified from its work.

7. Developing an effective charter

The charter is the audit committee's blueprint for its operations, and should be developed to meet the needs of the entity, allowing for the entity's objectives, culture and the industry in which it operates.

The charter should cover all key aspects of the audit committee's operations while remaining flexible to enable the committee to respond appropriately to issues that arise.

The audit committee charter is developed and approved by the board.

A wide range of sample audit committee charters are available in the public domain including some issued by professional bodies. A sample audit committee charter has been included in Appendix 1. It is important to note that one size cannot fit all in respect of audit committees, so each audit committee should evolve and develop its own charter suited to itself and the organisation.

Commonly the charter defines and/or outlines the following⁶¹:

- The audit committee's purpose and objectives
- The audit committee's responsibilities, including:
 - its duty to address matters referred to the audit committee by the board
 - the scope of its activities for:
 - financial reporting oversight
 - internal and external audit evaluation
 - risk management and internal control
 - compliance with laws, regulations, internal policies and industry standards
 - fraud risk mitigation
 - continuous disclosure
 - its responsibility for ensuring procedures are in place for the receipt, retention and treatment of complaints received by the entity regarding accounting, internal accounting controls or auditing matters
- The authority delegated from the board to the audit committee, which might include the committee's right to:
 - obtain outside legal or independent professional advice at the entity's expense
 - institute special investigations
 - recommend the appointment and retention of the external auditor
 - approve the external audit fee and oversee the work of the external auditor
- Audit committee membership and appointment

⁶¹ Note that protocols applicable to all committees are not included here – such as appointment, conflicts of interest, preparation of agenda, minutes, attendance at meetings, etc.

- Arrangements for meetings, including flexibility for the audit committee to invite non-members such as external auditors, internal auditors and members of management
- The audit committee's responsibility for reporting on its activity
- How the audit committee performance will be assessed

Audit committee members, the board, management and internal and external auditors need to understand the audit committee's charter, including the audit committee's scope of activities and communication and reporting arrangements.

The charter should be regularly monitored, and reviewed annually to ensure it remains relevant to the entity's needs (for instance, revising reporting requirements to cover board needs for additional information) and reflects current regulatory requirements and audit committee good practice.

8. Membership

The membership of the audit committee is a key determinant of its success.

Audit committee composition

The composition of the audit committee should include a balance of professional skills, knowledge and technical experience, as well as sufficient capacity, independence and objectivity, to discharge its responsibilities as defined in its charter.

The Council recommends the audit committee should be structured so that it:⁶²

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not the chair of the board
- has at least three members.

S&P/ASX 300 entities are required to comply with these recommendations regarding the structure of the audit committee.⁶³

The CEO (or managing director) should not be a member of the audit committee, although it is usual for the CEO to be invited to attend audit committee meetings (see *Attendance* on page 36).

The board might appoint an independent person who is not a director of the entity to the audit committee to provide particular expertise.

Selection of audit committee members

Not only is it important to maintain audit committee continuity, but also provide a fresh perspective through succession planning and the selection process.

The following key qualities are desirable when appointing members:

- Individuals should have:
 - an understanding of the industry, the entity, its business and its products and/or services
 - a mindset that is independent of the entity's management

⁶² See Recommendation 4.1 of the 3rd edition of ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

⁶³ See ASX Listing Rule 12.7.

- strong communication skills, including an ability to offer different perspectives and constructive suggestions
- high levels of personal integrity and ethics
- sufficient time available to devote to executing responsibilities
- financial literacy, including an ability to read or understand financial statements, ask pertinent questions about them, and interpret and evaluate answers.
- The audit committee as a whole should have:
 - at least one member with financial expertise, which may be interpreted broadly as being “a qualified accountant or other financial professional with experience of financial and accounting matters”
 - a mix of skills and experience relevant to discharging responsibilities, including experience in business, financial and legal compliance, risk management and international commercial background and experience, if applicable.

Committee members and the audit committee chair should be appointed by the board. A board nomination committee should be convened with the power to interview candidates considered to have the skills, experience and interest in being a member of the audit committee and recommend their appointment.

Independent and non-executive members

It is recommended that the majority of members of the audit committee are independent and non-executive members. However, if the entity is in the S&P/ASX 300 at the beginning of the year, it is a requirement under the Listing Rules that the committee consist solely of non-executive directors, a majority of whom are “independent”.⁶⁴

Independent, non-executive directors are individuals free from any management, business or other relationship that could reasonably be perceived to materially interfere with their ability to act in the best interests of the entity. The “independence” of audit committee members should always be considered in relation to any applicable legislation, or regulation, that defines the requirements of independence for audit committee membership.

Independence is arguably a state of mind, and cannot necessarily be assessed by a person’s relationship with the entity. It is commonplace to examine an audit committee member’s past and current relationships with the entity as indicators of independence, or otherwise.

The Council⁶⁵ identifies the following relationships which may affect the independent status of a director if the director:

- Is a substantial shareholder of the entity or an officer of, or otherwise associated directly with, a substantial shareholder of the entity
- Is employed, or has previously been employed, in an executive capacity by the entity or another group member, and there has not been a period of at least three years between ceasing this employment and serving on the board
- Has, within the last three years, been a principal of a material professional adviser or a material consultant to the entity or another group member, or an employee materially associated with the service provided

⁶⁴ See ASX Listing Rule 12.7 and Recommendation 4.1(a) of the ASX Corporate Governance Council’s *Corporate Governance Principles and Recommendations*. Note that in this case an ‘if not, why not’ explanation would be in breach of ASX Listing Rule 12.7.

⁶⁵ See Box 2.3 of the 3rd edition of ASX Corporate Governance Council’s *Corporate Governance Principles and Recommendations*.

- Is, or has been within the last three years, a material supplier or customer of the entity or other group member, or an officer of, or otherwise associated directly or indirectly with, a material supplier or customer
- Has a material, contractual relationship with the entity or another group member other than as a director
- Has close family ties with any person falling within any of the categories described above
- Has been a director of the entity for such a period that his or her independence may have been compromised.

This list is not exhaustive and if one or more of the above is exhibited by a director it is possible that their status as an independent director might be compromised. The test is ultimately whether any relationship might cause the individual to prefer the interests of some other entity over the interests of the company. However in relation to the last point, the guidelines indicate that the mere fact a director has served on the board for a substantial period of time does not mean that he or she has become too close to management to be considered independent. It indicates that the board should regularly assess whether that might be the case for any director who has served in that position for more than 10 years.

Members and potential members of the audit committee need to exercise care to ensure they disclose to the board for its consideration any relationships that could be viewed by other parties as impairing either the individual's, or the audit committee's actual or perceived independence. When deciding what is significant, consider the significance of the relationship to both the entity and to the individual.

The board might choose to appoint an individual to the audit committee, despite the existence of relationships identified above, because of the individual's business or other expertise, but only after the board has considered the materiality of the interest, position, association or relationship to determine whether it might interfere, or might reasonably be seen to interfere with the director's capacity to bring an independent judgement to bear on issues before the board and to act in the best interests of the entity and its security holders generally.

The Council recommends⁶⁶ that the listed entity should disclose:

- The names of the directors considered by the board to be independent directors
- If a director has an interest, position, association or relationship of the type described in the listing above [box 2.3] but the board is of the opinion that it does not compromise the independence of the director; the existence of such relationships should be disclosed in the corporate governance statement along with the reasons for considering such a director to be independent
- The length of service of each director.

Audit committee chair

The chair of the audit committee plays a pivotal role in the overall effectiveness of the audit committee. The chair of the audit committee is preferably independent and should not be the chair of the board.⁶⁷ However, if the entity is in the S&P/ASX 300 at the beginning of its financial year, then the chair of the audit committee must be independent and must not be the chair of the board.

⁶⁶ See Recommendation 2.3 of the 3rd edition of ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*

⁶⁷ See ASX Listing Rule 12.7 and Recommendation 4.1(a) of the 3rd edition of ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*. Note that in this case an 'if not, why not' explanation would be in breach of ASX Listing Rule 12.7.

The chair is responsible for:

- Promoting effective communications between the audit committee and the board, CEO, CFO, CAE, , other senior management and the external auditor
- Ensuring audit committee meetings run smoothly so the views of all audit committee members are heard, adequate time is allowed for discussion of each issue and the agenda and meeting papers properly reflect proceedings.

The board should select an audit committee chair who:

- Has demonstrated strong leadership qualities
- Is knowledgeable of the duties and responsibilities of the position as outlined in the charter
- Has skills and knowledge about the industry, the entity's business, and financial reporting and auditing requirements
- Has strong communication skills, including the ability to promote effective working relationships among audit committee members and with others, such as management and the internal and external auditors.

The chair's own term of appointment should be specified by the board and should relate to the director's term of appointment to the audit committee. Where a deputy chair is appointed, the board should also appoint them in the same manner.

Induction of new members

The audit committee's knowledge and proficiency are enhanced when new members are appropriately acquainted with the audit committee's objectives and practices. All new members and existing directors need to be well briefed. Induction can be undertaken in many different ways, ranging from formal orientation programs to informal discussions.

New members need to understand the audit committee's role, objectives and responsibilities, be familiar with its relationships with management and the internal and external auditors, and have a sound knowledge of the entity's operations and the environment in which it operates, including the entity's code of conduct. They also need to understand the time and effort they will need to devote to their audit committee membership additional to the time and effort they devote to each board meeting.

Relevant information may be provided to new audit committee members, including:

- The audit committee charter
- An overview of business operations and the industry in which the entity operates
- All material previously provided to audit committee members on matters still before the audit committee, including current audit plans and outstanding corrective action from previous audit reports (both external and internal)
- Papers from recent audit committee meetings
- Internal audit charter
- Financial performance information, including the most recent audited financial report
- Risk profile of the entity and a list of business risks
- Risk appetite of the board
- Risk management framework and processes
- Internal control framework and processes
- Key financial reporting policies, including any related party issues
- Legal and regulatory requirements, including external reporting and compliance responsibilities
- Code of conduct for the entity, board and/or the audit committee
- Estimates of the time members need to commit to their audit committee role

- Fraud control framework (and high level details on previous fraud issues/allegations, if any).

All new members should meet with the chair, other audit committee members, senior management, and external and internal auditors as soon as practicable after being appointed.

Ongoing training

It is important that audit committee members keep abreast of current developments in matters that affect their capacity to effectively discharge their duties. Audit committee members may routinely receive focussed information on:

- Important relevant industry issues, trends and developments
- Key financial, and other performance indicators, of the entity detailing the level of achievement of the entity's objectives
- Significant proposed changes in financial reporting and regulatory requirements
- Other matters that might have a significant impact on the risk profile of the entity.

Audit committee members should be encouraged to attend relevant third-party training, conferences and seminars and share information at subsequent audit committee meetings.

Rotation

Periodic rotation of audit committee members is encouraged as it provides fresh perspectives and enhances the perception of audit committee independence.

Rotation will generally depend on the size of the board from which audit committee members are drawn, and the availability of suitable candidates from within and outside the entity.

9. Conducting meetings

How audit committee meetings are conducted will greatly influence the ability of audit committee members to achieve the audit committee's objectives.

Frequency of meetings

A regular schedule of meetings should be designed to enable the audit committee to effectively discharge its responsibilities.

While the number and duration of audit committee meetings will depend on the size and complexity of the audit committee's responsibilities, it is common for the following to occur:

- Audit committees typically meet at least four times a year to coincide with key dates within the financial reporting and audit cycles, and to plan the year and review performance
- There may be a separate meeting to consider the annual financial report and half year review, which may be covered within the normal meeting schedule or in an additional meeting, where necessary. This meeting should allow ample time for detailed consideration of the report,⁶⁸ with the agenda tailored accordingly and not overburdened with other items. For example, important accounting judgements, KAMs and related decisions may be determined ahead of the year end and at an earlier meeting than the one that considers the annual financial report

⁶⁸ Time should be allowed for the audit committee to consider any changes that have been made to the financial report since the audit committee papers were distributed. Management may provide the audit committee with a detailed list of all such changes.

- When possible, meetings are arranged so that all audit committee members can attend. The proposed schedule of audit committee meetings may be discussed and agreed well in advance. In planning the schedule of meetings, reference should be made to the meeting schedule of the full board, allowing sufficient time between audit committee and board meetings to action any items and prepare papers and reports to be tabled at board meetings
- The audit committee charter normally empowers the chair to convene a special meeting at the request of the board, an audit committee member, senior management, the external or internal auditor.

Structure of meetings

Normal business practices for committee meetings apply to audit committees.

Well-run audit committee meetings typically include:

- The preparation of a formal, well-structured agenda with reference to the audit committee charter to ensure that the agenda and meeting papers are appropriate
- The internal and external auditors are invited to contribute to the agenda
- The chair reviews and approves the agenda before issuing it to audit committee members and other parties authorised by the audit committee
- The agenda and meeting papers are distributed before the meeting, allowing sufficient time for members to read them carefully. As a guide, papers should be distributed at least one week before the meeting. However, where there is a large volume of papers, or papers involve complex matters, the audit committee may require them to be distributed more than one week before the meeting to enable members to carefully review and understand the content of papers

In ASIC v Healey (2011) 196 FCR 291, notwithstanding a complex corporate reporting structure, multiple sets of financial statements requiring approval and imminent reporting deadlines, the ruling confirmed the proposition that members of the audit committee and other directors have a duty to read the financial statements and check them. Timing issues and information overload cannot be used as defences in avoiding this responsibility.

- Inclusion of the annual work plan or calendar of events, cross-referenced to the charter, in meeting papers may be a useful method in covering off compliance with the charter (see Appendix 7 for an example)
- Efficient running of the meeting is assisted by:
 - Ensuring the meeting starts and finishes on time, while taking as long as necessary to adequately consider agenda items
 - Members agreeing to the priority of, and the time to be devoted to, each item at the commencement of each meeting
 - Meeting processes requiring members to declare any actual, perceived or potential conflicts of interest each year, and at the beginning of each meeting to strengthen the audit committee's independence. Members consider past employment, consultancy arrangements and related party issues when considering conflicts of interest
 - Establishing clear decision-making processes and voting protocols.
- The minutes are usually administered as follows:
 - Minutes are complete, clear and concise, providing a record of proceedings, including the issues, outcomes and actions with clear responsibilities and timelines attached
 - Draft minutes are provided to the chair within a week of the meeting for clearance and distributed to audit committee members within two weeks of the meeting

- Within two weeks of the meeting, the audit committee secretariat provides senior management with a brief summary of issues dealt with at each meeting, including details of actions to be taken with assigned responsibilities and timelines
- The minutes are circulated to the board with the papers of the next board meeting after the audit committee meeting
- The chair should brief the board on significant issues
- The minutes are placed in the minute book within one month of the meeting and are signed by the chair prior to or at the subsequent audit committee meeting.

Attendance

Regarding attendance at audit committee meetings, the following matters should be considered:

- Attendance of non-members is by invitation only. Audit committees should always reserve the right to meet alone, without non-members, including management, in attendance. This enables the audit committee to approach its tasks objectively and to maintain both actual and perceived independence
- The CEO, CFO and other relevant staff are generally invited to attend meetings to participate in discussion of particular agenda items. Their presence can provide an opportunity to resolve issues swiftly and efficiently
- The internal auditor and external auditor are generally invited to attend relevant parts of each meeting. Where necessary, the chair might decide that they should not attend for certain agenda items
- The audit committee should meet separately, at least annually, with both the internal auditor and the external auditor to discuss issues of mutual interest, without management present.

The chair of the audit committee is likely to have meetings with key executives and advisors outside the audit committee meetings to ensure ongoing awareness of issues and activities as they arise.

10. Reporting by the audit committee

To the board

The formality, detail and frequency of audit committee reports to the board vary. The audit committee refers to its charter when preparing a report.

Ideally, the audit committee should formally report to the board at the board meeting following each audit committee meeting, providing a summary of the audit committee's work and results.

The report should typically cover any of the following areas, as are relevant to the matters dealt with at the meeting, such as:

- The audit committee minutes,⁶⁹ including details of members present
- Any formal resolutions of the audit committee
- Assessment of management processes supporting external reporting
- Procedures for selection and appointment / replacement of the external auditor

⁶⁹ APES GN 41 Management Representations prepared and issued by the Accounting Professional and Ethical Standards Board, provides guidance that a Member in Business who is at the audit committee level should consider taking reasonable steps to ensure that key decisions made at those meetings are appropriately reflected in the minutes of the applicable meeting.

- Information about the audit processes and the results of work completed by the internal and external auditors as well as an assessment thereof
- Any determination by the audit committee about the external auditor's independence
- The annual review of the audit committee charter and whether the audit committee has achieved the responsibilities set out in the charter
- Any recommendations requiring board actions and/or approval
- Audit recommendations for corrective action and status report
- Information about instances of actual, suspected or alleged fraud, if any
- Information about whistleblowing by employees or other parties, if any
- Any concerns about the entity's ability to continue as a going concern
- Recommendations on whether to extend the rotation period for the external audit engagement partner beyond five years to a maximum of seven years⁷⁰
- Information about the annual transparency report published by the external auditor, if applicable⁷¹
- Information about an audit deficiency report published by ASIC on its website, if applicable

Under the *Corporations Legislation Amendment (Audit Enhancement) Act 2012* an audit deficiency is where ASIC reasonably believes that there is a significant weakness, in the auditor's quality control system or a significant weakness in the conduct of the audit that may be detrimental to the overall quality of the audit, as a result of a failure by the auditor to comply with:

- auditing standards
- the auditor independence requirements of the *Corporations Act 2001*
- any applicable code of professional conduct
- provisions of the *Corporations Act 2001* dealing with the conduct of audits.

- Information about any communications received directly from ASIC regarding significant matters (such as an audit client's accounting or disclosure practices) identified while exercising its functions and powers in relation to audit (mainly its surveillance and inspection activities)⁷²
- Information about correspondence from other regulators or stakeholders, if any (for example, from APRA in relation to APRA-regulated entities)
- Other matters the audit committee believes need to be reported to the board on the audit committee activities.

To the shareholders

The annual report of the company would typically include information on the audit committee's role and responsibilities, structure and membership. This information would be included as part of the wider corporate governance information in the annual report.

Improving the communication channels to investors highlights the importance of the active role that audit committees play in promoting greater transparency in reporting.

⁷⁰ See footnote 18

⁷¹ Under the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, an individual auditor, an audit firm or an authorised audit company conducting audits of ten or more entities of certain specified categories is required to publish an annual transparency report. The disclosures in the transparency report will include the names of relevant entities audited, information about the auditor's governance structure and independence practices, and other information.

⁷² The *Corporations Legislation Amendment (Audit Enhancement) Act 2012* gives ASIC the power to communicate directly with the audit committee, other directors or senior management of an entity in relation to significant matters identified by ASIC during the course of the exercise of its statutory functions in relation to audit.

The following material would typically be included in the corporate governance section of the annual report:

- A summary of the role of the audit committee
- Details of the names and qualifications of those appointed to the audit committee, or, where the audit committee has not been formed, those who fulfil the functions of an audit committee
- The number of meetings of the audit committee and the names of the attendees.

To other stakeholders

The following information may be publicly available on an entity's website in a clearly marked corporate governance section:

- The audit committee charter (including a description of the role and responsibilities of the audit committee)
- A description of the audit committee's oversight role for the entity's governance, risk management and internal control
- Names of audit committee members, professional background and qualifications
- Information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partner
- Information on procedures for the selection and appointment of the CAE.

11. Assessing performance

Assessing the audit committee's performance

Good practice on corporate governance emphasises the need for boards and board committees to demonstrate a high level of professionalism, including a regular assessment of ways in which performance can be improved.

An assessment of audit committee performance by the board should be undertaken as part of any periodic review of overall board performance, although a high performing audit committee is also likely to consider on an annual basis how it can improve its performance in the year to come.

Matters for consideration in any review of performance include:

- Identifying and agreeing to the criteria by which the performance of the audit committee will be assessed
- Assessing the effectiveness of the audit committee as a whole and the performance of individual audit committee members
- Identifying the process for implementing action plans developed in response to areas identified for improvement
- Assessing compliance with the audit committee's charter.

A performance assessment may be carried out by a third party independent of the board or an audit committee may elect to utilise a self-assessment approach to performance, with findings reported to the board. A self-assessment guide for audit committees is provided in Appendix 2.

Audit committees may also wish to take advantage of opportunities to benchmark their organisational procedures and activities with audit committees in similar entities.

Evaluation of individual audit committee members

Evaluation of individual audit committee member performance may be carried out by a third party, by the chair of the audit committee (possibly in conjunction with the board chair) or by self-assessment by individual committee members.

Any assessment would typically cover issues such as whether the member has demonstrated:

- A good understanding of, and commitment to, the audit committee's role and responsibilities
- Objectivity and independence
- An ability and willingness to take difficult but constructive stands at meetings when necessary
- A good understanding of the entity's business
- A sound understanding of the entity's financial reporting issues and obligations
- A good understanding of the entity's risk management and internal control processes
- Participation in activities to keep their business, industry, financial and regulatory knowledge current
- Preparation for, and participation in, audit committee meetings.

A self-assessment questionnaire to assist with the evaluation of a member's performance and contribution to the audit committee is included in Appendix 2.

Areas of additional focus arising out of performance assessments should be formally communicated to the board.

Further reading

Assessing the performance of the Audit Committee – a checklist, January 2014, Ernst & Young

Audit Committee Questions Series, July 2016, KPMG

Audit Committee Effectiveness—What Works Best, 4th ed., June 2011, sponsored by The Institute of Internal Auditors Research Foundation and prepared by PricewaterhouseCoopers LLP

Corporate Governance Principles and Recommendations 3rd edition 2014, ASX Corporate Governance Council, Australia

Duties and Responsibilities of Directors and Officers 21st Edition by Professor Robert Baxt AO, published by the Australian Institute of Company Directors in 2016
EcoDa – PwC Guidance for audit committees, June 2016, PwC

The Audit Committee Handbook, 5th ed., March 2010, Louis Braiotta, Jr., R. Trent Gazzaway, Robert Colson, Sridhar Ramamoorti, USA

International Professional Practices Framework, 2016, The Institute of Internal Auditors Inc.

Walk the line: Discussion and insights with leading audit committee members, February 2012, The Institute of Chartered Accountants Australia, Financial Reporting Council (UK) and The Institute of Chartered Accountants of Scotland

Public Sector Audit Committees, March 2015, Australian National Audit Office

Governance in focus: Audit Committee Effectiveness, February 2015, The Deloitte Academy

Appendix 1

Sample audit committee charter

The following is one example of an audit committee charter and captures many of the good practices used today. No sample charter encompasses all activities that might be appropriate to a particular audit committee, nor will all activities identified in a sample charter be relevant to every committee. Each committee should tailor this charter to their needs and governing rules.

The audit committee's annual work plan may be developed having regard to, and being cross-referenced to, its charter to ensure that the audit committee acts according to its authority and fulfils its responsibilities.

Sample audit committee charter

Purpose

The audit committee is appointed by the board of directors to assist the board in fulfilling its corporate governance and oversight responsibilities in relation to corporate reporting processes, including the financial reporting process, risk management and internal control, external audit, internal audit and compliance (including the code of conduct).

Authority

The board authorises the audit committee, within its scope of responsibilities, to perform the activities identified within this charter

Responsibilities

The audit committee will carry out the following responsibilities:

Corporate Reporting

- Review the half year (if relevant) and annual financial statements presented by management, together with reports and opinions from the external auditor
- Review significant accounting and reporting issues and assess the appropriateness of accounting policies and methods chosen by management, particularly those relating to significant estimates and judgements and the assessment of going concern
- Review recent regulatory and professional pronouncements and understand their impact on the financial statements
- Meet with the external auditor to review the results of the audit, including significant adjustments, uncorrected misstatements and any difficulties encountered or unresolved disagreements with management
- Review the appropriateness of disclosures in the financial statements and financial reporting to stakeholders, particularly in regards to estimates and judgements
- With management and the external auditor, review all matters required to be communicated to the audit committee under Australian Auditing Standards, such as key audit matters for listed companies, significant internal control deficiencies, indications of fraud or corruption and non-compliance with laws or regulations
- Review management representations, including the CEO and CFO declarations regarding the financial report and financial records
- Based on its review of the financial statements, note disclosures and other information, provide a recommendation to the board whether the financial report should be approved
- Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the entity and its operations, and is unbiased

- Review management's process for ensuring that information contained in analyst briefings, investor presentations and press announcements is consistent with published financial information, and is balanced and transparent.

External audit

- Provide a recommendation to the board on the selection, appointment, re-appointment or replacement of the external auditor and rotation of the engagement partner
- Review with the external auditor the scope and terms of the audit and the audit fee including a review of non-audit services provided by the external auditor
- Regularly review the audit plan for coverage of material risks and financial reporting requirements
- Assess the quality and effectiveness of the audit conducted and evaluate performance of the auditor
- Monitor and review auditor independence and objectivity
- Establish ongoing communications with the auditors and ensure access to directors and the audit committee
- Discuss with the external auditors matters relating to the conduct of the audit, including any difficulties encountered, any restrictions on scope of activities or access to information, significant disagreements with management and the adequacy of management response.

Internal audit

- Recommend to the board on the appointment and replacement of the CAE
- Review and approve the internal audit charter
- Review the internal audit structure, independence and access to senior management, the Committee and the board.
- Review and approve the strategic internal audit plan, often for a 2-3 year period to assess whether it addresses the business risks of the entity
- Review and approve the annual internal audit plan and any significant changes made to the plan
- Review reports of results of internal audit engagements, audit-related activities, team capability, audit performance and other important matters
- Make enquiries of the CAE to determine any scope or budget limitations that may impede the execution of internal audit responsibilities
- Consider overall effectiveness of the CAE and the internal audit function.

Risk management, fraud and internal control

- Consider the impact of the entity's culture on risk management and internal control
- Monitor changes in the economic and business environment, including consideration of emerging trends and other factors related to the entity's risk profile
- Review the effectiveness of processes for identifying the entity's risks and the appropriateness of the risk management procedures to maintain activities within the Board's risk appetite
- Review disclosures in the annual corporate governance statement in relation to recognition and management of business risks
- Consider the adequacy and effectiveness of the internal control and risk management framework by reviewing reports from management, internal audit and external audit, and by monitoring management responses and actions to correct any noted deficiencies
- Understand the processes management has implemented for managing insurable risks and, if applicable, self-insurance, including assessing the adequacy of insurance cover

- Review the business continuity planning process and be assured that material risks are identified and appropriate business continuity plans are in place.
- Review management's anti-fraud/corruption strategies and programs
- Enquire of management and the external auditor regarding their assessments of the risk of material misstatement in the financial report due to fraud
- Enquire of management, the internal auditor and the external auditor whether they are aware of any actual, suspected or alleged fraud or corruption affecting the entity and how they responded to such instances

Compliance and ethics

- Consider the impact of the entity's culture on compliance processes
- Monitor the impact of changes in key laws, regulations, internal policies and accounting standards affecting the entity's operations
- Review the effectiveness of the entity's systems, policies and practices that relate to compliance with laws, regulations, internal policies and accounting standards, and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance
- Obtain regular updates from management and the head of compliance about compliance and ethical matters that may have a material impact on the entity's financial statements, strategy, operations or reputation, including material breaches of laws, regulations, standards and company policies
- Review and monitor related party transactions
- Review processes and procedures designed to ensure compliance with the ASX listing rules on continuous disclosure
- Review and, where applicable, approve the policies, processes and framework for identifying, analysing and addressing complaints (including whistleblowing) and review material complaints and their resolution
- Review the entity's process for communicating the code of conduct to staff and assess the effectiveness of, and compliance with the code
- Discuss with management whether all regulatory compliance matters of the entity have been considered in the preparation of the financial statements, such as compliance with accounting standards and the requirement for the financial statements to reflect a 'true and fair' view.

Other responsibilities

- Perform other activities related to this charter as requested by the board.

Membership

The audit committee will consist of [insert number (at least three)] non-executive members of the board of directors, the majority being independent.

The board, on the recommendation of its nominating committee (where applicable), will appoint audit committee members and the audit committee chair who will be an independent and not the chair of the Board.

Composition of the committee will be reviewed annually by the board (or nominating committee if applicable) to ensure the appropriate balance of skills, knowledge and experience.

Each audit committee member must be financially literate. At least one member must have accounting or related financial expertise.

The Company Secretary of the Board will be the Secretary of this Committee.

Meetings

The audit committee will meet [insert number (at least four)] times a year or more frequently as necessary.

A quorum for a committee meeting will be a majority of committee members.

An agenda and meeting papers will be prepared and provided in advance to members, along with appropriate briefing materials.

Minutes of meetings will be prepared and circulated to audit committee members and all board members.

Meeting attendance by non-members

All directors may attend Committee meetings, subject to exclusion as deemed appropriate by the Committee Chairman from time to time.

The CEO, CFO, CAE shall normally be invited to attend committee meetings.

The external auditor is usually invited to attend all meetings of the Committee.

The Committee may ask management to present at Committee meetings on issues relevant to the Committee's duties and responsibilities.

The Committee should meet privately with the following persons or parties at least annually in separate sessions to discuss any matters that the Committee or these parties believe should be discussed privately with the Committee:

- CAE
- External auditor
- Head of risk management
- Head of compliance and legal counsel

Reporting

The committee will report regularly to the board about audit committee activities and make appropriate recommendations

Review

The committee will conduct an annual review of its performance and effectiveness. This review process will include review of the terms of this Charter.

Appendix 2

Self-assessment guide for audit committees

This guide has been provided to illustrate the types of considerations against which the audit committee might assess its performance collectively. Similar considerations may be applied to the assessment of the performance of individual members of the audit committee.

The guide includes a large number of considerations and should be tailored by each audit committee to meet its own requirements. The audit committee may complete the guide as a whole or individually, and then collate individual responses. The chair of the audit committee and members may decide to weight certain aspects of the self-assessment guide more than others. The audit committee may also seek input from non-member attendees and separately assess the information received.

The results of the self-assessment should be used by the audit committee for discussion to identify areas for improvement and a summary of agreed action items should be provided to the chair of the board.

We suggest the responses to the statements below are rated using a rating scale, such as the Likert Scale. A Likert-type scale assumes that the strength/intensity of experience is linear, i.e. on a continuum from strongly agree to strong disagree, and makes the assumption that attitudes can be measured.

Likert scale⁷³ examples include the following:

- Agreement – Strongly agree/Agree/Undecided/Disagree/Strongly disagree
- Frequency – Very frequently/Frequently/Occasionally/Rarely/Never
- Importance – Very important/Important/Moderately important/Of little importance/Unimportant
- Likelihood – About always true/Usually true/Occasionally true/Usually not true/Almost never true

The audit committee's self-assessment approach should be consistent with the committee's charter. For this reason, the considerations listed below reflect the structure and content of the sample charter provided in Appendix 1.

Assessing Audit Committee Performance

In evaluating the performance of the audit committee, the following would typically be considered.

Authority

- The Audit Committee has obtained authority from the board to perform the activities in its charter

Responsibilities

Corporate reporting

- Reviewed the financial statements presented by management, together with reports and opinions from the external auditor
- Reviewed significant accounting and reporting issues and assessed the appropriateness of accounting policies and methods chosen by management,

⁷³ www.simplypsychology.org/likert-scale.html

particularly those relating to significant estimates and judgements and the assessment of going concern

- Reviewed recent regulatory and professional pronouncements and gained an understanding of their impact on the financial report
- Reviewed the results of the audit, including significant adjustments, uncorrected misstatements and any difficulties encountered or unresolved disagreements with management
- Reviewed the appropriateness of disclosure in the financial statements and reporting to stakeholders, particularly in regards to estimates and judgements
- Reviewed with management and the external auditor all matters required to be communicated to the audit committee under Australian Auditing Standards, such as key audit matters for listed companies, significant internal control deficiencies, indications of fraud or corruption and non-compliance with laws or regulations.
- Reviewed all representation letters signed by management including the CEO and CFO declarations regarding the financial report and financial records
- Reviewed the financial statements, note disclosures and other information and recommended to the board whether the financial report should be approved
- Reviewed other sections of the annual report before its release, for consistency with members' knowledge about the entity and its operations, is unbiased
- Reviewed management's process for ensuring that information contained in analyst briefings, investor presentations and press announcements was consistent with published financial information, and was balanced and transparent

External audit

- Recommended to the board on the selection, appointment, re-appointment or replacement of the external auditor and rotation of engagement partner
- Reviewed the scope and terms of the external audit and the audit fee including a review of non-audit services provided by the external auditor
- Review regularly the audit plan for coverage of material risks and financial reporting requirements
- Assessed the quality and effectiveness of the audit conducted and evaluated the performance of the auditor
- Monitored and reviewed auditor independence and objectivity
- Established effective ongoing communications with the auditors and ensured access to directors and the audit committee
- Discussed with the external auditors matters relating to the conduct of the audit, any difficulties countered, any restrictions on scope of activities or access to information, significant disagreements with management and the adequacy of management response.

Internal audit

- Where appropriate the Audit Committee provided recommendations to the board on the appointment and replacement of the CAE
- Review and approved the internal audit charter
- Reviewed the internal audit structure, independence and access of senior management to the Committee and the board
- Reviewed and approved the strategic internal audit plan
- Reviewed and approved the annual internal audit plan and any significant changes
- Reviewed reports on the results of internal audit engagements, audit-related activities, team capability, audit performance and other important matters
- Made enquiries of the CAE to determine the scope of budget limitations that could impede the execution of internal audit responsibilities
- Considered the overall effectiveness of the CAE and the internal audit function.

Risk management, fraud and internal control

- Considered the impact of the entity's culture on risk management and internal control
- Monitored changes in the economic and business environment, and considered emerging trends and other facts related to the entity's risk profile
- Reviewed the effectiveness of processes for identifying the entity's risks and the appropriateness of the risk management procedures to maintain activities within the Board's risk appetite
- Reviewed disclosure in the annual corporate governance statement in relation to recognition and management of business risks
- Considered the adequacy and effectiveness of the internal control and risk management framework by reviewing reports from management, internal audit and external audit and b monitoring management responses and actions to correct any noted deficiencies
- Reviewed the processes management has implemented for managing insurable risks and, where applicable, self-assurance, and assessed the adequacy of insurance cover
- Reviewed the business continuity planning process and assured that risk were identified and appropriate business continuity plans are in place.
- Reviewed management's anti-fraud and corruption strategies and programs
- Enquired of management and the external auditor regarding their assessments of the risk of material misstatement in the financial report due to fraud
- Enquired of management, the internal auditor and the external auditor whether they have any knowledge of actual, suspected or alleged fraud or corruption affecting the entity and how they responded

Compliance and ethics

- Considered the impact of the entity's culture on compliance processes
- Reviewed the effectiveness of management's systems for monitoring compliance with law, regulations, internal policies and accounting standards, and the results of management's investigations and follow-up of any instances of non-compliance
- Obtained regular updates from management and the head of compliance about compliance and ethical matters that may have a material impact on the entity's financial statements, strategy, operations or reputation, including material breaches of laws, regulations, standards and company policies
- Reviewed and monitored related party transactions
- Reviewed processes and procedures designed to ensure compliance with the ASX listing rules on continuous disclosure
- Reviewed and approved (where applicable) the policies, processes and framework for identifying, analysing and addressing complaints (including whistleblowing) and reviewed material complaints and their resolution?
- Reviewed the entity's process for communicating the code of conduct to staff and assessed the effectiveness of, and compliance with, the code
- Discussed with management whether all regulatory compliance matters of the entity were considered in the preparation of the financial statements, such as compliance with accounting standards and the requirement for the financial statements to reflect a 'true and fair' view.

Membership

- The size of the audit committee is appropriate to the entity and the responsibilities in the audit committee charter
- All audit committee members are non-executive directors
- The majority of audit committee members are independent
- Composition is reviewed annually to ensure the appropriate balance of skills, knowledge and experience

- All audit committee members financially literate and able to understand financial statements; with at least one member with accounting or related financial expertise.

Meetings

- The audit committee meets regularly throughout the year and the number of meetings is appropriate for the nature of the entity and the responsibilities of the audit committee
- Sufficient member attendance at all meetings
- The agenda and meeting papers are provided well in advance of meetings
- Minutes are taken and appropriately circulated to committee members in a timely manner, and to the Board
- Sufficient opportunity is provided to discuss confidential matters privately with relevant senior staff – including the CAE, head of risk management, head of compliance and legal counsel
- Sufficient opportunity is provided to engage with the external auditors, including a separate sessions to discuss private matters at least annually.

Reporting

The Audit Committee reports regularly to the board on their activities and makes recommendations where appropriate.

Review

The Audit Committee evaluates their performance and effectiveness, as a whole and for each member, at least once a year.

Overall

- What has been done well on the Audit Committee this year?
- What has not been done well on the Audit Committee this year?
- What are three areas for improvement for the Audit Committee operations and processes going forward?

Appendix 3

Management representation letter

Internal management representations to those charged with governance

Management Representation letters are commonly used by those charged with governance to assist them in discharging their obligations to external parties. Such representations may include:

- Financial Reporting Certifications including Internal Control Questionnaires;
- Declarations provided to the board or audit committee of local or foreign jurisdictions in accordance with the respective jurisdiction's regulations⁷⁴; or
- Representations in respect of continuous disclosure obligations to enable disclosures to the market.

Section 8 of APES GN 41 *Management Representations* prepared and issued by the Accounting Professional and Ethical Standards Board provides guidance in relation to management representation considerations at the audit committee level.

External management representations to the external auditor

The external auditor requests written representations from management with appropriate responsibilities for the financial report⁷⁵. The following list is provided to assist audit committees to understand the types of representations included in a representation letter prepared and signed by management. It includes selected matters that are commonly included and may not include all representations provided by management to the external auditor. It is provided for information purposes only and is not definitive.

Management would ordinarily represent, or confirm, to the external auditor that:

Regarding the financial report

- Management has fulfilled its responsibilities for the preparation of the financial report in accordance with [the applicable reporting framework]
- All transactions have been recorded in the accounting records and are reflected in the financial report
- Significant assumptions used by management in making accounting estimates, including those measured at fair value, are reasonable
- Related party relationships and transactions have been appropriately accounted for and disclosed
- All events subsequent to the date of the financial report required to be adjusted or disclosed have been adjusted or disclosed
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial report as a whole. (A list of the uncorrected misstatements may be attached to the representation letter)

Regarding the information provided

- Management has provided the auditor with:

⁷⁴ S295A of the *Corporations Act 2001*

⁷⁵ See Auditing and Assurance Standards Board ASA 580 *Written Representations*

- access to all information of which they are aware that is relevant to the preparation of the financial report such as records, documentation and other matters
- additional information that the auditor has requested from them for the purpose of the audit
- unrestricted access to persons within the entity from whom the auditor determined it necessary to obtain audit evidence
- all information required to be provided by the law or regulations.
- Management has disclosed to the auditor:
 - the results of their assessment of the risk that the financial report may be materially misstated as a result of fraud
 - all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial report communicated by employees, former employees, analysts, regulators or others
 - all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial report
 - all known actual or possible litigation and claims whose effects should be considered when preparing the financial report; and accounted for and disclosed in accordance with [the applicable financial reporting framework]
 - the identity of the entity's related parties and all the related party relationships and transactions of which we are aware
 - all the documents that they expect to issue that may comprise other information.

Regarding other matters

- Management acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent, deter, detect and report on fraud.

Appendix 4

Role of the audit committee within the governance environment of the organisation

The IIA lists the four pillars of governance as the audit committee, executive management, internal audit and external audit. With this perspective in mind, the audit committee has an active role to play to satisfy itself there is a strong governance environment covering their entity.

The 3 Lines of Defence model is used by many entities to define their control and risk management environment to provide assurance to the board of directors, audit committee, chief executive officer, senior executives and stakeholders about effective governance:

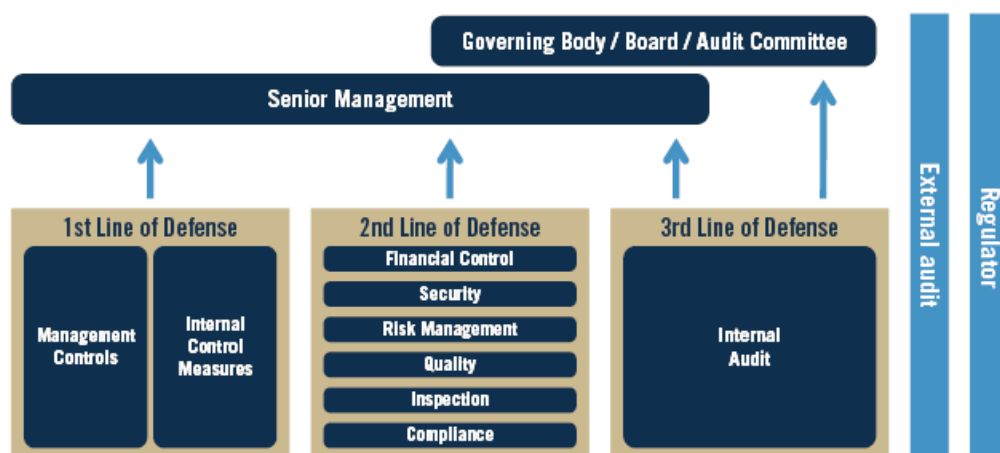
- The 1st line of defence *owns and manages risk*. It initiates risk and is responsible for managing the risks, together with making sure there are mechanisms in place to demonstrate controls are working effectively.
- The 2nd line of defence *monitors risk*. It monitors reviews and tests effectiveness of first line controls and management of risks.
- The 3rd line of defence *assures risk is managed*. It independently⁷⁶ evaluates and gives an opinion on the adequacy and effectiveness of both the 1st line and 2nd line risk management approaches. It is a form of assurance independent ⁷⁷of management.

While the approach will be different for every entity, the concept can generally be illustrated as shown in the following diagram. If the 3 Lines of Defence are assessed as operating effectively, the audit committee can have a higher level of confidence the entity is well-governed.

⁷⁶ Note that 'independently' has different definitions in respect of internal audit versus external audit – refer Appendix 6

⁷⁷ Note that 'independent' has different definitions in respect of internal audit versus external audit – refer Appendix 6

The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

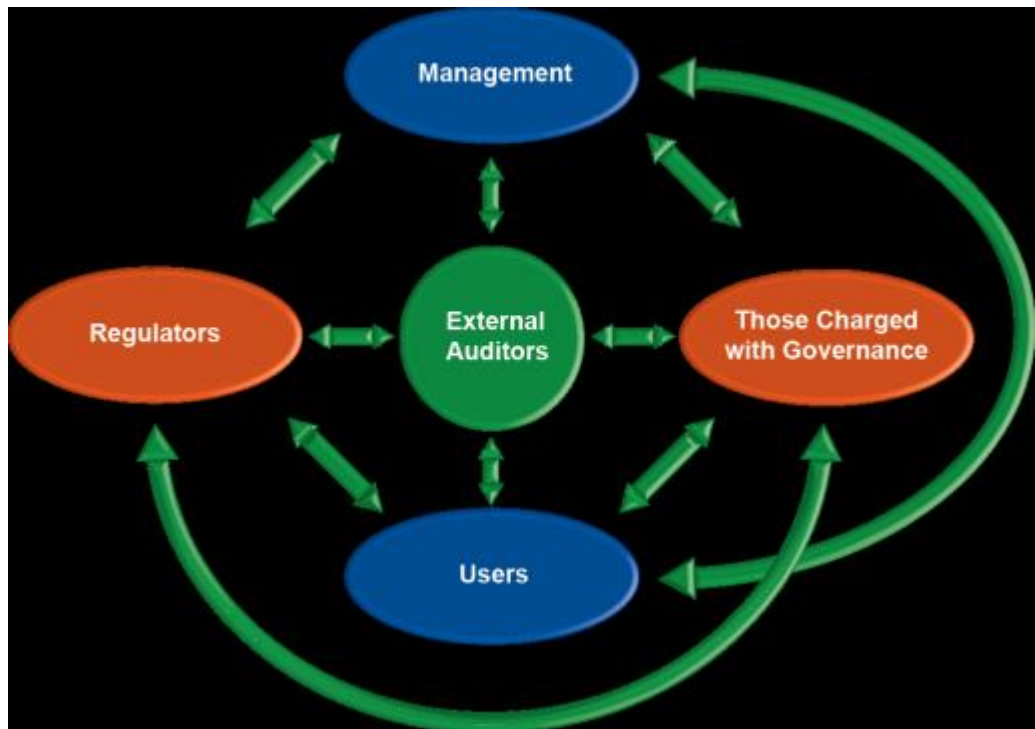
Appendix 5

Interactions with the Audit Committee within the IAASB Audit Quality Framework

The IAASB's Framework for Audit Quality sets out the key elements that contribute to quality audits. The framework recognises that while the primary responsibility for performing quality audits rests with auditors, the framework recognises that audit quality is best achieved in an environment where there is strong support from other participants in the financial reporting supply chain.

Audit Committees as key players in the financial reporting supply chain need to consider their involvement in improving overall audit quality, audit committees consider whether:

- they have challenged both management and auditors sufficiently to be confident that all material financial reporting risks have been considered
- the financial statements properly account for and disclose significant transactions and events
- they have been sufficiently sceptical and challenged auditors and management in relation to choices of accounting policies, assessment of fraud and contentious items such as impairment models,
- the audit fees are commensurate with the scale and complexity of the entity to enable a quality audit to be undertaken
- independent issues have been appropriately considered and resolved



a.

Diagram: From IAASB A FRAMEWORK FOR AUDIT QUALITY: KEY ELEMENTS THAT CREATE AN ENVIRONMENT FOR AUDIT QUALITY

Appendix 6

Key definitional differences between external audit and internal audit

External audit and internal audit often use the same terms when communicating with audit committees and board. However, the meaning of such terms is often fundamentally different within the context of their specific activity. This appendix sets out some commonly used terms that may have different meanings.

Commonly used term	External audit meaning	Internal Audit meaning ⁷⁸
Assurance engagement/ services	An engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. ⁷⁹ There are levels of assurance with an external audit providing reasonable assurance to users, which is the greatest degree of assurance available to users.	An engagement involving objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.
Independence/ Independent	Ensuring an objective mindset, avoiding appearance and/or perception issues and avoiding conflicts of interest occurring. ⁸⁰ Practitioners are required to comply with this definition ⁸¹ . Professional services firms and the members of an external audit engagement must be independent of the client, considering such factors as the scope of services the firm provides to the client, as well as the employment history and personal financial holdings of the engagement team and others in the firm.	The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. This refers to organisational independence or the hierarchical and reporting independence of the internal auditors from those whose work they are reviewing.

⁷⁸ International Professional Practices Framework

⁷⁹ AUASB Glossary

⁸⁰ APES 110 Code of Ethics

⁸¹ APES 110 Code of Ethics

Commonly used term	External audit meaning	Internal Audit meaning⁸²
Internal audit	The internal audit function means ⁸³ a function of an entity that performs assurance and consulting services designed to evaluate and improve the effectiveness of an entity's governance, risk management and internal control processes.	Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
Fraud	<p>An intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage.⁸⁴</p> <p>External audit will (a) identify and assess the risks of material misstatement of the financial report due to fraud; (b) obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud; and (c) respond appropriately to fraud or suspected fraud identified during the audit.</p>	<p>Any illegal act characterised by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.</p> <p>Internal audit is directly concerned with the prevention of fraud in any activity undertaken.</p>

⁸² *International Professional Practices Framework*

⁸³ *AUASB Glossary*

⁸⁴ *AUASB Glossary*

Appendix 7

Example calendar of events

Inclusion of the annual work plan or calendar of events, cross-referenced to the charter, in meeting papers may be a useful method in covering off compliance with the charter. Below is an example based on a 30 June year end, with interim reporting period at 31 December. It is based on four meetings per year and lodging of reports with the regulator close to deadline date. This should be tailored to the requirements in your charter, and your expected reporting deadlines.

[Company Name] Limited

Audit & Risk Management Committee Calendar

Audit committee responsibility	Meeting month					
	Feb		Jun		Aug	Dec
1 Corporate Reporting						
Advise on Changes in Standards, ASIC Focus areas, etc.			X			X
Review Significant Accounting Policies, Estimates and Judgements			X			
Review Period End Issues Paper			X		X	
Review Format of Management Questionnaires			X			
Receive Completed Management Questionnaires					X	
Review Financial Reports	X				X	
Review Annual Report, including non-IFRS profit communication					X	
Review ESG or other External Reports	X				X	
2 External Audit						
Review Letter of Appointment/Rotation arrangements						X
Review Scope of Fees and Audit Plan						X
Receive Report on Financial Report	X				X	
Review Management Letter						X
Assess Quality and Effectiveness of the Audit						X
Assess Other Services for Independence	X				X	
Review Audit Independence Policy			X			
Receive Declaration of Independence	X				X	
Meet without Management	X				X	
3 Internal Audit						
Review Charter, Structure and Resourcing			X			

Approve Internal Audit Plan			X				
Audit committee responsibility	Meeting month						
	Feb		Jun		Aug		Dec
3 Internal Audit (continued)							
Review Internal Audit Reports and follow-up implementation of recommendations	X		X		X		X
Assess Overall Effectiveness and Performance							X
Meet without Management	X				X		
OR if no internal audit function exists							
Consider the need for an IA function			X				
4 Risk Management, Internal Controls and Fraud							
Receive Report on Internal Controls			X				
Review Register of Internal Control Weaknesses			X				
Review Risk Management Policy							X
Review Risk Management Annual Plan							X
Review Risk Register			X				X
Review Risk Management/Compliance Reporting	X		X		X		X
Review Internal Controls & Risk Management Statement					X		
Review management's anti-fraud/ corruption strategies and programs	X						
Meet without Management			X				
5 Compliance and Ethics							
Review Code of Conduct and communication processes					X		
Review Related Party Transactions	X				X		
Review Corporate Governance Statement					X		
Review Treasury Policy					X		
Review Continuous Disclosure Policy							X
Review Share Trading Policy							X
Review Shareholder Communications Policy							X
Review Director Independence					X		
Review Complaints Policies, Processes and Framework	X						
Review Compliance with Corporate Governance Policies			X				
Meet without Management (includes compliance and legal counsel)			X				
6 Committee Performance and Reporting							
Review Committee Charter							X
Assess Performance and Effectiveness of Committee			X				
Prepare Annual Report to Board					X		
Discuss Trends & Issues	X		X		X		X
Meeting Dates							
	--th		--th		--th		--th

Glossary terms

APRA-regulated entities

Entities that are regulated by the Australian Prudential Regulation Authority (APRA), including banks, building societies and credit unions (authorised deposit-taking institutions), life and general insurance and reinsurance companies, friendly societies and superannuation funds (excluding self-managed funds).

Assurance engagement

Refer to Appendix 6

Audit engagement partner

The partner or other person in the audit firm who is responsible for the audit engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Business risks

All risks to the organisation including operational, financial, compliance and strategic risks.

Chief audit executive (CAE)

A person in a senior position responsible for effectively managing internal audit in accordance with the internal audit charter and the *International Professional Practices Framework* (IPPF).

Concise financial report

A report for a financial year prepared under Chapter 2M of the *Corporations Act 2001* in accordance with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

Continuous disclosure obligations

Continuous disclosure is the timely advising of information to keep the market informed of events and developments as they occur. Under the ASX Listing Rules, once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell the ASX that information.

Corruption

Corruption can be defined as abuse of entrusted power for private gain.

Direct assistance

The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.⁸⁵

External auditor

An individual auditor, an audit firm or an authorised audit company providing external audit services.

Financial report⁸⁶

An annual financial report or a half-year financial report prepared under Chapter 2M of the *Corporations Act 2001*. An annual financial report contains the financial statements, notes to the financial statements and the directors' declaration about the financial statements and

⁸⁵ ASA610 *Using the Work of Internal Auditors*

⁸⁶ Section 295 and section 303 of the *Corporations Act 2001*

notes. The half-year financial report contains the financial statements and notes to the financial statements.

Financial reporting declarations

A management representation provided by the CEO and CFO to Those Charged With Governance in relation to an entity's Financial Statements.⁸⁷

Financial statements

A complete set of financial statements comprises⁸⁸:

1. A statement of financial position as at the end of the period
2. A statement of comprehensive income for the period
3. A statement of changes in equity for the period
4. A statement of cash flows for the period
5. Notes, comprising a summary of significant accounting policies and other explanatory information
6. A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Fraud

Refer to Appendix 6

Independence

Refer to Appendix 6

Internal audit

Refer to Appendix 6

Internal auditor

The individual/s who perform the internal audit services.

Internal control⁸⁹

The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.

International Financial Reporting Standards (IFRS)

Standards for accounting and financial reporting issued by the International Accounting Standards Board (IASB).

Key audit matter (KAM)

Matters, which in the auditor's professional judgement, are of most significance in the audit of the financial report of the current reporting period. Reporting of KAMs by the auditor in the auditor's report is only required for general purpose financial reports of listed entities or where required by law or regulation⁹⁰

Management representation

⁸⁷ APES GN41 *Management Representations*

⁸⁸ AASB 101 *Presentation of Financial Statements*

⁸⁹ AUASB *Glossary*

⁹⁰ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

A written statement provided by management of an entity to confirm certain matters represented by them in the financial report, or in relation to the preparation of the financial report, or to support other audit evidence.

Misstatement

A difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.⁹¹

Risk appetite

The level of risk that the entity is prepared to accept.

Risk profile

The description of the entity's set of risks.

Risk management⁹²

A coordinated set of activities and methods that is used to direct an organisation and to control the many risks that can affect its ability to achieve objectives. It also can be used to mean the architecture that is used to manage risk. This architecture includes risk management principles, a risk management framework, and a risk management process.

Those charged with governance⁹³

The person/s or organisation/s (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process and therefore may include the audit committee.

Uncorrected misstatements

Misstatements that the auditor has accumulated during the audit and that have not been corrected.⁹⁴

List of Acronyms

AASB	Australian Accounting Standards Board
AICD	Australian Institute of Company Directors
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
AUASB	Australian Auditing and Assurance Standards Board
CAE	Chief Audit Executive
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COSO	Committee of Sponsoring Organisations of the Treadway Commission
IAASB	The International Auditing and Assurance Standards Board
IFRS	International Financial Reporting Standards
IIA	The Institute of Internal Auditors Inc.
IIA-A	Institute of Internal Auditors-Australia
IPPF	International Professional Practices Framework

⁹¹ AUASB Glossary

⁹² AS/NZS ISO 31000: 2009 *Risk Management – Principles and guidelines*

⁹³ AUASB Glossary

⁹⁴ AUASB Glossary

KAM

Key Audit Matter

Contact details

Auditing and Assurance Standards Board
Podium Level 14, 530 Collins Street Melbourne VIC 3000
Phone: +61 3 8080 7445
Fax: +61 3 8080 7450
Email: enquiries@auasb.gov.au
Web: www.ausab.gov.au

Australian Institute of Company Directors
Level 30, 20 Bond Street Sydney NSW 2000
Phone: +61 2 8248 6600
Fax: +61 2 8248 6633
Email: contact@companydirectors.com.au
Web: www.companydirectors.com.au

The Institute of Internal Auditors-Australia
Level 7, 133 Castlereagh Street Sydney NSW 2000
Phone: +61 2 9267 9155
Fax: +61 2 9264 9240
Email: enquiry@iia.org.au
Web: www.iia.org.au



Australian Government
Auditing and Assurance Standards Board

Podium Level 14, 530 Collins Street
Melbourne VIC 3000 Australia
PO Box 204, Collins Street West
Melbourne VIC 8007

March 2017

Mr Matt Waldron
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 5th Avenue, 14th Floor
New York, New York 10017 USA

Dear Matt,

AUASB Submission on IAASB Request for Input, Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to comment on the Request for Input (RFI) from the IAASB's Data Analytics Working Group (DAWG).

The AUASB is strongly supportive of this initiative, particularly given the growing use of technology and the increasing importance of data analytics in the conduct of assurance engagements. We commend the comprehensive and robust analysis provided in the RFI, in addressing the opportunities and challenges facing assurance practitioners and standard setters. Given this, the focus of our response will be to highlight the key issues identified by the AUASB its stakeholders.

In formulating its response, the AUASB has sought input through the hosting of two roundtable meetings with stakeholders from a broad range of backgrounds including practitioners, regulators, professional accounting bodies, education bodies, academics, and public sector representatives. The roundtable sessions provided valuable insights into the varied use of and perspectives on data analytics, by the Big 4 firms, small to medium practitioners, government, academia and regulators.

There was enthusiastic consensus that data analytics are being used, and their use will continue to grow, with the potential to transform the audit profession. However, as explored in the RFI there are significant challenges being faced by practitioners, in particular in understanding how audit evidence derived from the use of data analytics fit into the current ISAs, and demonstrating compliance with existing standards. The lack of guidance and clarity on this matter is significantly impacting the efficiency of the audit process, and has the potential to inhibit the use of data analytics in the future. There was broad concern about regulatory scrutiny, and the need for standard setters to provide practical guidance on how data analytics fit into the current ISAs. There was also broad agreement in relation to regulatory challenges faced by the auditing profession if standard setters don't act quickly.

The following key points were identified by the AUASB and its stakeholders for the IAASB's DAWG's consideration, which are elaborated on further in the attached response:

- In the shorter term prioritise guidance on how data analytics can be applied with the existing auditing standards framework. In particular, how using data analytics complies with the requirements of ISA 500 *Audit Evidence*, ISA 520 *Analytical Procedures*, and ISA 530 *Audit Sampling*. For example, treatment of outliers when 100% of the population is tested. Given the fast moving change in this area, practitioners should be given the opportunity to explore alternate approaches without being in fear of regulatory repercussions.

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

- In the longer term consider the need to revise these auditing standards to accommodate the diverse range of current and future data analytic techniques. The IAASB should continue with a principles based approach to avoid the risk of being out-dated.
- The need to work closely with regulators in each jurisdiction to reduce the risk of adverse findings during audit inspection and surveillance programs. Options such as “regulatory sand boxing” via flexibility in relation existing regulatory frameworks needs to be progressed.

The AUASB’s responses to the specific questions asked in the request for input are included in this letter as Attachment 1.

Should you have any queries regarding this submission, please do not hesitate to contact Anne Waters (awaters@auasb.gov.au) or Mark Dowling (mdowling@auasb.gov.au).

Yours sincerely,

Merran Kelsall
Chairman

Attachment 1 - AUASB Submission on IAASB Data Analytics Working Group RFI – Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics

(a) Have we considered all circumstances and factors that exist in the current business environment that impact the use of data analytics in a financial statement audit?

Response.

The AUASB and its stakeholders are satisfied that the RFI has adequately captured all key circumstances and factors in relation to the use of data analytics in a financial statement audit (including: data acquisition, conceptual challenges, legal and regulatory challenges, resource availability, regulators and audit oversight authorities and the re-training and re-skilling of auditors). The key issues in relation to impacts on the SMP/SME community were also well addressed.

Based on feedback received from the AUASB and its stakeholders who attended our roundtable sessions, we provide the following additional circumstances and factors for consideration:

- There is an expectation from clients and other stakeholders that auditors use data analytics and have appropriate skills to effectively use technology in the financial statement audit. This will assist in the continued and increasing use of data analytics by auditors.
- Professional judgement is vitally important when determining the right data to use, the procedures to perform, the relevance to the audit and the nature of audit evidence obtained.
- Additional consideration of newly emerging technologies such as the use of audit procedures utilising artificial intelligence (machine learning) and the use of automated self-learning controls (providing a continuous audit).
- Additional content in relation to the use of data analytics on non-financial data (including implications for the reporting of non-financial information).
- The need to determine the relevance and reliability of internal and external data, and what and when procedures need to be conducted before reliance can be placed on the completeness and accuracy of the information.
- Small medium practices are more likely to use third party developed tools to perform data analytic procedures. Consideration should be given to providing guidance on the level of and nature of procedures that should be performed to assess the reliability of these tools.

(b) Is our list of standard-setting challenges accurate and complete?

Response.

The AUASB and its stakeholders found that the RFI identifies the key standard-setting challenges (including regulatory considerations) well. In particular we emphasise:

- The nature of audit evidence obtained via data analytics and whether the current distinction in the auditing standards between risk assessment, controls testing and substantive procedures is relevant when using data analytics, are important matters to be addressed by standard setters. Data analytic procedures can cross over these areas.

- Regulatory risk has been identified as a key issue and we believe this has the potential to be a major deterrent to the increased use of data analytics in the audit.
- Matters relating to education and training are also critical and there was agreement on the importance of standard setters working closely with academics to ensure the currency of accounting and audit curriculums through an increased focus on data analytics.

(c) To assist the DAWG in its ongoing work, what are your views on possible solutions to the standard-setting challenges?

Response.

The AUASB and its stakeholders agreed that the RFI provides solid coverage of possible solutions. Discussion at our roundtable sessions and additional feedback obtained, identified the following areas as the key ones to address:

- The development of practical guidance on the use of data analytics including the extensive use of examples for all stages of the audit. Stakeholders mentioned challenges in relation to risk assessment, testing of controls, audit evidence and sampling as areas in need of guidance. Our stakeholders were of the view that prioritisation should be given to the following standards:
 - *ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* (including clarification of whether procedures provide sufficient and appropriate audit evidence.)
 - *ASA 230 Audit Documentation* (including retention requirements for internal and external data and re-performance of tests based on point in time data.)
 - *ASA 330 The Auditor's Responses to Assessed Risks* (including when controls testing, substantive testing (including tests of detail) are required to be performed and whether this is still appropriate when using data analytics to test 100% of a population.)
 - *ASA 500 Audit Evidence* (how data analytics have provided appropriate audit evidence and for what assertions, and the use of information produced by the entity)
 - *ASA 520 Analytical Procedures* (determining the reliability of information, and the requirement to set an expectation)
 - *ASA 530 Audit Sampling* (appropriateness of the current requirements and guidance in relation to deviations or misstatements identified when using data analytics when testing 100% of population for controls and substantive testing)
- Increased collaboration with regulators with a view to providing clarity in relation to the application of auditing standards, with a focus how data analytics can be used to provide sufficient and appropriate audit evidence in relation to substantive procedures. The stakeholders were concerned that regulators in Australia are likely to adopt a rigid approach in relation to this and are likely to stick closely to the auditing standards in this area (e.g. the continued use of traditional sampling procedures). The stakeholders were supportive of the concept of a “regulatory sandbox” or “safe haven” to enable additional exploration in relation to alternative audit procedures. The Australian Securities and Investment Commission (ASIC) has used a regulatory sandbox approach in the financial services sector as a means of

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

facilitating innovation and improving customer experiences. We would be pleased to provide more information in relation to regulatory sandboxing if required.

- Providing clarification in relation to the extent of testing of general IT and application controls and the impact on the use of data analytics (including the ability to rely on internal and external information generated by the organisation subject to audit as well as external parties). The stakeholders are keen to understand what level of testing is required before they can utilise client provided information in data analytics procedures.
- The need for guidance on the impact on existing data documentation and retention requirements given the real-time nature of data analytical procedures. The stakeholders expressed concerns about their potential exposure in relation to re-performance requirements, privacy and other regulatory issues (including non-financial regulators).
- A longer term review of auditing standards to ensure they adopt a principles based approach in relation to the use of data analytics. Changes to auditing standards need to accommodate the diverse range of current and future techniques to avoid the risk of being out-dated.

(d) Is the DAWG's planned involvement in the IAASB projects currently underway appropriate?

Response.

Whilst the AUASB and its stakeholders are encouraged by the level of involvement to date, our stakeholders are of the view that the data analytics project be given an increased priority in the current IAASB work plan given its pervasive impact on the current auditing environment and the rapid evolution of technology. The stakeholders expressed their concern that any further delays will have a significant impact on the economics of an audit. Our stakeholders were also of the view that further delays are impacting client expectations in relation to provision of value added information obtained through the use of data analytics. There is also a risk that non-audit practitioners will fill the gap in this area (e.g. accounting software providers) and obtain a first mover advantage.

(e) Beyond those initiatives noted in the Additional Resources section of this publication, are there other initiatives of which we are not currently aware of that could further inform the DAWG's work?

Response.

The AUASB agrees with the NZAuASB submission that the IAASB should consider output from the International Organisation of Supreme Audit Institutions Data Analytics Working Group.

- (f) *In your view, what should the IAASB's and DAWG's next steps be? For example, actions the IAASB and DAWG are currently considering include:*
- (i) *Focusing attention on revisions, where appropriate, to ISAs affected by the IAASB's current projects.*
 - (ii) *Exploring revisions to ISA 520*
 - (iii) *Hosting one or more conferences with interested stakeholders to collectively explore issues and possible solutions to the identified challenges*
 - (iv) *Continuing with outreach and exploration of issues associated with the use of data analytics in a financial statement audit, with a view towards a formal Discussion Paper consultation in advance of any formal standard-setting activities.*

Response.

The AUASB and its stakeholders support the above steps and welcome the move to extend beyond short term guidance to the more formal approach of revising the auditing standards. Per our responses above, the prioritisation of these steps is vitally important and eagerly anticipated.

Refer above to the other standards we believe should be considered for revision.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5b**

Meeting Date: 1 March 2017

Subject: Agreed-Upon Procedures – IAASB Discussion Paper

Date Prepared: 6 February 2017

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

To consider and provide input into the AUASB draft response to the IAASB Discussion Paper: Agreed-Upon Procedures.

Background

- The IAASB issued its Discussion Paper *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's International Standards* on 27 November 2016, with a comment period closing 29 March 2017.
- The AUASB has had significant input into this paper through the prior AUASB Executive Director's involvement in the AUPs IAASB working group.
- The AUASB has sought input from its constituents in two ways. The first was targeted input from assurance providers from medium and large audit firms, audit regulators, professional accounting bodies, directors and academics. The second was by an open invitation to provide comments placed on the AUASB website. We have received two responses from KPMG – Agenda Item 5b.4 and PWC – Agenda Item 5b.5.

Matters to Consider

A draft submission has been prepared based on the current position of the Australian Standard ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*. Further Board input is requested.

Part B – NZAuASB

The AUASB technical group has communicated with the NZAuASB technical staff – there are no diverging views.

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

Part C – “Compelling Reasons” Assessment

1. N/A

AUASB Technical Group Recommendations

1. N/A – objective is to receive input into the draft.

Material Presented

Agenda Item 5b	AUASB Board Meeting Summary Paper
Agenda Item 5b.1	AUASB Covering Letter
Agenda Item 5b.2	Draft AUASB submission
Agenda Item 5b.3	IAASB Discussion Paper
Agenda Item 5b.4	KPMG response to IAASB Discussion Paper
Agenda Item 5b.5	PWC response to IAASB Discussion Paper

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Input	Input	AUASB	1 March 2017	



Australian Government
Auditing and Assurance Standards Board

Podium Level 14, 530 Collins Street
Melbourne VIC 3000 Australia
PO Box 204, Collins Street West
Melbourne VIC 8007

March 2017

Mr Matt Waldron
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, New York 10017 USA

Dear Matt,

AUASB Submission on IAASB Discussion Paper – Exploring the Demand for Agreed-Up Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB’s Discussion Paper *Exploring the Demand for Agreed-Up Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards* (DP).

The AUASB is supportive of this DP, particularly in light of the increasing demand for agreed-upon procedures engagements. The DP builds on the Australian Standard on Related Services, ASRS 4400 *Agreed-Up Procedures Engagements to Report Factual Findings* and the AUASB has had significant input into this paper through the prior AUASB Executive Director’s involvement in the AUPs IAASB working group. We are very interested in this project and are happy to offer our assistance to the task force if needed.

In formulating its response, the AUASB has sought input from its constituents in several ways. The first was targeted input from assurance providers from medium and large audit firms, audit regulators, professional accounting bodies, directors and academics. The second was by an open invitation to provide comments placed on the AUASB website; and the third was by way of subsequent formal discussions by the AUASB members at recent board meetings.

The AUASB key points of particular importance for the IAASB’s consideration are elaborated on further in the detailed submission attached.

Should you have any queries regarding this submission, please do not hesitate to contact Rene Herman (rh Herman@auasb.gov.au).

Yours sincerely,

Merran Kelsall
Chairman

ATTACHMENT

AUASB Submission on IAASB Discussion Paper – *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards*

Q1/Q2:

The Role of Professional Judgment and Professional Scepticism in an AUP Engagement

Results from the Working Group’s outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?

The Role of Professional Judgment and Professional Scepticism in an AUP Engagement

Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?

One of the differentiating factors between an agreed-upon procedures engagement and an assurance engagement is the extent of assurance practitioner’s professional judgement exercised in selecting procedures. In an agreed-upon procedures engagement, professional judgement may be exercised in assisting the engaging party to identify procedures when agreeing the terms of the engagement, but only professional competence and skill is exercised in conducting the procedures and in this way adds value to the engagement; while in an assurance engagement, professional judgement is exercised in selecting and conducting procedures.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, paragraph A11 states: *In an agreed-upon procedures engagement, as the assurance practitioner does not express a conclusion, it is the engaging party’s responsibility to determine the procedures which will provide sufficient appropriate evidence to support their own or intended users’ conclusions. It is only appropriate for the assurance practitioner to select the procedures if they will be assessing the evidence to support a conclusion provided in an assurance engagement.*

While a user may place reliance on the factual findings of an assurance practitioner in an agreed-upon procedures engagement by virtue of the practitioner’s professional skill in conducting the agreed-upon procedures, this reliance does not amount to the provision of assurance. In contrast, an assurance engagement the practitioner exercises their professional judgement to determine the procedures necessary to gather sufficient appropriate evidence on which to base a conclusion, which provides assurance to the intended user.

One of the most significant attributes of an agreed-upon procedures engagement is the lack of subjectivity in both the procedures and the factual findings. Applying judgement requires a level of subjectivity, so the AUASB considers that it is not be appropriate for the practitioner to exercise professional judgement when conducting agreed-upon procedures.

Q3

The Independence of the Professional Accountant

What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?

The AUASB is of the view that the assurance practitioner, when carrying out procedures of an assurance nature and reporting factual findings, needs to either be independent or to have agreed modified independence requirements with the engaging party and agreed or disclosed those modified independence with intended users.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* requires the assurance practitioner to maintain independence equivalent to the independence requirements applicable to Other Assurance Engagements and to disclose in their report if modified independence requirements are agreed.

ASRS 4400, paragraph 17 *When conducting an agreed-upon procedures engagement, the assurance practitioner shall comply with ethical requirements equivalent to the ethical requirements applicable to Other Assurance Engagements*, including those pertaining to independence, unless the engaging party has explicitly agreed to modified independence requirements in the terms of the engagement. If modified independence requirements have been agreed in the terms of the engagement, the level of independence applied shall be described in the report of factual findings.*

Q4

Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report

What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology mean? Would your views change if the AUP report is restricted?

The AUASB is supportive of guidance on what constitutes unclear or misleading terminology, however notes that the practitioner's report needs to be in sufficient detail to enable the users to draw their own conclusions. The AUASB views that prohibiting terminology could make the standard too prescriptive.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* paragraph 47, touches on this issue *"The report of factual findings for an agreed-upon procedures engagement shall be clearly distinguished from an assurance report in that it shall not contain: (a); (b) inappropriate use of the terms "assurance", "audit", "review", "opinion" or "conclusion".*

Q5 AND Q6

AUP Engagements on Non-Financial Information

What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?

AUP Engagements on Non-Financial Information

Are there any other matters that should be considered if the scope is clarified to include non-financial information?

The AUASB agrees with clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* is not limited to "financial information". This standard includes requirements for the assurance practitioner to only accept the engagement if those persons who are to perform the engagement collectively have the capabilities and competence to perform the procedures; and to satisfy themselves that the engagement team and any experts collectively have competence, capabilities and resources to perform the agreed-upon procedures.

* For ethical requirements specifically relating to Other Assurance Engagements, refer to APES 110 Code of Ethics for Professional Accountants (as referenced in ASA 102), section 291 Independence - Other Assurance Engagements, issued by the Accounting Professional & Ethical Standards Board (APESB)

Q7

Using the Work of an Expert

Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?

The AUASB supports the working group's view that ISRS 4400 should be enhanced for the use of experts in AUP engagements.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* requires the assurance practitioner to satisfy themselves that the engagement team and any experts engaged who are not part of the engagement team to collectively have competence, capabilities and resources to perform the agreed-upon procedures; and to evaluate the adequacy of their work, including their objectivity and technical competence in conducting the procedures, whether the nature, timing and extent of procedures conducted agrees with procedures in the terms of the engagement and whether the factual findings communicated detail adequately the result of the procedures conducted.

Q8

Format of the AUP Report

What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report? We would be particularly interested in receiving Illustrative reports that you believe communicate factual findings well

The AUASB is supportive of improvements to the illustrative auditor's report, however the format of illustrative reports should not be prescribed, but should rather be examples only incorporating the elements identified as required by the standard. If law or regulation prescribes the format of an agreed-upon procedures report, the practitioner would need to understand that each element identified as required by the standard is included in a prescribed report.

For ease of communication, the Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, includes an example report presenting factual findings in a table format, containing procedures performed, factual findings and errors/exceptions identified. The example report can be found in appendix 4 of [ASRS 4400](#) on the AUASB website.

Q9, Q10 AND Q11

AUP Report Restrictions – To Whom the AUP Report Should be Restricted

Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views

AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report

In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report

Are there any other approaches that the Working Group should consider

The AUASB has clearly made a distinction between use of an AUP report and distribution of such a report, this distinction was deliberately included in the requirements of ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* by the AUASB. The purpose of the distinction is not to prevent distribution of a report per se, but to deter use of that report by those other than the intended users which are identified in the terms of engagement. Reliance on that report is then effectively restricted to the intended users identified, even if the report is distributed to other parties.

ASRS 4400 is clear about restricting use of an AUP report in order to bridge an expectation gap that may arise between the information contained in an AUP report and extent of the reliance which the user places on that report. As an AUP report does not provide a conclusion, no assurance can be taken from the report and the factual findings reported need to be considered in combination with other information in order for users to draw their own conclusions with respect to the subject matter.

The relevant requirements of ASRS 4400 are:

- “42. Use of the report shall be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results.
43. The report of factual findings for an agreed-upon procedures engagement shall contain: (Ref: Para. A18-A19)
- (n) a statement that use of the report is restricted to those parties identified in the report, who have agreed to the procedures to be performed or were identified in the terms of the engagement;”

It is important to note that classes of users can be anticipated in the engagement letter and report, rather than necessarily identified individually at the time of issuing the report. This is explained in ASRS 4400 paragraph A12, and is appropriate where “the assurance practitioner is satisfied that those users will understand the purpose for which the report of factual findings is intended to be used”.

Based on the above, the AUASB is supportive of Option c of paragraph 44 of the discussion paper

Q12

Recommendations Made in Conjunction with AUP Engagements

Do you agree with the Working Group’s view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?

The AUASB does not support the inclusion of recommendations in an AUP report. Providing recommendations based on a report on factual findings is not consistent with the nature of an AUP engagement, and therefore is not an appropriate service to provide. An AUP report is a report on factual findings based on procedures agreed to by the practitioner and the engaging party. The AUASB questions how recommendations fit with a report on factual findings, particularly given the nature of the engagement and its limitations, including the limitations on applying professional judgement. The AUASB believes that including recommendations goes beyond the scope of presenting factual findings and will lead to confusion about the nature of the engagement and the assurance provided by the engagement. Further, if recommendations are sought, the AUASB questions whether an AUP engagement would be fit for the user’s purpose and whether perhaps an alternative form of assurance would be more appropriate.

However, if the practitioner does include recommendations in the AUP report, the AUASB agrees that these must be very clearly distinguished from the report on factual findings.

Q13

Other Issues relating to ISRS 4400

Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.

The AUASB has no further input to provide.

Q14

Multi-Scope Engagements

What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

Multi-Scope Engagements

Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements? Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware will be welcome and will help to inform further deliberations.

With the increase in demand for multi-scope engagements, the AUASB believes guidance is necessary in this area, particularly around reporting. To this end, the AUASB in June 2015 issued a guidance statement, [GS 022 Grant Acquisitions and Multi-Scope Engagements](#), to assist auditors in exercising professional judgement in applying the auditing standards to a selection of practical application issues that may arise in this area. The IAASB may find this guidance beneficial in the development of international guidance in this area.

Owing to the age of the extant ISRS 4400, and the increase in demand for such engagements, the AUASB agrees that a revision to ISRS 4400 be prioritised over guidance on multi-scope engagements.

Discussion Paper
November 2016
Comments Due: March 29, 2017

IAASB Agreed-Upon Procedures Working Group

Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards

About the IAASB

This document has been prepared by the IAASB's Agreed Upon Procedures (AUP) Working Group (the Working Group). It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards issued by the IAASB.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group (CAG), which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

For copyright, trademark, and permissions information, please see [page 25](#).

EXPLORING THE DEMAND FOR AGREED-UPON PROCEDURES ENGAGEMENTS AND OTHER SERVICES, AND THE IMPLICATIONS FOR THE IAASB'S INTERNATIONAL STANDARDS

CONTENTS

	Page
The IAASB's Agreed-Upon Procedures Working Group and the Purpose of this Publication	4
What is an Agreed-Upon Procedures Engagement?	5
I. Introduction	7
Who Uses an AUP Report? Why Are AUP Engagements Performed and What Are Its Benefits?	7
Why Is the IAASB Undertaking Work on AUP Engagements?	7
II. Updating and Enhancing ISRS 4400	9
The Role of Professional Judgment and Professional Skepticism in an AUP Engagement	9
The Independence of the Professional Accountant	11
Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report	13
AUP Engagements on Non-Financial Information	14
Using the Work of an Expert	15
Format of the AUP Report	16
AUP Report Restrictions	16
Recommendations Made in Conjunction with AUP Engagements	18
III. Multi-scope Engagements	19
What are Multi-scope Engagements?	19
Prioritizing the IAASB's Work between ISRS 4400 and Multi-Scope Engagements	20
IV. What Happens Next?	21
Overview of Questions for Stakeholder Input	22
Appendix A	24
Examples of Subject Matter Information on which AUP Engagements May be Performed	24

The IAASB's Agreed-Upon Procedures Working Group and the Purpose of this Publication

This publication has been prepared by the IAASB's AUP Working Group. The Working Group was formed in 2015 to assist the IAASB in its information-gathering activities to understand the use of AUP engagements, national developments in relation to standards addressing AUP engagements, and broader market needs.

The purposes of this Discussion Paper are to:

- Highlight the key features of AUP engagements performed in accordance with the IAASB's ISRS 4400;¹
- Highlight the results of the research and outreach performed to date by the Working Group; and
- Obtain views from stakeholders on the issues in this Discussion Paper to help inform the development of a standard-setting project proposal to revise ISRS 4400 and any other activities that may be necessary.

In particular, this Discussion Paper explores:

- Current demands for AUP engagements, the implications for standard-setting by the IAASB and, in particular, the extent to which users and practitioners find existing requirements and guidance helpful in undertaking an AUP engagement and producing an AUP report² that is valued by users (**Section II**); and
- The demand for engagements that combine reasonable assurance engagements, limited assurance engagements and non-assurance engagements, such as AUP engagements, to meet emerging needs (**Section III**).

AUP engagements are frequently used by regulators, funding bodies, creditors and other users. Not-for-profit organizations such as charitable organizations and other entities often engage Small and Medium Practices (SMP) to perform AUP engagements. As the demand for AUP engagements continues to grow, stakeholder views will be helpful to the IAASB in determining what is needed to meet stakeholders' needs, including standard-setting and other possible actions. Questions have been included throughout this document, but are listed in full on pages 22–23.

¹ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

² When using the term 'AUP report' in this Discussion Paper the Working Group refers to a report on factual findings.

What is an Agreed-Upon Procedures Engagement?

ISRS 4400 establishes requirements and provides guidance for performing an AUP engagement. Under ISRS 4400, an AUP engagement involves a practitioner performing procedures that have been agreed to by the practitioner, the entity and any appropriate third parties, and reporting on the factual findings based on the procedures performed. In conducting an AUP engagement in accordance with ISRS 4400, the practitioner does not express an opinion. Users of the AUP report assess for themselves the factual findings based on the procedures performed and draw their own conclusions. Appendix A provides some examples of subject matter information on which AUP engagements may be performed.

In contrast, an assurance engagement involves the evaluation or measurement of a subject matter (such as financial transactions and events) against a set of criteria (such as a financial reporting framework) to reach a reasonable assurance conclusion (such as an audit opinion) or a limited assurance conclusion (such as a review conclusion). A reasonable assurance conclusion conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria. A limited assurance conclusion conveys whether, based on the procedures performed and evidence obtained, anything has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated.

Engagement Type			
AUP	Compilation	Review	Audit
Standards			
ISRS 4400	ISRS 4410 (Revised), <i>Engagements to Compile Financial Information</i>	International Standards on Review Engagements (or ISREs)	International Standards on Auditing (or ISAs)
Assurance			
None	None	Limited	Reasonable
Work Effort			
AUP, as the basis for the report on factual findings	Assisting management with the preparation and presentation of financial information	Primarily inquiry and analytical procedures	Risk assessment and audit procedures that respond to the identified risks of material misstatement
Report			
Report on factual findings	Report communicating the nature of the compilation engagement and the practitioner's role and responsibilities	Conclusion	Opinion

The publication, [*Choosing the Right Service: Comparing Audit, Review, Compilation, and Agreed-Upon Procedure Services*](#), published by IFAC's SMP Committee, may be useful in understanding the range of audit, review, compilation, and AUP services that small- and medium-sized practices can provide to meet the needs of their clients.

I. Introduction

Who Uses an AUP Report? Why Are AUP Engagements Performed and What Are Its Benefits?

1. A wide range of stakeholders use AUP reports for a variety of reasons. For example, regulators, funding bodies, creditors and others ask for AUP reports to support or complement information such as audited financial statements or loan or grant applications. AUP engagements may be requested on financial and non-financial information.
2. The demand for AUP engagements continues to grow, in particular in relation to the need for increased accountability around funding and grants. In addition, changes in regulation (such as the increase in audit exemption thresholds in many jurisdictions) has also driven demand for AUP engagements, especially from stakeholders in smaller entities, as the increased audit exemption thresholds prompt stakeholders to look for alternative services to an audit. For example, banks in some jurisdictions request AUP engagements on receivables and inventory in lieu of audited financial statements.
3. Although AUP engagements do not result in an assurance conclusion, they are valued because:
 - They can be tailored to address specific needs in a more efficient and targeted manner than audits or reviews; and
 - They are performed by professional accountants who act with objectivity, professional competence and due care.³

Why Is the IAASB Undertaking Work on AUP Engagements?

4. ISRS 4400 was developed over 20 years ago and continues to be widely used in many jurisdictions. In its *2012–2014 Strategy and Work Program*, the IAASB planned to revise ISRS 4400 to respond to broad calls from SMPs and other stakeholders who had indicated that investors, banks and other providers of capital often request an entity to have an AUP engagement performed by a practitioner, in lieu of an audit or to have specific procedures performed. It was also noted that the standard needs to be updated to the Clarity format.⁴ This project was postponed to the *Work Plan for 2015–2016* (the Work Plan)⁵ due to the prioritization of the IAASB's Auditor Reporting project.
5. In the intervening period, a number of jurisdictions, national standard setters (NSS) and professional accounting bodies such as the Australian Auditing and Assurance Standards Board (AUASB), the American Institute of Certified Public Accountants (AICPA) and the Royal Netherlands Institute of Chartered Accountants have undertaken work to explore how AUP engagements can be enhanced in light of the increasing demand.

³ The IAASB's Integrated Reporting Working Group is exploring the concept of credibility and trust in its Discussion Paper, [Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements](#). The Integrated Reporting Working Group's Discussion Paper may be of interest to some readers.

⁴ To revise ISRS 4400 in the Clarity format would broadly comprise the following:

- Identifying the practitioner's overall objectives when conducting an AUP engagement in accordance with ISRS 4400, and clarifying the practitioner's obligations in relation to those objectives;
- Clarifying the obligations on practitioners by separating the requirements from application and other explanatory material, and rearticulating some of the language used to communicate such requirements; and
- Improving the overall readability and understandability of ISRS 4400 through structural and drafting improvements.

⁵ <http://www.ifac.org/system/files/publications/files/IAASB-Work-Plan-2015-2016.pdf>

6. In its Work Plan, the IAASB agreed that it was important to further consider what could be done in relation to standards for services for entities that do not require an audit of financial statements. The Work Plan noted:

“As the IAASB contemplates work on the topic of AUP in the next Work Plan, it has been noted that “hybrid” engagements, using a combination of procedures derived from review, compilation and AUP engagements, are being performed in some jurisdictions as a means of meeting the emerging needs of small and medium sized entities, among others. Accordingly, wider consideration will be given to exploring these evolving types of engagements to consider whether standard-setting or other activities may be appropriate, in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards.”

The IAASB established the Working Group to consider AUP engagements and other more holistic issues related to AUP engagements and to inform the IAASB's decisions regarding these matters.

The Working Group consists of representatives from NSS that have recently completed AUP engagement standards, a member of an advisory group representing SMPs, and others who deal with AUP engagements in various capacities.

Since its inception in 2015, the Working Group has conducted outreach with:

- **Users of AUP engagements such as securities regulators and funding agencies;**
- **NSS in Africa, Asia, Europe and North America;**
- **Practitioners performing AUP engagements, including representatives from large multi-national firms and the IFAC's SMP Committee; and**
- **Other organizations subject to regulatory oversight, such as the Organisation for Economic Co-operation and Development.**

The Working Group has also benefited from the insights gained from the robust discussions on AUP engagements at the IAASB's March 2015, June 2015, March 2016, June 2016, and September 2016 meetings as well as the IAASB CAG September 2015 and March 2016 meetings.⁶

Relevant national developments have also been considered as part of the Working Group's information gathering activities, including the use of AUP engagements, what motivated NSS to make changes to their national standards, the nature and extent of changes from ISRS 4400 made by NSS in developing national standards, guidance on AUP in various jurisdictions, and the key issues that were deliberated at the national level.

⁶ Agenda material for the IAASB and IAASB CAG meetings is available at www.iaasb.org/projects/agreed-upon-procedures.

II. Updating and Enhancing ISRS 4400

7. AUP engagements are used either as stand-alone engagements or as elements within multi-scope engagements (explored further in **Section III** of this paper). The Working Group's outreach confirmed that AUP engagements are widely used, and many stakeholders welcomed the IAASB's inclusion of work on AUP engagements in its Work Plan.
8. Possible modifications to the requirements of ISRS 4400 identified by stakeholders in outreach as meriting further exploration and consideration include:
 - The role of professional judgment and professional skepticism in an AUP engagement;
 - The independence of the professional accountant;
 - Terminology in describing procedures and reporting factual findings in an AUP report;
 - AUP engagements on non-financial information;
 - Using the work of an expert;
 - Format of the AUP report;
 - AUP report restrictions; and
 - Recommendations made in conjunction with AUP engagements.

Each area is discussed in more detail below.

The Role of Professional Judgment and Professional Skepticism in an AUP Engagement

Professional Judgment

9. There are different views about professional judgment in the context of an AUP engagement. The *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* states that the nature of International Standards requires the professional accountant to exercise professional judgment in applying them.⁷ However, professional judgment is not discussed in ISRS 4400. A question arises as to what role, if any, professional judgment plays in an AUP engagement.
10. In the Working Group's view, the exercise of professional judgment is never suspended in an AUP engagement. However, the exercise of professional judgment may be limited to its exercise in the context of professional competence and due care.

Professional Judgment in the Context of Professional Competence and Due Care

11. ISRS 4400 requires the practitioner to comply with the International Ethics Standards Board for Accountants' (IESBA), *Code of Ethics for Professional Accountants* (IESBA Code).⁸ The IESBA Code requires a practitioner to exercise professional competence and due care when performing a "non-

⁷ *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*, paragraph 17

⁸ ISRS 4400, paragraph 7

assurance engagement” such as an AUP engagement. The principle of professional competence and due care imposes the following obligations on practitioners:

- To maintain professional knowledge and skill at the level required to ensure that clients receive competent professional service; and
 - To act diligently in accordance with applicable technical and professional standards when performing professional activities or providing services. Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such a service.⁹
12. Consistent with the IESBA Code, practitioners exercise sound judgment in applying professional knowledge and skill in the performance of an AUP engagement by, for example:
- Avoiding being knowingly associated with false or misleading information by determining appropriate actions (including not accepting or withdrawing from the engagement) if the practitioner becomes aware of:
 - Procedures that the practitioner is being asked to agree to that are inappropriate in the context of the AUP engagement;
 - Procedures or findings that include terminology that is unclear or misleading;
 - Other indications that the information with which the practitioner is associated may be misleading in the context of the AUP engagement;
 - Matters that may indicate non-compliance with laws or regulations; or
 - Matters outside the AUP engagement relevant to the subject matter of the engagement, such as when a practitioner performing an AUP engagement on an entity's internal control procedures becomes aware of a material weakness through channels other than the AUP engagement.
 - Considering the appropriate users of the AUP report and the parties to whom the report should be restricted, based on the purpose of the AUP engagement.
 - Advising the entity on the nature, extent and timing of the procedures, provided the entity and any third parties involved take responsibility for the procedures being appropriate for their purposes.

Performing the Procedures and Reporting on Factual Findings

13. ISRS 4400 states that the AUP report needs to describe the purpose and the AUP in sufficient detail to enable the reader to understand the nature and the extent of the work performed.¹⁰ ISRS 4400 also states that the objective of an AUP engagement is for the practitioner to carry out procedures to which the practitioner and the entity and any appropriate third parties have agreed and to report on factual findings.¹¹ In the Working Group's view, these statements indicate that the nature of the procedures in an AUP engagement is such that the procedures would result in objectively verifiable factual findings (and not subjective opinions or conclusions). Although the procedures are specified

⁹ IESBA Code, paragraphs 130.1 and 130.2

¹⁰ ISRS 4400, paragraph 17

¹¹ ISRS 4400, paragraph 4

precisely, the practitioner does not suspend professional judgment and professional skepticism when performing an AUP engagement. For example, if the practitioner becomes aware of issues such as those discussed in paragraph 12 above while performing the procedures, the practitioner would exercise professional judgment in determining appropriate actions to take.

The Role of Professional Judgment in an AUP Engagement

14. The Working Group believes that a discussion in the introductory section of the revised AUP standard that the role of professional judgment in an AUP engagement is in the context of professional competence and due care may help clarify the actions of the practitioner when performing an AUP engagement. However, some stakeholders may see merit in requiring the practitioner to exercise professional judgment in conducting an AUP engagement, similar to the approach taken in ISRS 4410.¹²

Professional Skepticism

15. The Working Group notes that the IAASB's Enhancing Audit Quality initiative is exploring the issue of professional skepticism in the context of audit engagements. The concept of professional skepticism is not explicitly referenced in ISRS 4400 or any of the IAASB's International Standards other than those addressing audit and assurance engagements. A number of NSS are dealing with this issue in their national AUP standards, and the IESBA is giving more holistic consideration of the relationship between the concept in professional skepticism and the fundamental principles in the IESBA Code, as well as the concept of independence. The Working Group is actively monitoring these developments and will further assess the impact of these developments in revising ISRS 4400.

- Q1. *Results from the Working Group's outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?*
- Q2. *Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?*

The Independence of the Professional Accountant

16. The IESBA Code requires practitioners to be objective, but not independent, when performing non-assurance engagements such as AUP engagements.¹³ Being objective obliges practitioners to not compromise their professional judgment because of bias, conflict of interest or the undue influence of others. Independence goes beyond objectivity, and comprises both independence of mind and independence of appearance:

¹² ISRS 4410 (Revised), *Compilation Engagements*, paragraph 22 states that 'The practitioner shall exercise professional judgment in conducting a compilation engagement.'

¹³ IESBA Code, paragraph 120.1

- Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and
- Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional skepticism has been compromised.¹⁴

As an AUP engagement is not considered a “prohibited service” under the IESBA Code, performing an AUP engagement may not always preclude the practitioner from also performing an assurance engagement since performing an AUP engagement does not impair the practitioner's independence.

17. Consistent with the IESBA Code, ISRS 4400 states that independence is not a requirement for AUP engagements; however, the terms or objectives of an engagement or national standards may require the practitioner to comply with the independence requirements of the IESBA Code. Where the practitioner is not independent, a statement to that effect would be made in the report of factual findings.¹⁵
18. Outreach to date indicates that stakeholders have conflicting views as to whether practitioners should be required to be independent when performing AUP and other non-assurance engagements. Consistent with the IESBA Code, the IAASB has retained the principle that practitioners do not need to be independent when performing a compilation engagement in accordance with ISRS 4410 (Revised).¹⁶
19. Some stakeholders view independence as adding value to an AUP engagement. For example, the European Commission's Horizon 2020 program,¹⁷ which uses AUP reports as the primary way of reporting, requires the practitioner to comply with the IESBA Code, including the independence requirements, even though independence is not a requirement for AUP engagements under ISRS 4400. Similarly, in recently revising their respective AUP standards, the AUASB and the AICPA decided to require the practitioner to be independent when performing an AUP engagement.¹⁸
20. Practitioner independence is viewed by other stakeholders as unnecessary in an AUP engagement if the AUP report is restricted to specific users and no professional judgment is involved in performing the procedures. Many of these stakeholders, particularly SMPs, expressed concern that requiring practitioners to be independent would be unnecessarily restrictive and may limit the use of AUP engagements.

¹⁴ IESBA Code, paragraphs 290.6 and 291.5

¹⁵ ISRS 4400, paragraph 7

¹⁶ ISRS 4410 (Revised), paragraph A21

¹⁷ Horizon 2020 is a programme funding research, technological development, and innovation implemented by the European Commission.

¹⁸ The AICPA's Statement on Standards for Attestation Engagements 215, *Agreed-Upon Procedures Engagements*, requires the practitioner to be independent. However, the standard contemplates circumstances when the practitioner is not independent but is required by law or regulation to accept the AUP engagement. The AUASB's Australian Standard on Related Services 4400, *Agreed-Upon Procedures Engagements to Report on Factual Findings*, requires the practitioner to be independent unless the engaging party has explicitly agreed to modified independence requirements in the terms of engagement.

21. Acknowledging the value of independence, while avoiding a requirement that is unnecessarily restrictive, is important. The Working Group's current position is that the existing approach in ISRS 4400 of requiring a statement in the report of factual findings where the practitioner is not independent strikes the right balance. Given the conflicting views expressed during outreach, the Working Group is seeking views on whether or not independence should be required in an AUP engagement.

Q3. What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?

Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report

Unclear or Misleading Terminology

22. Terms used in describing AUP and reporting on factual findings need to be accurate and clear. Some terms have technical meanings that may vary from their everyday meaning. Such terms need to be used appropriately, and in context. For example, when a technical term with a meaning that differs from its everyday meaning is used in an appropriate context and all users of the AUP report and the practitioner understand the technical term and the context, the technical term may not be misleading. Similarly, all users of an AUP report and the practitioner may agree that a term to be used in an AUP report has a specific meaning in the context of the AUP engagement. It is important for the practitioner to clearly document the meaning of the term and consider whether there is a need to clarify the meaning of the term in the AUP report.
23. For example, a procedure requiring the practitioner to "review cost allocations to determine if they are reasonable" would likely require interpretation as to:
- The nature and extent of procedures to be performed. The word "review" may be read as meaning performing a limited assurance engagement on the cost allocation or as simply agreeing the underlying costs to supporting documentation and recalculating the allocation.
 - What constitutes a "reasonable" allocation.
24. Examples of what might constitute unclear or misleading terminology have been issued by a number of professional bodies and NSS. For example, the Institute of Chartered Accountants in England and Wales' Technical Release, [Reporting to Third Parties](#), describes types of wording or opinions that are unacceptable for professional accountants to use when providing special reports. Similarly, the AICPA's Attestation Standard 215, [Agreed-Upon Procedures Engagements](#), includes a list of words that may, depending on the circumstances of the engagement, be considered unclear or misleading.

Prohibiting Use of Unclear or Misleading Terminology

25. As previously noted, ISRS 4400 requires the AUP to be described in sufficient detail to enable the reader to understand the nature and the extent of the work performed. At the same time, the Working Group acknowledges that, in some cases, law or regulation may prescribe procedures or report wording using unclear terms or terms that may not be appropriate in the context of an AUP engagement.
26. To avoid potential misunderstanding while allowing sufficient flexibility to meet legal or regulatory requirements, the Working Group sees merit in:
- Prohibiting the use of unclear or misleading terminology; and

- Where unclear or misleading terminology is required by law or regulation, requiring practitioners to consider discussing with the engaging party and the user whether:
 - It is possible to define the required terms with reference to the required procedures in the AUP report so that they are no longer unclear or misleading; or
 - An assurance engagement (as opposed to an AUP engagement) would be more appropriate.
27. Further, the Working Group is of the view that guidance on what constitutes unclear or misleading terminology, and terminology that is often used appropriately in practice, should be included in the revised ISRS 4400 to assist practitioners in developing wording for AUP and factual findings in an AUP report. Unclear or misleading terminology that the practitioner should avoid include, for example:
- Terms such as “we certify” or “we have ensured” with regard to the factual findings. However, professional accountants might “certify” that they have performed specified AUP even though they cannot “certify” or “ensure” the results.
 - Terms such as “present fairly” or “true and fair”, “audit” and “review”, “assurance” and “conclusion”, which are associated with the provision of assurance under the IAASB's International Standards.
 - Open-ended phrases such as “we obtained all the explanations and performed such procedures as we considered necessary.”
 - The term “material.”¹⁹
28. Terms that are often used appropriately in practice to describe AUP include, “calculate,” “compare,” “check the mathematical accuracy of,” “re-compute” or “obtain confirmation from.” However, it is important to recognize that these terms, among others can be used in an unclear or misleading manner, depending on context, or the absence thereof.

Q4. What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology means? Would your views change if the AUP report is restricted to specific users?

AUP Engagements on Non-Financial Information

29. AUP engagements are increasingly performed on non-financial information. For example, funders often request AUP engagements on internal controls in addition to an audit of the financial statements. Appendix A provides a number of other examples of subject matter information on which AUP engagements may be performed.
30. ISRS 4400 is directed toward engagements regarding financial information. However, it may provide useful guidance for engagements regarding non-financial information, provided the practitioner has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base findings.²⁰

¹⁹ However, quantitative thresholds for determining factual deviations may be set.

²⁰ ISRS 4400, paragraph 2

31. Clarifying that the scope of ISRS 4400 includes non-financial information would address market demand for such engagements. However, there is a risk that the practitioner may not have the competence to take on such engagements. This issue could be addressed by including preconditions in the standard for accepting an AUP engagement on non-financial information. For example, the standard could require that, when a practitioner is deciding whether to accept an AUP engagement dealing with non-financial information, the practitioner should:
- Have sufficient competence in the subject matter area to accept responsibility for the engagement; and
 - Be satisfied that the engagement team collectively has appropriate competence to perform the engagement.

Q5. What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?

Q6. Are there any other matters that should be considered if the scope is clarified to include non-financial information?

Using the Work of an Expert

32. ISRS 4400 does not deal with the use of an expert. A practitioner's expert is an individual or organization possessing expertise in a field other than the practitioner's field of expertise, whose work in that field can be used by the practitioner to assist the practitioner in performing procedures in an engagement. An expert is often used in areas where there is significant technical knowledge involved.²¹
33. Stakeholders indicated that, in some AUP engagements, practitioners may use the work of an expert. The expert assists the practitioner by applying the expert's technical knowledge in performing the procedures. This is likely to be most relevant when the AUP engagement deals with non-financial information (also as discussed above). For example, an AUP engagement may involve the use of the work of an engineer or lawyer in dealing with engineering or legal aspects of a contract, or a procurement officer to check whether acquisitions meet procurement guidelines.
34. If the involvement of an expert is needed, the Working Group is of the view that, before accepting the engagement, the practitioner should, consistent with exercising professional competence and due care:
- Evaluate the expert's objectivity and technical competence; and
 - Reach agreement with the entity on the nature, extent and timing of the procedures to be performed by the expert. The procedures to be performed should result in objectively verifiable factual findings and be specified precisely enough to avoid the need for the expert to exercise professional judgment when performing the procedures.

As previously discussed, the Working Group's view is that performance of procedures in an AUP engagement and the reporting of factual findings should not involve professional judgment beyond that which is necessary to demonstrate professional competence and due care.

²¹ Based on the definition of an auditor's expert from International Standard on Auditing (ISA) 620, *Using the Work of an Auditor's Expert*, paragraph 6(a), adapted in the context of an AUP engagement.

35. Further, consistent with the premise that procedures and findings should be sufficiently precise, the Working Group is of the view that the practitioner should, before the completion of the engagement:
- Determine whether the nature, timing and extent of procedures performed by the expert is consistent with the procedures agreed in the terms of engagement; and
 - Determine whether the factual findings reported by the expert adequately describe the result of the procedures performed.

Q7. Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?

Format of the AUP Report

36. Stakeholders suggested that the illustrative example of practitioner findings in Appendix 2 of ISRS 4400 could be improved and pointed to the IAASB's auditor reporting initiative as a good illustration of innovative thinking to improve communications. The illustrative AUP report in ISRS 4400 lists four procedures followed by four corresponding findings.
37. While a "short-form" AUP report, such as the illustrative report in Appendix 2 of ISRS 4400, may work well when there are relatively few procedures, the Working Group's view is that an illustrative report that presents the procedures and corresponding findings in a tabular format, or one that presents each procedure and corresponding finding together, will likely facilitate better communication, particularly for engagements involving many procedures.

Q8. What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?

We would be particularly interested in receiving illustrative reports that you believe communicate factual findings well.

AUP Report Restrictions

To Whom the AUP Report Should Be Restricted

38. ISRS 4400 requires the practitioner's report to include a statement that the report is restricted to those **parties that have agreed to the procedures to be performed** since others, unaware of the reasons for the procedures, may misinterpret the results.²²
39. Outreach identified a need to clarify whom the "parties that have agreed to the procedures to be performed." A narrow interpretation is that the AUP report is restricted to signatories to the AUP engagement letter. Such an interpretation may be problematic as the AUP report is often required to be provided to other parties, such as a regulator who may not be a party to the terms of the engagement, or posted online as required by law or regulation.
40. The Working Group does not believe that this interpretation reflects the intention of ISRS 4400. In particular, the Working Group notes that ISRS 4400:
- Requires the practitioner to "ensure with representatives of the entity and, ordinarily, **other specified parties who will receive copies of the report** of factual findings, that there is a

²² ISRS 4400, paragraph 6

clear understanding regarding the agreed procedures and the conditions of the engagement;²³ and

- Acknowledges that, in certain circumstances, the **practitioner may not be able to discuss the procedures with all the parties who will receive the report**. In such cases, the practitioner may consider, for example, discussing the procedures to be applied with appropriate representatives of the parties involved, reviewing relevant correspondence from such parties or sending them a draft of the type of report that will be issued.²⁴

41. AUP reports are regularly provided to a party (such as a regulator or funder) even though they are not signatories to the engagement agreement. In the Working Group's view, this practice is appropriate as long as such parties have a clear understanding of the AUP and the conditions of the engagement. The practitioner may be satisfied that such an understanding exists if, for example, the procedures to be performed in the AUP engagement are:

- Set out in law or regulation; or
- Described in a document setting out the terms and conditions of the AUP engagement, such as a "Terms of Reference."

Q9. Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views?

Three Possible Approaches to Restricting the AUP Report

42. As discussed in paragraph 38, ISRS 4400 requires that the practitioner's report on factual findings include a statement that the report is restricted. ISRS 4400 does not specify how the report is to be restricted to parties agreeing to the procedures.
43. The reason for restricting the AUP report in this manner is to prevent readers who are unaware of the context for the AUP from misinterpreting the results of those procedures. However, a number of stakeholders have indicated that restrictions on the distribution of the report is problematic as the AUP report may be required to be provided to other parties, or posted online, by law or regulation (as discussed in paragraph 39).
44. Three possible approaches to address the needs of those agreeing to the procedures while mitigating the risks of misinterpretation of the AUP report by others were considered by the Working Group.
- (a) The first approach would be to require the practitioner to agree with the entity:
- The specified parties who will receive the AUP report; and
 - That the entity will restrict the distribution of the AUP report to those specified parties.

The practitioner would not accept the AUP engagement unless such an agreement is reached or is required by law or regulation to undertake the AUP engagement. In addition, the AUP report would include a statement to the effect that the AUP report is restricted to the specific users and is not to be used for any other purposes.

²³ ISRS 4400, paragraph 9

²⁴ ISRS 4400, paragraph 10

- (b) The second approach would neither require nor preclude the practitioner from including restrictions on the AUP report. Restriction on the AUP report, if any, would be dealt with by voluntary agreement between the entity and the practitioner as opposed to being mandated in the standard.
- (c) The third approach would require the AUP report to include a statement to the effect that the report is intended solely for the specific users and may not be suitable for any other purposes. This would be subject to law or regulation of the relevant jurisdiction. The approach is similar to how ISA 800 (Revised)²⁵ alerts readers that the financial statements are prepared in accordance with a special purpose framework. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the AUP report.
45. The three approaches represent a trade-off between two objectives – (i) mitigating the risk of those who have not agreed to the procedures from misinterpreting the AUP report, and (ii) allowing more flexibility to meet legal or regulatory requirements for the AUP report to be provided to other parties or posted online. The first approach in paragraph 44(a) above addresses the former objective but not the latter, while the second approach addresses the latter but not the former. In the Working Group's view, the third approach achieves an appropriate balance between addressing the concern regarding unintended parties misinterpreting findings while allowing the AUP report to be made more widely available.

Q10. In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

Q11. Are there any other approaches that the Working Group should consider?

Recommendations Made in Conjunction with AUP Engagements

46. ISRS 4400 does not currently contemplate the provision of recommendations when performing AUP engagements. The Working Group's outreach highlighted that some regulators request practitioners to make recommendations either as part of, or in addition to, AUP engagements. For example, regulators may request recommendations on improving controls relating to deficiencies reported in the report on factual findings.
47. Recommendations provided by the practitioner on matters noted during an AUP engagement may be viewed as:
- A by-product of the AUP engagement similar in nature to "management letters" provided as part of a financial statements audit; or
 - A multi-scope engagement (as discussed in Section III below) consisting of an AUP engagement and a separate service involving the provision of recommendations arising from the AUP engagement.

²⁵ ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph A21

48. In either case, the Working Group is of the view that recommendations should be clearly distinguished from the AUP report. For example, the recommendations could be:
- Provided in a separate document from the AUP report; or
 - If the recommendations are required to be included in the AUP report, they should be included in a separate section that is clearly differentiated from the procedures and factual findings.

Q12. Do you agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?

Q13. Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.

III. Multi-scope Engagements

What are Multi-scope Engagements?

49. Changes in the business and regulatory environment include growth in regulation calling for increased accountability on how funds and grants are used, as well as increases in audit exemption thresholds in many jurisdictions. These changes have prompted stakeholders to look for alternative services to audits to assist them in exercising their oversight responsibilities. The Working Group found that this has resulted in increased demand not only for AUP engagements, but also for engagements that were referred to in the IAASB's Work Plan as "hybrid" engagements.
50. Outreach to understand the types of hybrid (or multi-scope) engagements being requested in practice led to the conclusion that the term hybrid engagements may be used to refer to many different types of engagements such as:
- Engagements mandated by regulators that are described as AUP engagements, in which the required reporting involves terms that purport to provide assurance, despite the fact that the procedures specified do not amount to an assurance engagement. Stakeholders indicated that regulators and providers of grant funding or other capital, among others, sometimes misunderstand the distinction between the different types of IAASB's pronouncements and their purpose, and dismiss the significant differences between these pronouncements as mere nuance. They request practitioners to "certify" or "verify" that an entity has complied with requirements or agreements, and attempt to specify the procedures to be performed in support of the certification or verification. In many cases, the procedures relate to whether a funding recipient has used the funds solely for designated purposes. In receipt of such requests, practitioners, NSS and professional accounting bodies have, in many cases, successfully intervened to explain the different nature of assurance and related services engagements, in particular the underlying approach to evidence, the expected work effort and the form of reporting.
 - Engagements that combine reasonable assurance engagements, limited assurance engagements and non-assurance engagements, such as AUP engagements, which clearly distinguish between the various elements and are therefore better described as "multi-scope" engagements. Stakeholders indicated that user needs were often best satisfied by multi-scope engagements.

Outreach also indicated that there are more examples of the latter category than the former. The remainder of this Discussion Paper therefore focuses on the latter category: multi-scope engagements.

51. An example of a multi-scope engagement identified by the Working Group is a reporting package required by the regulator, in respect of investment brokers and dealers in Canada. The reporting package consists of distinct reports: auditor's reports on certain financial information, and AUP reports on insurance, segregation of securities, and guarantee/guarantor relationships relied upon to reduce margin requirements during the year.
52. In the Working Group's view, the key characteristic of a multi-scope engagement is that the various elements of the engagement comply with the corresponding IAASB pronouncements. For example, if an AUP engagement is combined with an audit, review, other assurance or compilation engagement, each element would comply with the respective IAASB standard.

Prioritizing the IAASB's Work between ISRS 4400 and Multi-Scope Engagements

53. The IAASB prioritizes its work based on the needs of its stakeholders. Responses to the IAASB's Work Plan and the Working Group's outreach indicate significant interest in addressing both AUP engagements (as discussed in **Section II**) and multi-scope engagements.
54. The Working Group discussed whether requirements related to multi-scope engagements should be included as part of the revision of ISRS 4400. In the Working Group's view, any work to address multi-scope engagements needs to be separated from the project to revise ISRS 4400 because the scope of multi-scope engagements extends beyond ISRS 4400 into other IAASB pronouncements. Accordingly, addressing AUP engagement issues and then addressing multi-scope engagements may be the most efficient use of the Board's resources. For example, clarifying what an AUP engagement entails, in particular, the use of professional judgment, could help to better distinguish an AUP engagement from a multi-scope engagement. Non-authoritative guidance could then be developed as an efficient means of addressing multi-scope engagements if doing so is considered necessary.
55. To assist practitioners in conducting a multi-scope engagement, some NSS and professional accounting bodies have developed guidance, for example:
 - (a) [Guidance Statement 022 - Grant Acquittals and Multi-Scope Engagements](#), issued by the AUASB.
 - (b) Illustrative reports issued by the Independent Regulatory Board of Auditors in South Africa that separated the requirements of the Banks Act regulatory form into their constituent engagement components that each comply with each corresponding IAASB pronouncement.
56. However, some stakeholders might welcome clarity in the near-term by the IAASB addressing multi-scope engagements first through the development of non-authoritative guidance. The potential downside includes a delay of the ISRS 4400 revision project and any non-authoritative guidance becoming outdated within a short period of time, as new requirements in a revised ISRS 4400 might require revisions to the guidance.

57. In the Working Group's view, an update of ISRS 4400 is necessary as a priority and needs to be addressed before potentially developing guidance on multi-scope engagements.

Q14. What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

Q15. Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements?

Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware will be welcome and will help to inform further deliberations.

IV. What Happens Next?

58. Your input will inform the IAASB's deliberations and assist the IAASB decide on the next steps. The responses to this paper will be considered by the IAASB in 2017, including further discussion on an appropriate way forward for revising ISRS 4400 and any other actions that may be necessary.

Overview of Questions for Stakeholder Input

The following questions for respondents relate to the matters set out in this Discussion Paper, and also appear following the relevant discussion in this document. The Working Group welcome responses to any or all of these questions. Responses will be most helpful when they clearly indicate to which question the response relates and articulate respondents' rationale for their views.

The Role of Professional Judgment and Professional Skepticism in an AUP Engagement

- Q1. *Results from the Working Group's outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?*
- Q2. *Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?*

The Independence of the Professional Accountant

- Q3. *What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?*

Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report

- Q4. *What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology mean? Would your views change if the AUP report is restricted?*

AUP Engagements on Non-Financial Information

- Q5. *What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?*
- Q6. *Are there any other matters that should be considered if the scope is clarified to include non-financial information?*

Using the Work of an Expert

- Q7. *Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?*

Format of the AUP Report

- Q8. *What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?*

We would be particularly interested in receiving Illustrative reports that you believe communicate factual findings well.

AUP Report Restrictions – To Whom the AUP Report Should be Restricted

- Q9. *Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views?*

AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report

Q10. In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

Q11. Are there any other approaches that the Working Group should consider?

Recommendations Made in Conjunction with AUP Engagements

Q12. Do you agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?

Other Issues relating to ISRS 4400

Q13. Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.

Multi-Scope Engagements

Q14. What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

Q15. Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements?

Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware will be welcome and will help to inform further deliberations.

The IAASB and the Working Group are interested in views that readers may have on these questions or any others that we have not yet considered in relation to the use of AUP and multi-scope engagements. Please submit written responses through the [IAASB's website](#). Written responses are requested by **March 29, 2017**, to help the IAASB determine the way forward for the AUP project.

Appendix A

Examples of Subject Matter Information on which AUP Engagements May be Performed

AUP Engagements Where the Subject Matter Information Is Financial Information	AUP Engagements Where the Subject Matter Information Is Non-Financial Information
Report on eligibility of expenditures claimed from a funding program	Report on the operation of internal controls over financial reporting
Report on revenues (e.g., for determining royalties, rent, franchise fees based on a % of revenues)	Report on compliance with “green packaging” requirements
Reconciliation between different financial reporting frameworks	Report on number of passengers to a civil aviation authority
Report on compliance with bank covenants	Report on greenhouse gas emissions
Report on capital adequacy ratio for regulatory authorities	Report on observation of destruction of fake or defective goods
Calculations of financial ratios of projected cash flows for reporting to tax authorities	Report on data generating processes for national lottery draws

The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants® or IFAC®.

The IAASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

International Standards on Auditing, International Standards on Assurance Engagements, International Standards on Review Engagements, International Standards on Related Services, International Standards on Quality Control, International Auditing Practice Notes, Exposure Drafts, Consultation Papers, and other IAASB publications are published by, and copyright of, IFAC.

Copyright © November 2016 by IFAC. All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *“Copyright © November 2016 by the International Federation of Accountants® or IFAC®. All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback.”*

The ‘International Auditing and Assurance Standards Board’, ‘International Standards on Auditing’, ‘International Standards on Assurance Engagements’, ‘International Standards on Review Engagements’, ‘International Standards on Related Services’, ‘International Standards on Quality Control’, ‘International Auditing Practice Notes’, ‘IAASB’, ‘ISA’, ‘ISAE’, ‘ISRE’, ‘ISRS’, ‘ISQC’, ‘IAPN’, and IAASB logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

For copyright, trademark, and permissions information, please go to [permissions](#) or contact permissions@ifac.org.



**International Auditing
and Assurance
Standards Board**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.iaasb.org



Public Interest Oversight Board

Agenda item 7(b)
AUASB Meeting 1 March 2017

Thursday

15th

September

New York

2nd PIOB Public Interest Workshop: **PREPARING FOR THE NEXT GENERATION OF AUDITORS**

SUMMARY OF DISCUSSIONS

SESSION 1. TRENDS IN AUDIT

The “expectations gap” refers to the difference between the expectations of the general public on the audit and what the audit can actually deliver. Current trends affecting the audit may help narrow this gap in the future.

The development of IT systems (big data, data analytics) will increasingly reduce the routine aspects of the audit, enabling the auditor to focus more on issues that require professional judgement. The new auditor’s report, the introduction of the expected credit loss model (IFRS 9) and its impact on ISA 540 (Auditing accounting estimates, including Fair value accounting estimates and related disclosures), and the sustainability aspects of integrated reporting, all suggest a trend in which auditors may provide more assurance on forward-looking aspects affecting the financial statements.

Q1. *How are the challenges and opportunities above affecting the skills required from auditors and how will those skills be developed?*

Q2. *Is it important for financial stability that auditors give assurance on forward looking aspects of financial statements (e.g., going concern) that could help anticipate difficulties ahead?*

Q3. *Is positive assurance a tenable proposition given the increasing complexity of the audit, or is some form of negative assurance an alternative?*



Public Interest Oversight Board

2nd PIOB Public Interest Workshop: **PREPARING FOR THE NEXT GENERATION OF AUDITORS**

Thursday

15th

September

New York

AUDITORS SKILLS

Participants agreed that auditor skills have evolved and further skills need to be developed. The current education model is outdated and no longer adequate. This applies both to the younger generations of auditors and current auditors. Emphasis was placed on developing data analytics skills, IT, valuation, risk assessment and auditor's critical thinking.

Skills need to specialize. Different skills are required in teams and not necessarily from each individual auditor. There should be different expertise within an audit team and there is a need to bring in outside experts into multidisciplinary teams. Also, there is a need for a different kind of audit partner, one who integrates, coordinates and communicates.

A point of general agreement was that auditors need to understand the client's business models to challenge management, their assumptions, changes in the business model, and to apply professional skepticism.

Technology may increase the expectations gap, on the expectation that audits could be performed on 100% of the data and would therefore be faultless. The credibility of data will become essential, as will the integrity of systems of internal control. Too much focus on developing data analytics skills over ethics and auditor behavior was highlighted as a risk. There is a need to educate users to avoid a new expectations gap.

FORWARD LOOKING ASPECTS OF FINANCIAL STATEMENTS

Forward looking information used in the determination of fair value, assessing the long-term viability of the business and the going concern status of an entity, are amongst the most important components of the financial statements. Audit already incorporates these forward looking aspects, but it was agreed that the audit could do more. Assurance on uncertainty is not possible, but assurance on the process of the audit of forward looking information can be better.

The need for assurance on forward looking aspects will grow, and with it one of the main elements in the expectations gap. Greater assurance on forward looking aspects would be beneficial for investors, and auditors would need additional legal protection.



Public Interest Oversight Board

2nd PIOB Public Interest Workshop: **PREPARING FOR THE NEXT GENERATION OF AUDITORS**

Thursday

15th
September

New York

Despite efforts in communication, the expectations gap continues to grow. There was a general feeling that the expanded auditor's report would be a positive step. Financial education is important to help close the expectations gap: the reader of the financial statements needs to be educated to understand the context in which the entity is operating, the impact of the changing environment, the pace of change and how these changes impact the entity and its financial position.

Forward looking aspects do not only affect the auditor but the full financial reporting chain. Management has the primary responsibility to report on forward looking aspects of the company, and the auditor should provide assurance on managements' assumptions and assertions. The Audit Committee should also play its role. Management should be able to report about going concern and auditors should provide their independent judgement on this.

POSITIVE ASSURANCE

It is not in the Public interest to reduce the level of assurance.

There was agreement that anything less than a positive assurance will make auditing lose its value. How the auditor communicates positive assurance is very important given that this level of assurance is not a guarantee and should not be interpreted as such.

Big data and technological advances make positive assurance more probable, more tenable, and perhaps more defensible. However, professional judgement is still required and skills to use and mine the big data appropriately are essential. The auditor should understand and challenge the assumptions (professional skepticism) made by management.

The profession will need to deal with integrated reporting issues by providing different levels of assurance on different items.



Public Interest Oversight Board

2nd PIOB Public Interest Workshop: **PREPARING FOR THE NEXT GENERATION OF AUDITORS**

Thursday

15th

September

New York

SESSION 2

2.A Auditor independence

In the current audit firms' business model, many firms report an increasing ratio of non-audit fees to audit fees, raising potential independence and audit quality concerns. Limiting the nature and relative amount of non-audit services provided to audit clients has been one approach to deal with independence concerns, as has the introduction of firm rotation in many jurisdictions.

Q4. *Does the current business model of audit firms affect the independence of auditors? If so, what are the effects on professional skepticism?*

Regulatory regimes dealing with non-audit services may vary across the world: from total prohibition of non-audit services to allowing to provide certain non-audit services to audit clients.

Participants felt that conflict of interests arise when audit firms provide non-audit services to audit clients. However, there were also views expressed against total separation and in support of multidisciplinary firms.

In addition to risks to the independence of the auditor, the risk of audit firms providing non-audit services is that audit quality and investment in audit quality may tend to diminish, given the lower profitability of audit in relation to other non-assurance services. On the other hand, views were expressed that audit-only firms will fail to acquire knowledge that may improve the ability of the firm to perform good quality audits, may face a loss of access to experts in areas related to the audit, and lose internal skill-development opportunities.

Audit firms need to be more transparent about their business model. There is a wide perception that the level of transparency of the firms is low. Better governance could be an important safeguard against the risks to independence of the current business model. Audit firms' "Transparency Reports" at the global level do not deal adequately with these issues. Better quality metrics and quality control measures would be welcomed. The question was asked whether the work of IFIAR could assist with this?

Some participants stated that audit firm rotation may have created competition on fees instead of competition on quality between firms. The Audit Committee should play its role in selecting the audit firm, yet many companies do not have audit committees.



Public Interest Oversight Board

2nd PIOB Public Interest Workshop: **PREPARING FOR THE NEXT GENERATION OF AUDITORS**

Thursday

15th

September

New York

2.B Standard setting in the public interest

It is important that the public interest is taken into account in developing international standards. The PIOB has been given the task to monitor the respect of the public interest in the development of international standards on auditing, education and ethics. In fulfilling its tasks, the PIOB looks both at the substance of the standards and at the process for developing the standards (composition of the Boards, due process).

Q5. Do you believe that the standards developed by the IAASB, the IESBA and the IAESB take the public interest sufficiently into account? If not, what can or should be done to ensure that more attention is paid to public interest issues?

Q6. Do you believe that the PIOB is doing enough to ensure that the public interest is taken into account in the development of the standards? If not, what can or should be done to improve the present situation?

Q7. Do you believe that the present composition of the Boards is satisfactory from a public interest point of view? Should other stakeholders (e.g. investors) be included and how can this be done?

STANDARD SETTING BOARDS

Standard-setting in the public interest needs the right balance between due process, regulation, and oversight.

Participants highlighted that the three standard setting boards are different from each other, which makes it difficult to evaluate them together in the context of this question. Generally, the view was that the system is able to respond and reconcile different interests, notwithstanding the existing tensions.

There was a widely held view that SSBs take the public interest into account. The public interest is incorporated into the standard setting process –e.g.; selection of members; oversight of due process, role and make-up of the CAGs, range of people involved, efforts to consider all perspectives. Significant public interest input goes into the SSBs through Taskforces, the CAGs and the PIOB. The recent ITC is a good example of the openness of the IAASB.



Public Interest Oversight Board

2nd PIOB Public Interest Workshop: **PREPARING FOR THE NEXT GENERATION OF AUDITORS**

Thursday

15th
September

New York

However, other views pointed out that comments from the PIOB and from regulators (supervisors) are not always taken into account. The large majority of the comment letters are coming from the profession or from audit firms, but listening to all stakeholders, including investors, is critical to respond to public interest concerns.

The public interest evolves continuously and so continuous review of the process is important.

There were suggestions that SSBs should act more strategically and devote more time to strategic standard setting and public interest matters instead of looking into details of the standard. Standards need to be timely and relevant, and that there is room for improvement.

CAGs have great potential to contribute but there are concerns about the effectiveness of SSBs in being able to deal with the wealth of CAG input, specially when the CAGs do not provide a consensus view.

There was some reservation about oversight – e.g., the absence of critical comments from PIOB Observer at IFAC Board meetings was cited as symptomatic of lack of robustness in oversight.

Concerns were expressed about the share of PIOB funding provided by IFAC. The PIOB budget was acknowledged to be the main challenge in the present system.

THE PIOB

The PIOB is seen to have a strong coordination role between the different constituents and to facilitate openness and good communication between stakeholders, which is key for the functioning of the standards setting system.

In general, the audience welcomed PIOB outreach efforts. Forums like the Public Interest Workshop are an effective mechanism for eliciting feedback and sharing points of view. There was encouragement to do more and to reach out for a broader audience.

In terms of PIOB input in the standard setting process, comments made by the PIOB are generally appreciated. Some participants suggested the PIOB should also participate (selectively) in Task Force meeting because that is the place where the scope and shape of the standard are discussed before full deliberation by the SSB itself. The PIOB should better monitor the public interest and the responsiveness to comments, specially from MG members.

There was a strong suggestion to improve PIOB communications in terms of describing what the PIOB does, how it approves Strategies and Work Programs, and standards, and how it takes part in the process. The PIOB Public Report could be improved. There was also a request to receiving PIOB comments during the meetings and not at the end of the process, and greater clarity on what the PIOB wants SSBs to evaluate in relation to public interest matters. The PIOB could also play a greater role in aligning the strategies of the SSBs.



Public Interest Oversight Board

2nd PIOB Public Interest Workshop: **PREPARING FOR THE NEXT GENERATION OF AUDITORS**

Thursday

15th
September

New York

COMPOSITION OF THE BOARDS

Participants agreed that standard setting boards are made up of highly qualified members with a high level of knowledge of the audit profession. However, some suggestions were put forward to improve the current system.

The balance of members within the SSBs could be improved by bringing in past regulators, investors representatives or academics. There is under representation in the Boards from investors.

The different categories of membership may be misunderstood by the public. The current definitions should be clarified, specially that of Public Members. There is also a perception issue regarding IFAC financing volunteer public members, and in general, about dominance of the audit profession within the Boards.

There is under representation in the SSB from certain geographical regions. There is a perception of excessive influence of the Anglo-American perspective.

More outreach needs to be carried out in different countries.

The size of the SSBs could also be reviewed.