



<b>Subject:</b>	<b>Agenda for the 100<sup>th</sup> meeting of the AUASB</b>
<b>Venue:</b>	<b>TEQSA Executive Board Room, Tower Level 14, 530 Collins Street, Melbourne</b>
<b>Time:</b>	<b>Tuesday 17 April 2018 10.00am - Wednesday 18 April 2018 4.00pm</b>

\* NB: Agenda items 1, 2 and 7 are closed sessions

## DAY 1

Time	Agenda Item No.
10.00am	<b>1. Preliminary Session*</b>
11:00am	<b>2. Audit Quality Plan Update*</b>
12:00pm	<b>3. International Matters</b>
12:45pm	<i>Lunch</i>
1.45pm	<b>International Matters continued</b>
3:30pm	<i>Afternoon Tea</i>
4.00pm	<b>International Matters continued</b>
4:45pm	<b>4. AASB/AUASB Office Matters</b>
5:30pm	<i>Day 1 Close</i>

## DAY 2

Time	Agenda Item No.
9:00am	<b>5. AUASB Technical Matters</b>
	(a) AUASB Technical Work Program Update
	(b) Updates on Current AUASB Strategic Projects
9:30am	i. Emerging Forms of External Reporting
10:15am	ii. Public Sector Audit Issues
11:00am	<i>Morning Tea</i>
11:15am	iii. Financial Reporting and Assurance Frameworks
11:45am	iv. Auditor Reporting Implementation
12:00am	v. Prescribed Reports
	(c) Discussion on New AUASB Strategic Projects
12:15pm	i. SME/SMP Audit issues Discussion
12:45pm	ii. Superannuation Discussion
1:00pm	<i>Lunch</i>



Time	Agenda Item No.
1:45pm	(d) AUASB Research Strategy Issues Paper
2:30pm	(e) AUASB Glossary
3:00pm	(f) Working with the AASB
3:15pm	<b>6. Other Business</b>
3:30pm	<b>7. Review*</b>
4:00pm	<b>8. Close</b>

NOTE: The running order and time allocated to agenda items is subject to change prior to and during the course of the meeting: It is advisable to visit the website prior to 17 April 2018 to confirm whether the anticipated running order remains as indicated above:

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



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 3(a)  
**Meeting Date:** April 2018  
**Subject:** Updated AUASB International Strategy  
**Date Prepared:** 10 April 2018  
**Prepared by:** Matthew Zappulla

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☒ **Action Required**

☐ **For Information Purposes Only**

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## Agenda Item Objectives

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

### **I. Background**

2. The 'AUASB International Strategy' captures the outputs from Board members on this topic and highlights other activities the AUASB and its Technical Group staff intend to undertake to ensure the AUASB's influence and engagement on International auditing and assurance matters supports its mandate and domestic agenda.
3. Following deliberations and feedback from the Board at the March 2018 AUASB Meeting the International Strategy has been revised and re-presented for review at the April 2018 AUASB meeting.

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

4. The AUASB has an obligation to be actively engaged in International auditing and assurance matters by virtue of the following legislative and oversight requirements:
  - (a) Under section 227B(1)(d) of the ASIC Act, the AUASB's functions include a requirement to "participate in and contribute to the development of a single set of auditing standards for world-wide use".
  - (b) The Financial Reporting Council requires the AUASB to use auditing standards issued by the IAASB as a base from which to develop local Auditing and Assurance standards.
5. Consequently the AUASB has adopted as part of its current vision, mission and strategy the following elements that specifically address our International mandate:

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- (a) Contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use (Mission);
  - (b) Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users, using IAASB Standards where they exist, modified as necessary (Strategic Objective 1); and
  - (c) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships (Strategic Objective 3).
6. Other elements of the AUASB vision, mission and strategy also contain activities relevant to the AUASB's International mandate, such as engaging with other international stakeholders to influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial reporting (Strategic Objective 5).
7. In addition, the protocol for cooperation agreed between the NZ External Reporting Board (XRB) and the FRC, AASB and AUASB Chairs requires the AUASB, inter alia, to use its best endeavours to achieve the following outcomes:
- (a) Minimise the differences between auditing and assurance standards issued in Australia and New Zealand;
  - (b) To the maximum extent possible, the AUASB and NZAuASB present similar positions at international forums; and
  - (c) Maximise the contribution to, and thus the influence of the AUASB and the NZAuASB upon the IAASB.

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

8. At its September 2017 meeting the AUASB discussed the best ways the AUASB and the Technical Group should engage and influence international matters. The key points raised were:
- (a) The AUASB needs to acknowledge the limited amount of capacity we have to directly influence all matters on the IAASB agenda. Therefore we need to focus on influencing the topics where we can have the greatest impact or those that are the most important to the AUASB Agenda.
  - (b) Agreement that instead of all AUASB members and staff reviewing all IAASB agendas and papers a lead AUASB member and AUASB Technical Group staff member is allocated to each IAASB project or other international initiative. Ideally the AUASB board and staff member allocated to each International project should be a Subject Matter Expert on the topic and have sufficient capacity to review necessary materials (e.g. IAASB board papers) in advance of AUASB meetings.
  - (c) Emphasis should be placed on AUASB Members and Technical Group staff building relationships with international and other National Standard Setters all levels, including with whom we should strategically align with on specific topics.
  - (d) Greater engagement with other National Standard Setters, at the combined global level and directly via bilateral relationships on specific projects, was encouraged.
  - (e) The AUASB Technical Group staff were asked to consider how National Standard Setters in other jurisdictions engage on International issues and whether some of these methods should be adopted.

9. At the December 2017 Teleconference AUASB members gave the following additional feedback:
  - (a) The main objective of our international strategy should be to ‘influence’ international developments.
  - (b) The key ways we provide influence are through:
    - (i) Communications with the IAASB prior to and when attending IAASB meetings; and
    - (ii) Providing direct feedback to IAASB members (particularly the Australasian IAASB members) on International projects.
  - (c) We need to be very focused on what our key issues/priorities are – i.e. the projects for which we are really concerned about and the key issues in each projects we have concerns about.
10. The NZAuASB Chair also highlighted in his feedback a number of opportunities where he believes the AUASB and NZAuASB can better collaborate to create synergies and increase influence from a regional perspective.

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

11. In response to feedback from Board Members received to date the AUASB Technical Group has developed an updated AUASB International Strategy for consideration at the April 2018 AUASB meeting. A copy of the strategy is contained in **Appendix 1** and consists of standard tasks the AUASB performs in relation to the IAASB’s regular activities, as well as other internationally focused tasks that the AUASB may undertake on a less regular or project specific basis.
12. In developing this AUASB International Strategy we have identified a number of guiding principles which underpin the responsibilities AUASB Members and Technical Group Staff have when considering and implementing our International influencing activities. The current draft principles identified are listed in Paragraph 5 of the Draft AUASB International Strategy document contained in **Appendix 1**. These have been added since the March 2018 AUASB meeting and feedback is requested from AUASB members whether any changes are necessary.
13. To facilitate the AUASB International strategy the schedule for AUASB meetings in 2018 has been aligned with 2018 IAASB meeting dates, being a week beforehand so additional AUASB meetings/teleconferences devoted to IAASB matters should no longer be required. A similar approach will be adopted when selecting dates for 2019 AUASB meetings.

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

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

#### ***Part B – NZAuASB***

1. Refer paragraph 11 above which describes the AUASB’s requirement to collaborate with the NZAuASB on our International Strategy and also Appendix 2 below includes our existing efforts to collaborate with the NZAuASB on International matters.

#### **Material Presented**

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



## AUASB International Strategy (April 2018)

### Background

1. The AUASB has an obligation to be actively engaged in International auditing and assurance matters by virtue of the following legislative and oversight requirements:
  - (a) Under section 227B(1)(d) of the ASIC Act, the AUASB's functions include a requirement to "participate in and contribute to the development of a single set of auditing standards for world-wide use".
  - (b) The Financial Reporting Council requires the AUASB to use auditing standards issued by the IAASB as a base from which to develop local Auditing and Assurance standards.
2. Consequently the AUASB has adopted as part of its current vision, mission and strategy the following elements that specifically address our International mandate:
  - (a) Contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use (Mission);
  - (b) Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users, using IAASB Standards, where they exist, modified as necessary (Strategic Objective 1); and
  - (c) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships (Strategic Objective 3).
3. The objective of the AUASB International Strategy is to:
  - (a) Influence international standards and guidance to achieve public interest outcomes and also serve as the most effective base possible for Australian auditing and assurance standards. In doing so, minimise the risks to Australian reporters, practitioners, users and other stakeholders, whilst optimising the value of these international standards and guidance to achieving the AUASB's strategic priorities; and
  - (b) Operationalise the internationally focused aspects of AUASB's functions and strategic objectives and outline the methods the AUASB apply to influence the International standard setting agenda in accordance with our mandate.
4. The strategy consists of both regular international functions undertaken by AUASB members and Technical Group staff to ensure adequate analysis and input into regular IAASB activities and other operational or strategic tasks that support our engagement on international standard-setting issues.
5. The AUASB International Strategy is built upon a number of guiding principles which underpin the responsibilities AUASB Members and Technical Group Staff have when considering and implementing our International influencing activities. These principles are:

1	All Board Members should come to the Board meetings sufficiently prepared to ensure that they have identified their major concerns with International issues on the agenda, and to be in a position to discuss their concerns.
2	Feedback and issues raised by AUASB Board Members on International matters are communicated with the right International representatives and the outcomes from any International engagement are communicated back to the AUASB.
3	The AUASB identify and promote opportunities to work together and share resources with the NZAuASB, and jointly consider best ways to influence internationally. when developing and finalizing our responses to International Auditing and Assurance issues.

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4	The AUASB identify and promote opportunities to work with other National Standard Setters, both bilaterally and through the IAASB National Standard Setters Forums, to influence the outcomes of global projects in accordance with in accordance with public interest outcomes
5	The AUASB identify, cultivate and promote the appointment of high calibre Australian representatives on relevant International auditing and assurance Committees/Working Groups, and once appointed we support them in their roles. and align our activities wherever possible to increase our global influence.
6	In connection with our AUASB Research Strategy, the AUASB identifies supports the development of evidence supporting the AUASB's responses to International Auditing and Assurance issues, and the informing of international issues.

## Regular AUASB International Functions

6. As part of its technical work program the AUASB will perform the following tasks in relation to the IAASB's regular activities:
- The AUASB Chair and AUASB Technical Director to coordinate a process to ensure the AUASB provide regular feedback on the IAASB's strategy and work plan as requested.
  - The AUASB Chair and AUASB Technical Director will monitor the development and release of IAASB board meeting agendas and other relevant communications and ensure these are adequately addressed in AUASB meetings.
  - For each major IAASB project an AUASB Board member (Subject matter expert) and AUASB Technical Group member with the appropriate knowledge, expertise and capacity will be identified.
  - The designated AUASB Technical Group member for each project will initially review, make available and provide comments on the relevant IAASB papers as soon as practically possible to the relevant AUASB member. Collectively the AUASB Board member and AUASB Technical Group member then determine which board papers should be included in the AUASB Board Meeting mail out based on the status of the project. The aim should be to provide sufficient information to AUASB members so that they are suitably prepared to discuss the key issues associated with each global project at that point in its development.
  - As a minimum, for each major IAASB project an '**IAASB Project Summary Template**' (Refer Appendix 2) will be updated prior to and presented in the board papers at each AUASB meeting that precedes an IAASB meeting. The template provides a summary of the top 2 - 3 issues on the topic in the IAASB papers, a recommendation of the activities to best influence the direction of the IAASB project as a result of the AUASB's analysis (e.g. who to speak to, what is the desired outcome, etc), as well as a summary of the next steps or other actions required.
  - This process is to help inform and direct discussion. It is still a requirement that all Board Members come to the Board meetings sufficiently prepared to ensure that they have identified their major concerns with International issues on the agenda, and be in a position to discuss their concerns.
  - A summary of the AUASB's feedback on these major IAASB projects will be prepared by the AUASB Technical Director after each AUASB meeting and supplied to the AUASB Chair and other AUASB representatives attending each IAASB meeting as observers, as well as the Australasian IAASB members.

- (h) Following each IAASB meeting, feedback will be provided to AUASB members by the AUASB Chair and other AUASB representatives who attended as observers, as well as the notes/highlights from the IAASB meeting being included in the AUASB board papers.
- (i) The Australasian IAASB members have a standing invitation to attend AUASB meeting as official guests/observers and provide feedback comments on IAASB matters to the AUASB. Specifically the AUASB Chair will ensure that the Australasian IAASB members attend at least one AUASB meeting to provide an update on IAASB developments each year. Similar presentations from IFAC representatives will also be sought and encouraged where relevant.
- (j) Any significant IAASB matters which arise outside of the normal IAASB meeting process will be communicated to AUASB members on an as required basis by the AUASB Chair or AUASB Technical Director.

### Other AUASB International Strategic Projects

#### *Global regulatory matters*

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

#### *IFAC/IAASB engagement*

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

#### *Engagement with other National Standard Setters*

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

#### *Other*

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



## APPENDIX 2 – IAASB Project Summary Template

### IAASB Project - Accounting Estimates - ISA 540

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

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

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## APPENDIX 2 – IAASB Project Summary Template

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

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

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

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

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

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

### **AUASB influencing activities**

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

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

No further information noted in the meeting papers.



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.** 3 (b)  
**Meeting Date:** 17 April 2018  
**Subject:** AUASB'S exposure draft process for standards based on an equivalent IAASB standard  
**Date Prepared:** 9 April 2018

☒ **Action Required**

☐ **For Information Purposes Only**

## Objective of the agenda item:

1. The objective of this agenda item is for the AUASB to consider three alternate exposure draft (ED) processes for issuing an Australian ED equivalent to an IAASB ED or standard.
2. This paper includes the background, and three possible processes with advantages and disadvantages of each process for the AUASB to consider. The AUASB Technical Group have included their recommendation.

## Background:

3. The AUASB's strategic objective and mandate as set by the FRC, is to use IAASB standards as equivalent standards unless there is a compelling reason not to do so.
4. The ISAs are amended (refer to AUASB Functions and Processes document paragraph 62 (included in papers Apr18\_3(b)1\_AUASB\_Functions\_and\_Processes):
  - a. to exhibit and conform to the Australian regulatory environment and statutory requirements; and
  - b. for further amendments where there is a compelling reason to do so.

Appendix 2 details all Australian amendments to the ISAs.

5. It is therefore critically important that:
  - the AUASB provide feedback to influence the IAASB on a timely basis so the IAASB Standards are an appropriate basis for the AUSAB to use when issuing Australian Auditing Standards that meet the needs of external report users, and
  - all appropriate Australian compelling reasons are identified on a timely basis.

The ED process when using an equivalent IAASB standard needs to achieve this.

6. The current version of the AUASB Functions and Processes document (included as Apr18\_3(b)1\_AUASB\_Functions\_and\_Processes) details the current ED process when using an equivalent IAASB standard in Appendix 1. Currently the AUASB's process is to conduct outreach activities such as roundtables at the IAASB ED stage of the development phase, and issue an Australian ED based on the final ISA standard (**Process A**). The AUASB's ED process recognises that the IAASB's due process in the development of its standards, in that the IAASB have exposed their standard and responded to appropriate feedback in the public interest.

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7. The current process is not ‘broken’ however the timing of issuing Australian EDs is different to other National Standard Setters and the AUASB Technical Group have been considering what is the most effective and efficient process to achieve the objectives of influencing the development of IAASB standards.
8. In determining the possible processes the AUASB Technical Group have reached out to other National Standard Setters (NZAuASB, Canada, South Africa,) and have determined that that they expose concurrently the IAASB’s ED. The AASB also expose international exposure drafts concurrently. Refer to Appendix 1 for more detail.
9. Based on this the AUASB Technical Group have identified two alternate processes to the current:
  - a. Process B - issue the IAASB ED concurrently as an Australian ED including all known Australian amendments.
  - b. Process C – issue the IAASB ED concurrently as an Australian ED without any Australian amendments. Note this is the process adopted by other standard setters.
10. The current version of the AUASB Functions and Processes document (Apr18\_3(b)1\_AUASB\_Functions\_and\_Processes), includes exposing the IAASB’s ED as an option however this has not been done in the past.

### **Process A (current) in more detail including advantages and disadvantages**

11. Refer to AUASB Functions and Processes document Appendix 1 for the complete process. The following is a summary.
  - a. When the IAASB ED is issued the AUASB:
    - i. put the IAASB’s ED on their website and issue a news alert requesting feedback;
    - ii. conducts extensive outreach with Australian stakeholders including holding roundtables etc.
  - b. Feedback from stakeholders is used as input into the AUASB’s submission to the IAASB.
  - c. When the final ISA is issued it is converted into an Australian ED (refer Appendix 2) including any known changes for compelling reason which have been identified through the outreach already conducted. The Australian ED is issued for periods ranging from 30 – 90 days depending on the nature of the ED.
  - d. The AUASB consider the feedback received on exposure from the Australian stakeholders and any additional Australian amendments are subject to the compelling reason test.
  - e. The AUASB consider if the final ASA needs to be re-exposed. However, this would only be if there were significant changes from the ED and this would be very rare.
  - f. The ASA is approved by the AUASB.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>The Australian ED is based on the final ISA and includes the known proposed Australian amendments identified through outreach activities, and therefore is very close to the final ASA. This significantly minimizes the risk of having significant changes to the standard after exposure, and therefore the risk of having to re-expose.</li> <li>Stakeholders including the Australian members of international network firms have the opportunity to respond to our ED on the Australian amendments.</li> </ul>	<ul style="list-style-type: none"> <li>The Australian ED is issued after the ISA is final therefore if the AUASB receive additional comments it is too late to influence the final ISA. This risk is largely mitigated by the AUASB’s outreach activities already conducted, however it is a factor to consider as not all stakeholders may attend our outreach activities.</li> <li>As the Australian ED is issued after the ISA there is a time delay in the issuance of the ASA of up to 6 months. Note this has not caused a concern in the past however is a factor to consider.</li> <li>Potential duplicate effort of respondents to IAASB ED and AUASB ED.</li> </ul>

## Process B in more detail including advantages and disadvantages

### 12. A summary:

- a. The IAASB ED is converted into an Australian ED (refer below for a summary of the Australian changes) including any known compelling reason changes.
- b. The Australian ED is issued with a sufficient comment period for stakeholders to respond however the exposure period is less than the IAASB's to give the AUASB time to consider the feedback before finalizing our submission.
- c. The AUASB still conduct outreach activities to stakeholders through forums such as roundtables during the exposure period to allow comments to be received before our submission to the IAASB is finalized.
- d. The AUASB prepare its submission on the IAASB's ED based on the written submission received on its ED, and the outreach activities conducted.
- e. The IAASB follow due process and consider feedback on the ED and either re-expose the ED or issue the final ISA.
- f. The AUASB recognise the IAASB's due process in the development of its standards, and consider if re-exposure is required if there are any additional Australian compelling reasons which were not in the ED. This is not expected to be common.
- g. The AUASB approve the final ASA.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>Stakeholders have an additional (to attending outreach activities) opportunity to respond to the AUASB on the International ED in writing in time for this to be factored into the AUASB's submission to the IAASB.</li> <li>Stakeholders including the Australian members of international network firms have the opportunity to respond to our ED on the Australian amendments. The Australian ED includes the known proposed Australian amendments.</li> <li>Assuming there is no need to re-expose, there is significantly less delay between the issuing of the ISA and the ASA.</li> <li>Stakeholders including the Australian members of international network firms have the opportunity to respond to our ED on the Australian amendments.</li> </ul>	<ul style="list-style-type: none"> <li>There will be a delay between the issuing of the IAASB ED and the Australian ED as the Australian amendments must be processed. The time delay is dependent on when we receive the ED from the IAASB and the number of Australian amendments. This will reduce the time for the Australian exposure period. This delay could be a few weeks (assuming it takes a week to get the ED from the IAASB, then 1 – 2 weeks to process known Australian amendments)</li> <li>There is a possibility that local members of international network firms may not respond to the AUASB as their firms centrally provide responses to IAASB.</li> <li>There may be significant changes to the IAASB ED to the ISA issued, which may result in the IAASB re-expose, and the AUASB also re-exposing.</li> <li>Additional Australian compelling reasons may be identified through the ED process which may require re-exposure in Australia.</li> </ul>

## Process C in more detail including advantages and disadvantages

### 13. A summary:

- a. The IAASB ED is issued with an AUASB cover letter straight away in Australia without any Australian amendments.
- b. The exposure period is less than the IAASB's to give the AUASB time to consider the feedback before finalizing our submission.
- c. The AUASB consult with stakeholders through forums such as roundtables during the exposure period to allow comments to be received before our submission to the IAASB is finalized, and to assist in identification of any Australian compelling reasons.

- d. The AUASB prepare its submission on the IAASB's ED based on the written submission received on its ED, and the outreach activities conducted.
- e. The IAASB follow due process and consider feedback on the ED and either re-expose the ED or issue the final ISA.
- f. If there are Australian compelling reason amendments identified re-exposure is required.
- g. The AUASB approve the final ASA.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>Stakeholders have an additional (to attending outreach activities) opportunity to respond to the AUASB on the International ED in writing in time for this to be factored into the AUASB's submission to the IAASB.</li> <li>The ED is very promptly issued in Australia as no Australian amendments are made.</li> </ul>	<ul style="list-style-type: none"> <li>The ED issued in Australia does not include any known proposed Australian amendments including compelling reasons. This increases the risk of having to re-expose.</li> <li>If there are compelling reasons identified through the ED process the ED will need to be re-exposed in Australia. Note there are very few compelling reasons so this would not happen very often.</li> <li>The IAASB ED may have significant changes before the ISA is issued, which may result in a need to expose more than once.</li> <li>Local members of international network firms may not respond to the AUASB as central teams provide worldwide response to IAASB.</li> </ul>

## Identification of amendments to the ISA

14. As stated above an important objective of the ED process when using an equivalent IAASB standard is to identify amendment to the ISA for 1) amendments to conform to the Australian regulatory and statutory requirements, and 2) where the ISA does not reflect principles and practices that are considered appropriate in Australia.
15. There may be other amendments required to be made to language etc, however these are not required to pass a compelling reason test or be publicly exposed. These are:
  - Application Paragraphs;
  - Operative/Effective Date;
  - Corporations Act references;
  - Definitions e.g. Financial Statements vs Financial Report;
  - References to Ethics – ASA 102;
  - Appendices – Australian Specific Examples.
16. Refer to Appendix 2 for details of the current Australian AU paragraphs. Many standards do not have any AU paragraphs or amendments which require a compelling reason test.
17. If an Australian compelling reason is identified subsequent to the ED being issued in Australia the due process would normally require re-exposure unless the AUASB decide there are unusual circumstances. AUASB Technical Group Recommendation
18. All three processes would meet the objective of influencing the IAASB Standards so that they are an appropriate basis for the AUSAB to use when issuing Australian Auditing Standards, and that all appropriate Australian compelling reasons are identified on a timely basis.
19. The AUASB's Technical Group have considered the advantages and disadvantages of each process and consider that B is the preferred approach for the following reasons:

- a. Timeliness of issuing the ASA
    - i. Process A (current) results in a significant delay between the time of the ISA and the ASA being issued. This time can be up to 6 months. Note that this has not been a significant issue in the past, however this is not ideal.
    - ii. Both process B and C should result in the ASA being issued much more quickly unless there is a need to re-expose. Process C does not include any Australian amendments and has a higher risk of requiring re-exposing for Australian compelling reasons.
  - b. B is preferred over C in that known Australian amendments are included in the ED. Note that other standard setters expose the IAASB ED without any amendments.
  - c. Ability to influence the IAASB before the ISA is finalised - Both process B and C potentially enable the AUASB to receive submissions from more stakeholders as it is not dependent on them attending the roundtable, and therefore potentially identify more matters to include in our submission to the IAASB with an opportunity to influence before the ISA is finalised.
  - d. Potential efficiency in process by reducing duplication of effort, including staff time, Board time, and respondents time
20. The main disadvantage of process B and C is that an Australian compelling reason may not be identified before the ED is issued, and in this scenario the AUASB would have to publicly expose this ED again with any new compelling reasons. However as there are not many current compelling reasons, and there are even less that would not have been identified and discussed by the Board during discussions around the development of the ED this is not considered a significant risk. If re-exposure is required the only impact is a delay in the issuing of the ASA which is consistent with the current process.

## AUASB Action

21. Consider:
- Do you consider that all the advantages and disadvantages been identified?
  - Do you agree with the AUASB Technical Group's recommendation to change the timing and processes associated with the issuing of EDs for standards based on IAASB standards?
22. If the AUASB agree to adopt Option B then it is planned that the AUASB Technical Group will pilot the new ED exposure process for the upcoming release of ISA 315 by the IAASB (currently planned for June 2018). This will allow the AUASB Technical Group to evaluate how successful the new process is (including feedback from stakeholders) before other impending IAASB EDs (ISQC 1, ISA 220) are released later in 2018.

## Material Presented

Agenda Item	AUASB Board Meeting Summary Paper
	Apr18_3(b)1_AUASB_Functions_and_Processes

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**Action Required**

No.	Action Item	Deliverable	Responsibility	Due Date	Status
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<b>Appendix 1 – other NSS timeline for issuing EDs based on the IAASB’s</b>	
New Zealand - NZAuASB	<p>The NZAuASB’s policy is to expose the IAASB’s ED concurrently.</p> <p>The IAASB’s ED is issued as is, unless there are known compelling reasons to change. This is not common. If there are minimal changes from the IAASB ED to the ISA, the NZAuASB will issue an equivalent ISA (NZ) with minimal changes only to reflect references, language and grammatical conventions used in New Zealand, and do not re-expose. However if compelling reasons for amendments to the international proposals are subsequently identified, NZAuASB issue another exposure draft in New Zealand.</p> <p>Note that changes to reflect references, language and grammatical conventions in New Zealand are not considered compelling reasons and not exposed.</p>
Canada - AASB	Issue the IAASB ED as close as possible to the same time as the IAASB, with deadlines that are the same as the IAASB EDs. Make minimal changes to the ISA.
South Africa	IAASB's proposed international pronouncements and consultation papers issued on exposure internationally are exposed simultaneously in South Africa. The exposure period ends fourteen (14) days before the comments are due to be submitted to the IAASB.
United States – AICPA’s ASB	<p>The ASB’s policy is not set with regards to the timing of issuance of domestic EDs of corresponding ISA EDs. Sometimes the ASB will issue an ED at the same time the IAASB issues its ISA ED, while other times it will wait until the IAASB approves the ISA as it prefers to work from the most final version of the ISA when developing its equivalent domestic standard.</p> <p>The ASB’s policy is to responds to all ISA EDs. ASB does not conduct stakeholder outreach in gathering input for its IAASB response letters. The response letter is based on input gathered through task forces and ASB members.</p>
Australian Accounting Standards Board	Issue the International EDs as soon as possible with a cover letter asking for feedback as well as any Australian issues.

## Modifications to ISAs when adopted in Australia

1. This paper has been prepared to support the discussion regarding the AUASB process for exposing International Standards. The paper collates the “Aus” paragraphs in the ASA series of standards issued by the AUASB. In the Australian standard-setting context, the AUASB adopts ISAs and modifies them only when there is a compelling reason to do so.
2. The focus of this paper is on modifications made to the requirements of standards. Changes to the requirements of ISAs when adopted in Australia impact directly on how the audit is performed. The current process is to modify a standard when either *the international standard is not consistent with Australian regulatory arrangements or the international standard does not reflect principles and practices that are considered appropriate in Australia*. The Australian regulatory arrangements category includes modifications made to appropriately identify *Corporations Act 2001* requirements.
3. Modifications to requirements have been categorised as either due to *Australian Regulatory Arrangements* or *Principles and Practices in Australia*. For completeness, modifications made to Definitions and Application and Other Explanatory material are included in a separate section.

## Modifications to Requirements

### Part A – Principles and Practices in Australia

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
<b>ASA 200 Quality Control for an Audit of a Financial Report and Other Historical Financial Information</b>					
<b>Requirements</b>					
1	ASA 200 (2009)	Aus 23.1	<p><b>Deleted paragraph</b></p> <p>In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, the procedure would be ineffective in achieving the aim of the requirement.</p>	<p><i>Complying with Relevant Requirements</i></p> <p>Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement, the auditor shall:</p> <p>(a) If possible, perform appropriate alternative audit procedures; and</p> <p>(b) In accordance with ASA 230,* document in the working papers:</p> <p>(i) The circumstances surrounding the inability to comply;</p> <p>(ii) The reasons for the inability to comply; and</p> <p>(iii) Justification of how alternative audit procedures achieve the objectives of the requirement.</p> <p>When the auditor is unable to perform the appropriate alternative audit procedures, the auditor shall</p>	Departure from standard and documentation of departure

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
				consider the requirement in paragraph 24 of this Auditing Standard. (Ref: Para. A76-Aus A76.1)	
<b>ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information</b>					
<u>Requirements</u>					
2	ASA 2011-1	Aus 21.1	<p><b>Deleted paragraph</b></p> <p>For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control reviewer, shall also consider the following:</p> <ul style="list-style-type: none"> <li>(a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;</li> <li>(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and</li> <li>(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements made and supports the conclusions reached.</li> </ul>	<p><i>Engagement Quality Control Review</i></p> <p>For audits of <b>financial reports</b> of listed entities, <b>and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required</b>, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <ul style="list-style-type: none"> <li>(a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;</li> <li>(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and</li> <li>(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements made and supports the conclusions reached. (Ref: Para. A28-A31)</li> </ul>	Extension of scope to other engagements
<b>ASA 230 Audit Documentation</b>					
<u>Requirements</u>					
3	ASA (Oct. 2009)	Aus 12.1	<p><b>Deleted paragraph</b></p> <p>If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in an ISA, the auditor shall</p>	<p><i>Documentation of Inability to Comply with Requirements</i></p> <p>Where, in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an</p>	Departure from standard and documentation of departure

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#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
			document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure. (Ref: para. A18-A19)	essential procedure contained within a relevant requirement, the auditor shall document: (Ref: Para. A18-A19)  (a) The circumstances surrounding the inability to comply;  (b) The reasons for the inability to comply; and  (c) Justification of how alternative audit procedures achieve the objectives of the requirement.	
<b>ASA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</b>					
<b>Requirements</b>					
5	ASA 265 (Oct 2009)	Aus 11.1	<p>Additional requirement inserted into the following paragraph between (ii) and (iii)</p> <p><b>Paragraph 11</b></p> <p>The auditor shall include in the written communication of significant deficiencies in internal control:</p> <p>(a) A description of the deficiencies and an explanation of their potential effects; and (Ref: Para. A28)</p> <p>(b) Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that: (Ref: Para. A29-A30)</p> <p>(i) The purpose of the audit was for the auditor to express an opinion on the financial report;</p> <p>(ii) The audit included consideration of internal</p>	In circumstances when the auditor has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and	Limitation of situations

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
			<p>control relevant to the preparation of the financial report 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 internal control; or</p> <p>(iii) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.</p>		

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
ASA 502 Audit Evidence – Specific Considerations for Litigation and Claims					
Requirements					
6	ASA 502 (Oct 2009)	Aus 5.1	N/A – additional requirement	<i>In-house and/or External Legal Counsel</i>  Where in-house legal counsel has the primary responsibility for litigation and claims and is in the best position to corroborate management’s representations, the auditor shall endeavour to obtain a representation letter from the in-house legal counsel, seeking information similar to that sought from the entity’s external legal counsel. (Ref: Para. Aus A8.1-Aus A8.2)	Requirements from extant ASA 508 considered important in an Australian context
		Aus 5.2	N/A – additional requirement	<i>Legal Counsel’s Response</i>  If a response from the entity’s external or internal legal counsel contains a material disagreement with management’s original evaluation of a particular matter, the auditor shall seek discussions with management and the entity’s legal counsel, unless management subsequently agrees with the legal counsel’s evaluation. (Ref. Para. Aus A8.3-Aus A8.6)	
		Aus 6.1	N/A – additional requirement	<b>Related Procedures</b>  The auditor shall enquire of management about new litigation and claims referred to the entity’s legal counsel subsequent to the date of the request for a letter of enquiry to the entity’s legal counsel and prior to signing the auditor’s report. (Ref. Para A9-Aus A9.1)	
		Aus 6.2	N/A – additional requirement	If audit procedures lead to the discovery of matters of a legal nature not previously identified by management, the auditor shall consider the impact of each of the matters on the financial report. (Ref: Para. Aus A9.2-Aus A9.3)	
ASA 550 Related Parties					
Requirements					
7	ASA 550 (Oct	Aus 27.1	N/A – additional requirement	<b>Reporting Considerations</b>	Requirements from extant ASA 550

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#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
	2009)	Aus 27.2	N/A – additional requirement	<p>If the auditor is unable to:</p> <p>(a) obtain sufficient appropriate audit evidence regarding related parties and related party transactions; or</p> <p>(b) form a conclusion as to the completeness of the disclosure of related party relationships and transactions in accordance with the applicable financial reporting framework;</p> <p>the auditor shall modify the auditor's opinion in accordance with ASA 705*.</p> <p>If the auditor concludes that the related party disclosures in the financial report do not satisfy the requirements of the applicable financial reporting framework, the auditor shall modify the auditor's opinion in accordance with ASA 705.</p>	considered important in an Australian context
<b>ASA 570 Going Concern</b>					
<b><u>Requirements</u></b>					
9	ASA 570 (Oct 2009)	Aus 13.1	<p><b>Deleted paragraph</b></p> <p><b>Evaluating Management's Assessment</b></p> <p>In evaluating management's assessment of the entity's ability to continue as a going</p>	<p><b>Evaluating Management's Assessment</b></p> <p>In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall <b>consider the relevant period as defined in</b></p>	Clarification of appropriate date

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#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
		Aus 13.2	<p>concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period.</p> <p>If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined by ISA 560, the auditor shall request management to extend its assessment period to at least twelve months from the date. (Ref: Para. A11-A13)</p> <p>N/A – additional requirement</p>	<p><b>paragraph Aus 13.2 of this Auditing Standard, which may be the same or may differ from that</b> used by management to make its assessment as required by the applicable financial reporting framework.</p> <p>If management's assessment of the entity's ability to continue as a going concern covers less than <b>the relevant period</b>, the auditor shall request management to extend its assessment period to correspond to the relevant period used by the auditor. (Ref: Para. A11–A13)</p> <p>Relevant period means the period of approximately twelve months from the date of the auditor's current report to the expected date of the auditor's report for:</p> <ul style="list-style-type: none"> <li>(a) the next annual reporting date in the case of an annual financial report; or</li> <li>(b) the corresponding reporting period for the following year in the case of an interim financial reporting period.</li> </ul>	

#### **ASA 610 Using the Work of Internal Auditors**

##### **Requirements**

10	ASA 610 (Nov 2013)	Aus 25.1	<p>N/A – additional requirement</p> <p>Paragraphs 26-35 are deleted by AUASB.</p>	<p><b>Direct Assistance</b></p> <p>The external auditor shall not use internal auditors to provide direct assistance on the external audit engagement.</p>	Direct assistance not allowed in Australia
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#### **Part B– Australian Regulatory Arrangements**

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
<b>ASA 260 Communication With Those Charged with Governance</b>					
<b><u>Requirements</u></b>					
1	ASA 260	Aus 17.1	N/A – additional requirement	<i>Auditor Independence</i>	Australian legislative

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#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
	(Oct 2009)			In the case of entities audited in accordance with the <i>Corporations Act 2001</i> , the auditor shall communicate with those charged with governance through a statement that the engagement team and others in the firm as appropriate, the firm, and, when applicable network firms, have complied with the independence requirements of section 307C of the <i>Corporations Act 2001</i> .	environment
<b>ASA 560 Subsequent Events</b>					
<b>Requirements</b>					
2	ASA 560 (Oct 2009)	Aus 12.1	N/A – additional requirement	<p><b>Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Date the Financial Report is Issued</b></p> <p>For an audit engagement conducted under the <i>Corporations Act 2001</i>, management, and those charged with governance, are prohibited from restricting an amendment of the financial report to the effects of the subsequent event or events causing that amendment. Consequently, the auditor is prohibited from restricting audit procedures as required under paragraph 11(b)(i) of this Auditing Standard to such an amendment.</p>	Australian legislative environment
<b>ASA 700 Forming an Opinion and Reporting on a Financial Report</b>					
<b>Requirements</b>					
3	ASA 700 (Dec 2015)	Aus 28.1(c)	<p><b>Deleted paragraph</b></p> <p>Basis for Opinion</p> <p>Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement</p>	<p>Basis for Opinion</p> <p>Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. <b>The statement shall identify the relevant ethical requirements applicable within Australia;</b> and (Ref: Para. Aus</p>	Relevant ethical requirements

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#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
			shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' <i>Code of Ethics for Professional Accountants</i> (IESBA Code); and (Ref: Para A34-A39)	A34.1–A39)	
3		Aus 46.1	<p><b>Deleted paragraph</b></p> <p>Name of the Engagement Partner</p> <p>The name of the engagement partner shall be included in the auditor's report on financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of the significant personal security threat. (Ref: Para. A61-63)</p>	<p>Name of the Engagement Partner</p> <p>The name of the engagement partner shall be included in the auditor's report where required by law or regulation. (Ref: Para. Aus A61.1–A62)</p>	Australian legislative environment
13	ASA 2017-1	Aus 49.1	N/A – additional requirement	<p>Date of the Auditor's Report</p> <p>The auditor's report shall be dated as of the date the auditor signs that report.</p>	Australian legislative environment
14		Aus 50.1(e)	<p><b>Deleted paragraph</b></p> <p>A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.</p>	<p><i>Auditor's Report Prescribed by Law or Regulation</i></p> <p>A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical requirements in accordance with these requirements. <b>The statement shall identify the relevant ethical requirements applicable within Australia.</b></p>	Relevant ethical requirements

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
15		Aus 50.1(1)	<b>Deleted paragraph</b>  For audits of complete sets of general purpose financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such a disclosure is reasonably expected to lead to a significant personal security threat.	<i>Auditor's Report Prescribed by Law or Regulation</i>  The name of the engagement partner where required by law or regulation.	Australian legislative environment

4. No modifications to requirements have been made to the following standards:

- *ASA 210 Agreeing the Terms of Audit Engagements*
- *ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*
- *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report*
- *ASA 300 Planning an Audit of a Financial Report*
- *ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*
- *ASA 320 Materiality in Planning and Performing an Audit*
- *ASA 330 The Auditor's Responses to Assessed Risks*
- *ASA 402 Auditing Considerations Relating to an Entity Using a Service Organisation*
- *ASA 450 Evaluation of Misstatements Identified during the Audit*
- *ASA 500 Audit Evidence*
- *ASA 501 Audit Evidence—Specific Considerations for Inventory and Segment Information*
- *ASA 505 External Confirmations*
- *ASA 510 Initial Audit Engagements-Opening Balances*
- *ASA 520 Analytical Procedures*
- *ASA 530 Audit Sampling*
- *ASA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*
- *ASA 580 Written Representations*
- *ASA 600 Special Considerations-Audits of a Group Financial Report*
- *ASA 620 Using the Work of an Auditor's Expert*
- *ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report*
- *ASA 705 Communicating Key Audit Matters in the Independent Auditor's Report*
- *ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- *ASA 710 Comparative Information-Corresponding Figures and Comparative Financial Reports*
- *ASA 720 The Auditor's Responsibilities Relating to Other Information*
- *ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*

## Part B –Modifications to Definitions and Application and Other Explanatory Material

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
<b>ASA 200 Quality Control for an Audit of a Financial Report and Other Historical Financial Information</b>					
<b><u>Definitions</u></b>					
1	ASA 200 (2009)	Aus 13.1	N/A – additional definition	<p>A complete set of financial statements means financial statements and related notes as determined by the requirements of the applicable financial reporting framework. For example, a complete set of financial statements as described in Accounting Standard AASB 101* includes:</p> <ul style="list-style-type: none"> <li>(a) a statement of financial position as at the end of the period;</li> <li>(b) a statement of comprehensive income for the period;</li> <li>(c) a statement of changes in equity for the period;</li> <li>(d) a statement of cash flows for the period; and</li> <li>(e) notes, comprising a summary of significant accounting policies and other explanatory information.</li> </ul>	Reference to AASB standard
2	ASA 2015-1	Aus 13.2	N/A – additional definition	<p>Financial Report means, for the purpose of the Corporations Act 2001,* financial statements for the year or the half-year and notes to the financial statements, and the directors' declaration about the statements and notes.</p> <p>Financial Report means, for purposes other than the Corporations Act 2001, a complete set of financial statements, and an assertion statement by those responsible for the financial report.</p>	Australian legislative environment
<b><u>Application and Other Explanatory Material</u></b>					
3	ASA 200 (2009)	Aus A7.1	N/A – additional material	An applicable financial reporting framework that may be used in preparing a financial report is represented by the Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB), and relevant law,	Australian legislative environment

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				such as the <i>Corporations Act 2001</i> (the Act) for entities covered by that Act, or other relevant law that may be applicable to other entities.	
		Aus A16.1	Paragraphs A16-A18 are deleted	The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to audit engagements as defined in ASA 102.	Relevant ethical requirements
		Aus A68.1	N/A – additional material	When the auditor conducts the audit in accordance with Australian Auditing Standards and International Standards on Auditing (“ISAs”), in accordance with ASA 700 the auditor’s report is required to refer to the audit having been conducted in accordance with the Australian Auditing Standards and the ISAs only when the auditor has complied fully with all of the Australian Auditing Standards and ISAs relevant to the audit. (Ref: Para 20)	Australian legislative environment
		Aus A76.1	N/A – additional material	Where in rare and exceptional circumstances, factors outside the auditor’s control prevent the auditor from complying with an essential procedure contained within a relevant requirement, compliance with Australian Auditing Standards can still be represented provided the auditor has complied with the requirements of paragraph Aus 23.1.	Departure from standard and documentation of departure
<b>ASA 210 Agreeing the Terms of the Audit Engagement</b>					
<u>Application and Other Explanatory Material</u>					
	ASA 210	Aus A21.1	N/A – additional material	<p>Management-Imposed Limitation of Scope</p> <p>Section 312 of the <i>Corporations Act 2001</i> (the Act) requires an officer of the entity to allow the auditor access to the books of the entity and give any information, explanation or assistance required under section 310 of the Act. A management-imposed restriction of scope may breach section 312 and trigger the need for a section 311 notice to be provided by</p>	Australian legislative environment

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				the auditor to the Australian Securities and Investments Commission (ASIC).	
<b>ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information</b>					
<u>Definitions</u>					
4	ASA 220(2009)	Aus 7.1	N/A – additional definition	Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, providing assurance services.	Sector neutral language
5	ASA 220(2009)	Aus 7.2	N/A – additional definition	Engagement partner should be read as referring to a public sector equivalent where relevant.	Sector neutral language
6	ASA 2013-2	Aus 7.3	N/A – additional definition	Firm means a sole practitioner, partnership, or corporation or other entity of assurance practitioners. Firm should be read as referring to a public sector equivalent where relevant.	Sector neutral language
7	ASA 220(Oct. 2009)	Aus 7.4	N/A – additional definition	Partner means any individual with authority to bind the firm with respect to the performance of an audit of a financial report or historical financial information. Partner should be read as referring to a public sector equivalent where relevant.	Sector neutral language
8	ASA 220(Oct. 2009)	Aus 7.5	N/A – additional definition	Australian Auditing Standards means the suite of auditing standards issued by the AUASB, and includes ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, and ASA 810 Engagements to Report on Summary Financial Statements.	Reference to AUASB Standard
9	ASA 220(Oct. 2009)	Aus 7.6	N/A – additional definition	Relevant ethical requirements means relevant ethical requirements as defined in ASA 102.*	Relevant ethical requirements
<u>Application and Other Explanatory Material</u>					
	ASA 220	Aus A2.1	N/A – additional material	<i>Reliance on the Firm's System of Quality Control</i>  Notwithstanding reliance by the	Australian legislative environment

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				engagement team on the firm's system of quality control, for audits undertaken in accordance with the <i>Corporations Act 2001</i> (the Act), the engagement partner is required to comply with the auditing standards under section 307A of that Act.	
		Aus A4.1	<b>Deleted paragraph A4</b>  The IESBA Code established the fundamental principles of professional ethics, which include: <ul style="list-style-type: none"> <li>(a) Integrity;</li> <li>(b) Objectivity;</li> <li>(c) Professional competence and due care;</li> <li>(d) Confidentiality; and</li> <li>(e) Professional behaviour.</li> </ul>	<i>Compliance with Relevant Ethical Requirements</i>  The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to audit engagements as defined in ASA 102.	Relevant ethical requirements
	ASA 2015-1	Aus A5.1	<b>Deleted paragraph A5</b>  Definition of Firm, Network and Network Firm are deleted.	<i>Independence</i>  Examples of independence requirements that may be applicable are addressed in the <i>Corporations Act 2001</i> , Part 2M.3 Division 3, and relevant ethical requirements in ASA 102.	Australian legislative environment
		Aus A6.2	N/A – additional material	<i>Threats to Independence</i>  The familiarity threat is particularly relevant in the context of financial report audits of listed entities. For these audits, relevant ethical requirements† and the <i>Corporations Act 2001</i> specify the partner rotation requirements.	Australian legislative environment
<b>ASA 230 Audit Documentation</b>					
<u>Application and Other Explanatory Materials</u>					
		Aus A18.1	N/A – additional material	<i>Documentation of Inability to Comply with Relevant Ethical Requirements</i>  ASA 200* contains a requirement regarding the situation, where, in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement.	Australian legislative environment



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		Aus A23 .1	N/A – additional material	<b>Assembly of the Final Audit File</b>  Under section 307B of the <i>Corporations Act 2001</i> , the auditor or member of an audit firm is required to retain all audit working papers prepared by or for, or considered or used by, the auditor in accordance with the requirements of the Australian Auditing Standards until: <ul style="list-style-type: none"> <li>(a) The end of seven years after the date of the audit report prepared in relation to the audit or review to which the audit working papers relate; or</li> <li>(b) An earlier date determined by the Australian Securities and Investments Commission for the audit working papers.</li> </ul>	Australian legislative environment
		Aus A23 .2	N/A – additional material	Relevant legislation or regulation, other than the <i>Corporations Act 2001</i> , may require the retention of audit working papers for specified periods.	
<b>ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</b>					
<u>Application and Other Explanatory Materials</u>					
		Aus A57 .1	N/A – additional material	<b>Auditor Unable to Continue the Engagement</b>  For an audit engagement under the <i>Corporations Act 2001</i> (the Act), the possibility of withdrawing from the engagement or resigning from the appointment as an auditor can only be made in accordance with the provisions of the Act, including in certain circumstances, obtaining consent to resign from the Australian Securities and Investments Commission (ASIC).	Australian legislative environment
		Aus A62 .1	N/A – additional material	<i>Communication with Those Charged with Governance</i>  Legislation may require the auditor or a member of the audit team to maintain the confidentiality of information disclosed to the auditor, or a member of the audit team, by a	Australian legislative environment

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				person regarding contraventions or possible contraventions of the law.* In such circumstances, the auditor or a member of the audit team may be prevented from communicating that information to management or those charged with governance in order to protect the identity of the person who has disclosed confidential information that alleges a breach of the law. In such circumstances, the auditor may consider obtaining legal advice to assist in determining the appropriate course of action and may need to consider the implications for the audit engagement.	
		Aus A67 .1	N/A – additional material	<b>Reporting Fraud to an Appropriate Authority outside the Entity</b>  An auditor is required by the Corporations Act 2001 to notify the Australian Securities and Investments Commission (ASIC) if the auditor is aware of certain circumstances.*	Australian legislative environment
<b>ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report</b>					
<i>Application and Other Explanatory Materials</i>					
	ASA 250	Aus A20 .1	N/A – additional material	<i>Audit Procedures and Communicating Identified or Suspected Non-Compliance with Management and Those Charged with Governance</i>  In the case of an audit conducted under the <i>Corporations Act 2001</i> , the auditor may need to consider the provisions relating to the protection for whistleblowers contained in Part 9.4AAA of the Corporations Act 2001 when communicating identified or suspected non-compliance with management and those charged with governance.	Australian legislative environment
		Aus A26 .1	N/A – additional material	<i>Potential Implications of Identified or Suspected Non-Compliance for the Auditor's Report</i>  If, in the case of an audit conducted under the <i>Corporations Act 2001</i> , the auditor identifies non-compliance with an Australian Accounting	Australian legislative environment

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				Standard, defects or irregularities in the financial report or deficiencies, failures or shortcomings in respect of section 307 of the Act, the auditor's report is to include the information required by the Act.* The auditor needs to consider any other relevant laws and regulations. If the auditor is in doubt as to the proper interpretation of laws or regulations, or whether non-compliance has in fact occurred, the auditor ordinarily seeks legal advice before expressing an opinion on the financial report.	
		Aus A29.1	N/A – additional material	<p><i>Report Identified or Suspected Non-Compliance to an Appropriate Authority outside the Entity</i></p> <p>In certain circumstances, the auditor has a statutory responsibility to report instances of non-compliance with laws and regulations. For example, in certain circumstances, the auditor is required under the <i>Corporations Act 2001</i>, to report to the Australian Securities and Investments Commission (ASIC).* Establishing the appropriate authority to which such a report would be made in a particular instance will depend on the nature and circumstances of the non-compliance. When in doubt, the auditor would ordinarily seek legal advice.</p>	Australian legislative environment
<b>ASA 260 Communication With Those Charged With Governance</b>					
<u>Application and Other Explanatory Materials</u>					
	ASA 260 (2015)	Aus A14.1	<p><b>Deleted paragraph</b></p> <p>Where the entity has an internal audit function, how the external auditor and internal auditors can work together in a constructive and complementary manner, including any planned use of the work of the internal audit function <b>and the nature and extent of any planned use of the internal auditors to provide direct assistance.</b></p> <ul style="list-style-type: none"> <li>The views of those charged with governance about:</li> </ul>	<p>Where the entity has an internal audit function, how the external auditor and internal auditors can work together in a constructive and complementary manner, including any planned use of the work of the internal audit function.</p> <ul style="list-style-type: none"> <li>The views of those charged with governance about: <ul style="list-style-type: none"> <li>The appropriate person(s)</li> </ul> </li> </ul>	Direct assistance

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			<ul style="list-style-type: none"> <li>○ The appropriate person(s) in the entity's governance structure with whom to communicate.</li> <li>○ The allocation of responsibilities between those charged with governance and management.</li> <li>○ The entity's objectives and strategies, and the related business risks that may result in material misstatements.</li> <li>○ Matters those charged with governance consider warrant particular attention during the audit, and any areas where they</li> </ul>	<ul style="list-style-type: none"> <li>in the entity's governance structure with whom to communicate.</li> <li>○ The allocation of responsibilities between those charged with governance and management.</li> <li>○ The entity's objectives and strategies, and the related business risks that may result in material misstatements.</li> <li>○ Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be</li> </ul>	

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			<p>request additional procedures to be undertaken.</p> <ul style="list-style-type: none"> <li>○ Significant communications between the entity and regulators.</li> <li>○ Other matters those charged with governance consider may influence the audit of the financial report.</li> </ul> <ul style="list-style-type: none"> <li>• The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control, and (b) the detection or possibility of fraud.</li> <li>• The actions of those charged with governance in response to developments in accounting standards,</li> </ul>	<p>undertake n.</p> <ul style="list-style-type: none"> <li>○ Significant communications between the entity and regulators.</li> <li>○ Other matters those charged with governance consider may influence the audit of the financial report.</li> </ul> <ul style="list-style-type: none"> <li>• The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control, and (b) the detection or possibility of fraud.</li> <li>• The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and</li> </ul>	

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			<p>corporate governance practices, exchange listing rules, and related matters, and the effect of such developments on, for example, the overall presentation, structure and content of the financial report, including:</p> <ul style="list-style-type: none"> <li>○ The relevance, reliability, comparability and understandability of the information presented in the financial report; and</li> <li>○ Considering whether the financial report is undermined by the inclusion of information that is not relevant or that obscures a proper understanding of the matters disclosed.</li> </ul> <ul style="list-style-type: none"> <li>• The responses of those charged with governance to previous</li> </ul>	<p>related matters, and the effect of such developments on, for example, the overall presentation, structure and content of the financial report, including:</p> <ul style="list-style-type: none"> <li>○ The relevance, reliability, comparability and understandability of the information presented in the financial report; and</li> <li>○ Considering whether the financial report is undermined by the inclusion of information that is not relevant or that obscures a proper understanding of the matters disclosed.</li> </ul> <ul style="list-style-type: none"> <li>• The responses of those charged with governance to previous communications with the auditor.</li> <li>• The documents</li> </ul>	

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			communications with the auditor.  The documents comprising the other information (as defined in ISA 720) and the planned manner and timing of the issuance of such documents. When the auditor expects to obtain other information after the date of the auditor's report, the discussions with those charged with governance may also include the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.	comprising the other information (as defined in ASA 720) and the planned manner and timing of the issuance of such documents. When the auditor expects to obtain other information after the date of the auditor's report, the discussions with those charged with governance may also include the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.	
		Aus A31.1	Deleted relevant ethical requirements	<i>Auditor Independence</i>  Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified.	Relevant ethical requirements
		Aus A44.1	N/A – additional material	Communication with Third Parties  An auditor is required under the <i>Corporations Act 2001</i> to notify the Australian Securities and Investments Commission (ASIC) if the auditor is aware of certain circumstances.*	Australian legislative environment
<b>ASA 402 Auditing Considerations Relating to an Entity Using a Service Organisation</b>					
<u>Application and Other Explanatory Materials</u>					

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		Aus A16.1	<p><b>Deleted paragraph</b></p> <p>A service organization may engage a service auditor to report on the description and design of its controls (type 1 report) or on the description and design of its controls and their operating effectiveness (type 2 report). Type 1 or type 2 reports may be issued under International Standard on Assurance Engagements (ISAE) 3402 or under standards established by an authorized or recognized standards setting organization (which may identify them by different names, such as Type A or Type B reports).</p>	<p><i>Further Procedures When a Sufficient Understanding Cannot Be Obtained from the User Entity</i></p> <p>A service organisation may engage a service auditor to report on the description and design of its controls (type 1 report) or on the description and design of its controls and their operating effectiveness (type 2 report).</p>	Australian legislative environment
<b>ASA 502 Audit Evidence – Specific Considerations for Litigation and Claims</b>					
<u>Application and Other Explanatory Materials</u>					
	ASA 502 (2009)	<p>Aus A1.1</p> <p>Aus A2.1</p>	<p>N/A – additional material</p> <p>N/A – additional material</p>	<p><b>Completeness of Litigation and Claims</b></p> <p>It is the responsibility of those charged with governance of an entity to adopt policies and procedures to identify, evaluate, record and report on the outcome of any material litigation and claims. However, since the factors that would be considered in the accounting for and reporting of litigation and claims are within the direct knowledge and control of the management of an entity, management is the primary source of information. Ordinarily, the auditor would seek audit evidence from different sources to corroborate management's assertions.</p> <p>The procedures identified in paragraphs 4 and A2 would ordinarily include the following:</p> <ul style="list-style-type: none"> <li>• reviewing and discussing with management the procedures within the entity's internal control structure</li> </ul>	Extant considered important in Aus context

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				<ul style="list-style-type: none"> <li>for identifying and recording litigation and claims and bringing them to the attention of management;</li> <li>reviewing and discussing with management the procedures within the entity's internal control structure for the identification, control and recording of litigation and claims and associated revenues and expenses in appropriate accounts; and</li> <li>obtaining and discussing with management: <ul style="list-style-type: none"> <li>(i) a list of litigation and claims, including a description of the matters and an estimate of their likely financial consequences; and</li> <li>(ii) an analysis identifying litigation and claims.</li> </ul> </li> </ul>	
		Aus A2.2	N/A – additional material	Audit procedures that are undertaken for different purposes might also identify litigation and claims. Such procedures include:	Extant considered important in Aus

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				<ul style="list-style-type: none"> <li>• examining contracts, loan agreements, leases, insurance policies and claims, and other correspondence;</li> <li>• reading minutes of meetings of the audit committee, shareholders and appropriate committees;</li> <li>• obtaining information concerning guarantees from bank confirmations; and</li> <li>• enquiries of management and other employees of the entity.</li> </ul>	context
		Aus A4.1	N/A – additional material	<p>Outcome of Litigation and Claims</p> <p>The procedures outlined in paragraphs A1-A4 are methods whereby the auditor can identify both material litigation and claims and legal counsel who have been consulted by the entity. However, these procedures may not necessarily provide the auditor with sufficient appropriate audit evidence concerning the likely outcome of litigation and claims. Furthermore, the auditor ordinarily does not possess the skills necessary and is not in a position to make legal judgements concerning the likely outcome of litigation and claims.</p>	Extant considered important in Aus context
		Aus A7.1	N/A – additional material	<p><i>External Legal Counsel</i></p> <p>An example of a letter of specific enquiry is included in [Aus] Appendix 1.</p>	Extant considered important in Aus context

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		Aus A7.2	N/A – additional material	An auditor may in some cases request that management send a letter of enquiry to the entity's legal counsel who are not identified as currently handling the entity's litigation and claims. For example when the entity has changed legal counsel on a particular matter, or when legal counsel engaged by the entity has resigned, the auditor would consider the need for enquiries concerning the reasons for the change or resignation.	Extant considered important in Aus context
		Aus A8.1	N/A – additional material	<p><i>In-house and/or External Legal Counsel</i></p> <p>If both in-house and external legal counsel are involved in advising the entity on the same litigation and claims, the auditor would ordinarily seek a letter of enquiry from the legal counsel with the primary responsibility for that matter. However, there may be circumstances where the in-house legal counsel has primary responsibility, but the matter has involved substantial participation by an external legal counsel, and is of such significance that the auditor would consider obtaining a letter of enquiry from the external legal counsel to determine that their opinion does not differ materially from that of the in-house legal counsel.</p>	Extant considered important in Aus context
		Aus A8.2	N/A – additional material	In circumstances where both in-house and external legal counsel have devoted substantial attention to litigation and claims involving the entity and primary responsibility rests with the external legal counsel, evidence obtained from an in-house legal counsel is not an adequate substitute for any information that the external legal counsel may refuse to furnish.	Extant considered important in Aus context
		Aus A8.3	N/A – additional material	<p><i>Legal Counsel's Response</i></p> <p>Before relying on the opinion of either in-house legal counsel or external legal counsel, care should be</p>	Extant considered important in Aus

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				exercised to ensure that conditions prevail which would make such reliance reasonable.	context
		Aus A8.4	N/A – additional material	If a disagreement between management and legal counsel is resolved after discussions, the auditor would ordinarily request the entity's legal counsel to confirm the details in writing to the auditor. (Ref: Para. Aus 5.2)	Extant considered important in Aus context
		Aus A8.5	N/A – additional material	If the disagreement is not resolved, the auditor would ordinarily prepare a memorandum of the discussion and seek written confirmation from management and the entity's legal counsel that it is an accurate record of the discussion. In conjunction with evidence from other audit procedures, the auditor, under ASA 705, needs to consider the effect of such disagreement on the auditor's report.	Extant considered important in Aus context
		Aus A8.6	N/A – additional material	If the response from the entity's legal counsel contains information that requires clarification, the auditor would ordinarily make further enquiries of management and the entity's legal counsel, as appropriate, and request clarification in writing.	Extant considered important in Aus context
		Aus A8.7	N/A – additional material	<p>Legal Counsel's Inability to Respond Comprehensively or Limitations in a Response</p> <p>If a response is not received from the entity's legal counsel, or the response received is incomplete, the auditor would ordinarily consider:</p> <ul style="list-style-type: none"> <li>(a) requesting management to contact the entity's legal counsel to either seek a complete answer to the original request, or an explanation for the lack of, or limitation in, a response, which ought to be sent directly to the auditor; or</li> <li>(b) making arrangements to discuss with management or the entity's legal counsel the reasons for the lack of,</li> </ul>	Extant considered important in Aus context

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				or limitation in, a response.	
		Aus A8.8	N/A – additional material	<p>Due to the following circumstances it may be difficult to either obtain a response to a letter of enquiry or be provided with information about litigation and claims from the entity's legal counsel:</p> <ul style="list-style-type: none"> <li>(a) If the entity is involved in litigation, or litigation is anticipated or contemplated, relevant information about legal matters may be subject to legal professional privilege. Disclosure of this information in the letter of enquiry, directly to the auditor for the purposes of the audit of the entity's financial report, is not privileged. This may cause legal professional privilege attaching to the entity's communications with its legal counsel to be compromised, as information in the letter of enquiry might become discoverable in litigation proceedings.</li> <li>(b) Factors influencing the outcome of a legal matter may sometimes not be within the legal counsel's competence to judge, for example where there is no relevant or historical experience of the entity or other entities in similar matters, or where the litigation is at an early stage.</li> <li>(c) Due to material uncertainties, the entity's legal counsel may be unable to form a conclusion to corroborate management's representations regarding outstanding litigation and claims.</li> </ul>	Extant considered important in Aus context

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		Aus A8.9	N/A – additional material	<p>Alternative Audit Procedures</p> <p>Where the auditor has not obtained sufficient appropriate audit evidence as to a material financial report assertion regarding litigation and claims, under ASA 330, the auditor needs to consider whether alternative audit procedures can provide further audit evidence. Alternative audit procedures may include:</p> <ul style="list-style-type: none"> <li>(a) further enquiries of management or those charged with governance, about for instance the processes, procedures and assumptions they implement, adopt or make to ensure litigation and claims are recognised and disclosed in accordance with the applicable financial reporting framework;</li> <li>(b) where possible, making arrangements to discuss litigation and claims with management and the entity's legal counsel;</li> <li>(c) further review of documents in management's possession concerning litigation and claims, including the entity's board minutes; and</li> <li>(d) further examination of accounts rendered by the entity's external legal counsel.</li> </ul>	Extant considered important in Aus context
		Aus A8.10	N/A – additional material	<p>The auditor may also consider any relevant legislation to assist in obtaining information about litigation and claims, including, for example:</p> <ul style="list-style-type: none"> <li>• Section 310 of the Corporations Act 2001 which entitles the auditor to a right of access at all reasonable times to the books of a company, registered scheme or disclosing entity,</li> </ul>	Extant considered important in Aus context

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
				<p>and to require from any officer information, explanations or other assistance for the purposes of the audit or review.</p> <ul style="list-style-type: none"> <li>When the entity is a disclosing entity, whether disclosure of any litigation and claims has been made in accordance with the continuous disclosure requirements under sections 674 or 675 of the Corporations Act 2001.</li> </ul>	
		Aus A8.11	N/A – additional material	<p>Other Audit Reporting Considerations</p> <p>In those circumstances where, due to uncertainties, the entity's legal counsel is unable to form a conclusion to corroborate management's representation, the auditor needs to consider the effect on the auditor's report arising from the extent of disclosure of the uncertainty in the financial report:</p> <ul style="list-style-type: none"> <li>(a) where the auditor considers that the disclosure of the uncertainty in the financial report is adequate, the auditor needs to consider including an Emphasis of Matter paragraph; in accordance with ASA 706,* or</li> <li>(b) if in the auditor's opinion the disclosure of the uncertainty is inadequate or unreliable, a modified opinion needs to be expressed in accordance with ASA 705.</li> </ul>	Extant considered important in Aus context

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
		Aus A8.12	N/A – additional material	<b>Written Representations</b>  ASA 580 deals with the auditor’s responsibility to obtain written representations from management and, where appropriate, those charged with governance, in an audit of a financial report. Appendix 2 of that Standard provides an illustrative example of a representation letter.	Extant considered important in Aus context
		Aus A8.13	N/A – additional material	As management is the primary source of information regarding litigation and claims, the auditor is required to request management to provide written representations about such matters. Written representations from management provide audit evidence regarding litigation and claims that may have a material effect on the financial report.	Extant considered important in Aus context
		Aus A9.1	N/A – additional material	<b>Related Procedures</b>  When new litigation or claims, which may have a material effect on the financial report, have been referred to the entity’s legal counsel subsequent to sending the letter of enquiry to the entity’s legal counsel and prior to signing the auditor’s report, the auditor would ordinarily request management to prepare an additional letter of enquiry to the legal counsel regarding the new litigation or claims.	Extant considered important in Aus context
		Aus A9.2	N/A – additional material	When litigation and claims matters, which may have a material effect on the financial report, are discovered, which were not previously identified by management, the auditor would ordinarily inform management and request management to address further enquiries to, or arrange a meeting with, the entity’s legal counsel or other relevant experts, at which the auditor would be present. In addition, the auditor needs to extend the auditor’s audit procedures to ensure that sufficient appropriate audit evidence on which to form an opinion has been obtained. If, however, having regard to all the circumstances, the auditor is unable	Extant considered important in Aus context

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				to obtain satisfaction that all the information required for the purposes of the audit has been received, the auditor considers the effect on the auditor's report	
		Aus A9.3	N/A – additional material	If information comes to the auditor's attention that may indicate the existence of material liabilities resulting from litigation and claims on which management has not sought advice, the auditor ordinarily discusses the matter with those charged with governance. Depending on the circumstances, refusal by management to seek advice may be considered to be a limitation in the scope of the auditor's work.	Extant considered important in Aus context
<b>ASA 550 Related Parties</b>					
<u>Application and Other Explanatory Materials</u>					
	ASA 550 (2009)	Aus A34.1	N/A – additional material	Existence of Related Parties  In determining whether underlying circumstances confirm the existence of related party relationships or transactions, the auditor may consider the Australian Accounting Standards,* including consideration of the substance of the relationship and/or transaction and not merely the legal form.	Australian accounting standards
<b>ASA 570 Going Concern</b>					
<u>Application and Other Explanatory Materials</u>					
	ASA 570 (2015)	Aus A15.1	<b>Paragraph 15 deleted</b>  Other than enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, <b>as discussed in paragraph 13, would be at least twelve months from the date of financial statements.</b>	<b>Period beyond Management's Assessment</b>  Other than enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph Aus 13.2, is approximately twelve months from the date of the auditors' report on the current financial report.	Clarification of appropriate date

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
		Aus A21.1	N/A – additional material	<b>Auditor Conclusions</b>  Refer to [Aus] Appendix 1 for a diagrammatic illustration of the links between going concern considerations and the types of audit opinions.	Clarification of appropriate date
		Aus A33.1	N/A – additional material	Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Report (Ref: Para. 23)  [Aus] Illustration 4A of Appendix 2 is an example of an auditor's report containing a disclaimer of opinion, when the auditor has not obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting.	Clarification of appropriate date
		Aus A35.1	N/A – additional material	<b>Other Considerations</b>  An auditor is required under the Corporations Act 2001* (the Act) to notify the Australian Securities and Investments Commission (ASIC) if the auditor, when conducting an audit, becomes aware of certain circumstances specified in the Act. ASIC# provides guidance to help auditors comply with their obligations under the, such as reporting suspected insolvent trading.	Australian legislative environment
<b>ASA 580 Written Representations</b>					
<u>Application and Other Explanatory Materials</u>					
	ASA 580 (2009)	Aus A26.1	N/A – additional material	<i>If Management do not Provide Written Representations</i>  If management do not provide written representations, the auditor would ordinarily: <ul style="list-style-type: none"> <li>(a) draw to the attention of those charged with governance any relevant regulatory requirements which give the auditor a right of access to any requested information, explanations or assistance for the purposes of the audit;*</li> </ul>	Australian legislative environment

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#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
				(b) consider any other implications of the refusal that may have any effect on the auditor's report;# and (c) consider whether the auditor has any regulatory obligation to report that management has not provided a written representation.	
<b>ASA 600 Special Considerations-Audits of a Group Financial Report</b>					
<u>Application and Other Explanatory Materials</u>					
	ASA 600 (2009)	Aus A12.1	N/A – additional material	<i>Obtaining an Understanding at the Acceptance or Continuance</i>  Section 323B of the <i>Corporations Act 2001</i> (the Act) requires the auditor of a controlled (component) entity to give the principal (group) auditor any information, explanation or assistance required under section 323A of the Act.	Australian legislative environment
<b>ASA 620 Using the Work of an Auditor's Expert</b>					
<u>Definitions</u>					
10	ASA 620 (Oct 2009)	Aus 6.1	N/A – additional definition	"Partner" and "firm" should be read as referring to their public sector equivalents where relevant.	Sector neutral language
<b>ASA 700 Forming an Opinion and Reporting on a Financial Report</b>					
<u>Definitions</u>					
11	ASA 700 (Dec 2015)	Aus 8.1	<b>Deleted paragraph</b>  Reference to "financial statements" in this ISA means "a complete set of general purpose financial statements." The requirements of the applicable financial reporting framework determine the presentation, structure and content of the financial statements, and what constitutes a complete set of financial statements.	Financial Report means, for the purpose of the <i>Corporations Act 2001</i> ,* financial statements for the year or the half-year and notes to the financial statements, and the directors' declaration about the statements and notes.	Corps Act definition of financial report
12	ASA 700 (Dec 2015)	Aus 8.2	<b>Deleted paragraph</b>  As above.	Financial Report means, for purposes other than the <i>Corporations Act 2001</i> , a complete set of financial statements, and an assertion statement by those responsible for the financial report	Australian legislative environment
<u>Application and Other Explanatory Materials</u>					

#	Added to standard in (version)	Paragraph	ISA text	Modification made	Reason for modification
	ASA 700 (Dec 2015)	Aus A34 .1	<p><b>Deleted paragraph</b></p> <p>The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA 200 explains that relevant ethical requirements ordinarily comprise Parts A and B of the IESBA Code related to an audit of financial statements together with national requirements that are more restrictive. When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify jurisdiction of origin.</p>	The identification of the relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ASA 200 explains that the auditor is subject to the relevant ethical requirements as described in ASA 102.*	Relevant ethical requirements
		Aus A57 .1	N/A – additional material	When the auditor refers to a description of the auditor’s responsibilities on a website, the appropriate authority is The Auditing and Assurance Standards Board and the website address is <a href="http://www.auasb.gov.au/Home.aspx">http://www.auasb.gov.au/Home.aspx</a> *	Australian legislative environment
		Aus A58 .1	N/A – additional material	When the audit of a financial report is conducted in accordance with the <i>Corporations Act 2001</i> (the “Act”), section 308(3)(b) of that Act requires the auditor to describe in the auditor’s report any deficiency, failure or shortcoming in respect of certain matters referred to in section 307(b), (c) or (d) of that Act.	Australian legislative environment
		Aus A59 .1	N/A – additional material	An example of “other reporting responsibilities” is where a remuneration report is included in a directors’ report and the auditor is required to report in accordance with section 308(3C) of the <i>Corporations Act 2001</i> .	Australian legislative environment
		Aus A61 .1	<p><b>Deleted paragraph</b></p> <p>ISQC 1 requires that the firm establish policies and procedures to provide reasonable assurance that engagements are performed in</p>	<b>ASQC 1</b> requires that the firm establish policies and procedures to provide reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and	Australian legislative environment

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			accordance with professional standards and applicable legal and regulatory requirements. Notwithstanding these ISQC 1 requirements, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report <b>on financial statements of a listed entity</b> .	regulatory requirements. Notwithstanding these <b>ASQC 1</b> requirements, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report.	
		Aus A64 .1	N/A – additional material	Under the Corporations Act 2001, the auditor of a company or registered scheme is required 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.	Australian legislative environment
<b>ASA 710 Comparative Information-Corresponding Figures and Comparative Financial Reports</b>					
<u>Definitions</u>					
13	ASA 710 (2009)	Aus 6.1	N/A – additional definition	In accordance with the applicable financial reporting framework of the <i>Corporations Act 2001</i> and Australian Accounting Standards, comparative information refers to corresponding figures.	Australian legislative environment
<u>Application and Other Explanatory Materials</u>					
		Aus A12 .1	N/A – additional material	In respect of audit engagements conducted under the <i>Corporations Act 2001</i> , if the prior period auditor's report on the prior period financial report is amended by a predecessor auditor during the current financial year, the auditor is unable to express an opinion in the current period auditor's report in respect of that amendment.	Australian legislative environment
<b>ASA 720 The Auditor's Responsibilities Relating to Other Information</b>					
<u>Application and Other Explanatory Materials</u>					
		Aus A50 .1	N/A – additional material	The auditor uses professional judgement in considering the appropriate actions, as suggested in paragraph A50, that the auditor may take in circumstances where a material misstatement of the other information remains uncorrected. The auditor may also consider	Australian legislative environment

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				obtaining legal advice as part of these considerations. In respect of audits performed under the <i>Corporations Act 2001</i> , the auditor considers whether the uncorrected material misstatement of other information gives rise to any reporting obligations to the Australian Securities and Investments Commission under section 311 of the <i>Corporations Act 2001</i> .	
		Aus A52.1	N/A – additional material	Refer [Aus] Appendix 2 for a decision tree diagram of other information reporting.	Australian legislative environment
<b>ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</b>					
<u>Definitions</u>					
14	ASA 800 (2016)	Aus 6.1	N/A – additional definition	Special purpose financial report means a complete set of financial statements*, including an assertion statement by those responsible for the financial report, prepared in accordance with a special purpose framework. (Ref: Para. A1-A4)	Australian legislative environment
<u>Application and Other Explanatory Materials</u>					
	ASA 800 (2016)	Aus A1.1	N/A – additional material	<b>Definition of Special Purpose Framework</b>  The <i>Corporations Act 2001</i> , * other applicable law or regulation, or certain parties, may determine whether a financial report is required to be prepared. Under the <i>Corporations Act 2001</i> , financial reports are required to be prepared in accordance with Australian Accounting Standards. Accounting Standard AASB 101 <i>Presentation of Financial Statements</i> defines a reporting entity and general purpose financial statements. Accounting Standard AASB 1054 <i>Australian Additional Disclosures</i> defines special purpose financial statements. Australian Accounting Standards set out requirements for general purpose financial statements. “Reporting entities” are required to prepare general purpose financial statements.	Australian legislative environment

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				“Non-reporting entities” may prepare general purpose financial statements or apply a special purpose framework for their financial reporting.	
		Aus A9.1	<p><b>Deleted paragraph</b></p> <p><b>ISA 200</b> requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to <b>financial statement</b> audit engagements, and (b) all ISAs relevant to the audit. It also requires the auditor to comply with each requirement of an ISA unless, in the circumstances of the audit, the entire ISA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA by performing alternative audit procedures to achieve the aim of that requirement.</p>	<p><b>Considerations when Planning and Performing the Audit</b></p> <p>ASA 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial report audit engagements, and (b) all Australian Auditing Standards relevant to the audit. It also requires the auditor to comply with each requirement of an Australian Auditing Standard unless, in the circumstances of the audit, the entire Auditing Standard is not relevant or the requirement is not relevant because it is conditional and the condition does not exist; <b>or application of the requirement(s) would relate to classes of transactions, account balances or disclosures that the auditor has determined are immaterial. In rare and exceptional circumstances, when there are factors outside the auditor’s control that prevent the auditor from complying with a requirement, the auditor where possible, performs appropriate alternative audit procedures.</b></p>	Relevant ethical requirements
	ASA 2017-1	Aus A18.1	<p><b>Deleted paragraph</b></p> <p>The requirement in ISA 700 (Revised) for the auditor to include the name of the engagement partner in the auditor’s report also applies to audits of special purpose financial statements <b>of listed entities. The auditor may be required by law or regulation to include the name of the engagement partner in the auditor’s report or may otherwise decide to do so when reporting on special purpose financial statements of entities other than listed entities.</b></p>	<p>Name of the Engagement Partner</p> <p>The requirement in ASA 700 for the name of the engagement partner to be included in the auditor’s report where required by law or regulation also applies to audits of special purpose financial reports.*</p>	Australian legislative environment



September 2014

# AUASB Functions and Processes

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



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## **Contact Details**

Auditing and Assurance Standards Board  
Level 7, 600 Bourke Street  
Melbourne Victoria 3000  
AUSTRALIA

Phone: (03) 8080 7400  
Fax: (03) 8080 7450  
E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

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

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# AUASB Functions and Processes

## Introduction

1. This document provides an overview of the functions and processes of the Auditing and Assurance Standards Board (the “AUASB”). It is intended to complement the *Foreword to AUASB Pronouncements*.
2. The *AUASB Functions and Processes* is set out to provide information as follows:
  - (a) Mandates                      The AUASB’s legislative functions and powers; and the operational dictates
  - (b) Relationships                The relationships with:
    - The Australian Government;
    - The International Auditing and Assurance Standards Board (IAASB); and
    - The New Zealand Auditing and Assurance Standards Board (NZAuASB)
  - (c) The AUASB’s Operations    Appointments to the AUASB; meetings and voting procedures; and reporting
  - (d) Pronouncements and Other Publications    The AUASB’s policies and procedures relating to the development and issuance of pronouncements and other publications
3. The *AUASB Functions and Processes* does not itself establish requirements for the performance of audit, review and other assurance engagements. Accordingly, the AUASB has not issued this document for the purposes of the *Corporations Act 2001*.

## Mandates

### A. Legislative Mandates

#### *The AUASB*

4. The AUASB is an independent statutory committee, with perpetual succession, of the Australian Government. It was established in 2004 under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act).
5. Under section 227B (1) of the *ASIC Act*, the functions of the AUASB are:
  - (a) to make auditing standards under section 336 of the *Corporations Act 2001* as amended (the Act); and
  - (b) to formulate auditing and assurance standards for other purposes; and
  - (c) to formulate guidance on auditing and assurance matters; and
  - (d) to participate in and contribute to the development of a single set of auditing standards for world-wide use; and

- (e) to advance and promote the main objectives of this Part [of the Act].

*The Office of the AUASB*

- 6. The Office of the AUASB is established under section 227AA (1) of the *ASIC Act*. The Office of the AUASB provides administrative and technical support to the AUASB.

**B. Operational Mandates**

*The Financial Reporting Council (FRC)*

- 7. The FRC is a statutory oversight body that was established under section 225 of the *ASIC Act*, and is continued in existence by section 261 of that Act. The functions of the FRC include broad oversight of the processes for setting auditing standards in Australia.
- 8. The directors of the AUASB for the purposes of the *Commonwealth Authorities and Companies Act 1997* (CAC Act) are the members of the FRC.

*The AUASB Strategic Direction*

- 9. The FRC, on 6 April 2005, issued the following Strategic Direction to the AUASB:
  - (a) The AUASB should develop Australian Auditing Standards that have a clear public interest focus and are of the highest quality.
  - (b) The AUASB should use, as appropriate, International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop Australian Auditing Standards.
  - (c) The AUASB should make such amendments to ISAs as necessary to accommodate and ensure that Australian Auditing Standards both exhibit and conform to the Australian regulatory environment and statutory requirements, including amendments as necessary for Australian Auditing Standards to be legally enforceable under the requirements of the *Corporations Act 2001*.
  - (d) The process of developing Australian Auditing Standards should include monitoring and reviewing auditing and assurance standards issued by other standard-setting bodies in other national jurisdictions and considering other matters relevant to achieving the objectives of Part 12 of the *ASIC Act*. Consequently, where appropriate and considered to be in the public interest and necessary to produce standards of the highest quality, the AUASB should incorporate additional requirements in its Australian Auditing Standards.
  - (e) The AUASB should continue to develop auditing and assurance standards other than for historical financial information as well as developing and issuing other guidance on auditing and assurance matters, and may participate in audit research that is conducive to, and which significantly benefits, the standard-setting activities of the AUASB.

**Relationships**

**A. The Australian Government**

- 10. The Government's expectations are set out in a Statement of Expectations issued by the Minister for Superannuation and Corporate Law. The Statement outlines the Government's expectations with regard to the roles and responsibilities of the AUASB, its relationships with the Government and the Financial Reporting Council (FRC), issues of accountability and operational matters.

## AUASB Functions and Processes

11. The *Statement of Expectations* forms part of the implementation of the governance arrangements for the AUASB under the *Financial Management and Accountability Act 1997* (FMA Act). The AUASB responds to the Statement with a *Statement of Intent*. In the interests of public accountability, both documents are available to the public.

### *Relationship with the Minister*

12. The AUASB provides the Minister and other Treasury Ministers, in a timely fashion, with any information on matters relating to the administration of the AUASB for which the Government is accountable to Parliament.

### *Relationship with Treasury*

13. To fulfil their respective roles in the area of corporate regulation, Treasury and the AUASB maintain a close relationship with regular meetings to consider auditing and other financial reporting-related issues.

### *Relationship with the Financial Reporting Council (FRC)*

14. The FRC is responsible for providing broad oversight of the processes for setting auditing standards and for determining the AUASB's broad strategic direction and giving the AUASB advice or feedback on the AUASB's priorities, business plans and procedures; and advice and feedback on budgets and staffing arrangements.
15. The AUASB provides the Chairman of the FRC with all information reasonably needed by the FRC, including regular reports on the AUASB's priorities, progress against those priorities, budgets and staffing arrangements

### *Accountability*

16. The AUASB performs its statutory functions as part of the Australian Government and remains accountable to Parliament, and ultimately to the public, through the Treasury Ministers, The Parliamentary Committee process and the tabling of its annual report.

### *Financial Management*

17. It is a statutory requirement that the AUASB manages its affairs in a way that promotes efficient, effective and ethical use of Commonwealth resources – the AUASB needs to demonstrate value for money for the services delivered.

## **B. The International Auditing and Assurance Standards Board (IAASB)**

18. The IAASB issues, on an international basis, consultation papers, invitations to comment, exposure drafts, standards and other pronouncements on auditing and assurance matters.
19. Participation in the work of the IAASB is considered integral to the ability of the AUASB to continue as an effective national standard-setter and is important to the AUASB maintaining, and further developing, the auditing and assurance standards and related guidance which are used in Australia.
20. From time to time, a member of the AUASB has been appointed by the IAASB to become a member of their Board.
21. The AUASB participates in global standard-setting by communicating the Board's views, and those of Australian constituents on consultation papers, invitations to comment and exposure

drafts issued by the IAASB, through written submissions; and through meeting and liaising with the IAASB and other national standard setters. The AUASB's contribution to global standard-setting is through engagement with the IAASB whenever appropriate.

22. The AUASB adopts pronouncements issued by the IAASB in preparing Australian pronouncements.

[See Appendix 2 for a flowchart of the AUASB's approach]

### **C. The New Zealand Auditing and Assurance Standards Board (NZAuASB)**

23. In August 2009, an outcome framework for the creation of a Single Economic Market was announced by the Australian and New Zealand Prime Ministers. In support of this lead, the AUASB and the NZAuASB have established broad strategies and initiatives aimed at the establishment of harmonised standards. For example, the Chairman of each Board is allocated membership on the Board of the other standard-setter.

24. The AUASB and the NZAuASB have agreed to reciprocal policies on:

- (a) the principles of convergence to IAASB standards;
- (b) harmonisation with the standards of the respective Boards; and
- (c) communications protocols [See Appendix 2]

These shared policies are available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

25. In essence, both Boards adopt the IAASB standards unless there are compelling reasons not to do so. Where appropriate, modifications are made to the IAASB standard to account for legislative requirements and any other reason that will result in significant improvement to audit quality. Harmonisation is achieved by adopting modifications made to the IAASB standard by one country that have relevance and application in the other country. Modifications to IAASB standards are only made for compelling reasons.

[See Appendices 3 and 4 for flowcharts of the AUASB's compelling reasons test approach]

## **The AUASB's Operations**

### **A. Appointment to the AUASB**

26. The Minister appoints the Chairman of the AUASB.
27. The FRC appoints the other members of the AUASB.
28. Appointments to the AUASB are aimed at achieving balance between private sector auditors; public sector auditors; and representatives from industry, academia and other stakeholders. The FRC has developed a framework for appointment to the AUASB, which includes the criteria for appointment, appointment process, performance assessment and succession planning. The framework is available on the FRC website: [www.frc.gov.au](http://www.frc.gov.au)

### *Conflicts of Interest and Other Obligations of AUASB Members*

29. Although the FRC members are the directors of the AUASB, the AUASB members adhere to the rules set out in Part 3, Division 4 of the *CAC Act* relating to the duty of directors to disclose material personal interests.
30. AUASB members are bound by the conduct of officer provisions of the same sections of the *CAC Act* and must:

- Exercise their powers and discharge their duties with care and diligence, in good faith and for proper purpose.
- Not improperly use their position or information.

## **B. AUASB Meetings and Voting Procedures**

### *Meetings*

31. The AUASB meets as required, generally 8 times a year. Additional meetings may be required from time to time, in which case such meetings will be called with at least one month's notice. Meetings are usually held at the AUASB's offices in Melbourne, although the AUASB may also agree to hold one or more meetings per year at an interstate venue.
32. Scheduled meeting dates are publicly communicated on the AUASB website and in AUASB publications such as the *AUASB Highlights*. The agenda and supporting staff technical papers of AUASB meetings are provided to AUASB members on a timely basis and the meeting agenda and non-confidential papers are placed on the AUASB website. Members of the public may attend AUASB meetings.
33. S236(E)(1) of the *ASIC Act 2001*, provides that:
  - *Meetings of the AUASB are to be chaired by:*
    - (a) *the Chair; or*
    - (b) *the Deputy Chair if the Chair is absent; or*
    - (c) *a member chosen by the members present if both the Chair and the Deputy Chair are absent.*
  - If a meeting of the AUASB, or a part of one of its meetings, concerns the contents of auditing standards or international auditing standards, the meeting or that part of it must be held in public.
  - The AUASB must:
    - (a) comply with any directions about its procedures that the FRC gives under s225(2A)(d) of the *ASIC Act 2001*.
    - (b) take into account the advice and feedback about its procedures that the FRC gives under s225(2A)(d) of the *ASIC Act 2001*.

### *Observers*

34. Representatives of various organisations with an interest in the setting of Australian Auditing and Assurance Standards may, from time to time, be invited to attend AUASB meetings as observers. Such individuals may, at the Chairman's discretion, also be invited to address the Board on specific matters. Observers at AUASB meetings do not have voting rights.

### *Quorum and Voting*

35. Subject to the above provisions, the AUASB has the power under the *ASIC Act* to determine its own procedural rules, including rules as to notice of meetings, quorum and voting.
36. The rules include:
  - (a) A quorum for a meeting of the AUASB is seven members present personally, or by proxy, or in communication by telephone or other electronic means, out of the present total of thirteen members.

- (b) The approval of:
- (i) Auditing Standards pursuant to s336 of the *Corporations Act 2001*, or
  - (ii) Auditing and Assurance Standards for other purposes, or
  - (iii) published guidance on auditing and assurance matters (such as an Auditing and Assurance Guidance Statements),
- whether voted on in an AUASB meeting or by means of an out-of-session ballot, requires the affirmative votes of nine, or more, members of the AUASB. This requirement ensures that a high level of consensus must be attained when approving standards or guidance issued by the AUASB.
- (c) Voting for the approval of Standards, Guidance Statements or other published guidance of the AUASB may be through out-of-session voting, by providing ballot papers to all AUASB members, provided at least seven members of the AUASB agree at a meeting of the AUASB to hold an out-of-session vote on the proposed Standard, Guidance Statement or other publication. Members must be advised of the results of such out-of-session voting no later than the next AUASB meeting.
- (d) All other decisions of the AUASB require a simple majority of those members (including the Chairman), who are present and voting. In the event of a tied vote, the Chairman's vote will constitute a casting vote.
- (e) Members may participate in the AUASB meeting via telephone or video conference.
- (f) Members are required to advise the Chairman as early as possible of a potential inability to attend an AUASB meeting.

37. While AUASB members may ask that their dissenting views on a particular Standard, Guidance Statement, or other publications of the AUASB be recorded in the minutes of meetings of the AUASB, such views are not published in the explanatory material in the resultant Standard, Guidance Statement or other publication.

### C. Reporting

38. The AUASB prepares and issues reports on its plans and performance against those plans as follows:

AUASB Document	Frequency	Purpose	Relevant Organisations
Strategic Plan*	Every 3 years	Goals and strategies.	FRC, Treasury
Work Program*	Annually	Implementation of the Strategic Plan.	FRC, Treasury
FRC Report	Quarterly	Outputs and performance to plan.	FRC
Annual Report*	Annually	Achievement of statutory obligations and performance against plan. Future plans and outlook commentary.	Treasury, Parliament
Harradine Report*	Bi-annually	Listing of new files under freedom of information (FOI).	The Senate



AUASB Document	Frequency	Purpose	Relevant Organisations
FOI	Quarterly & annually	Statistical reports on FOI requests.	The Senate
Best Practice Regulation: Annual Regulatory Plan*	Annually - updated bi-annually	Regulatory changes made and planned.	Office of Best Practice Regulation
Best Practice Regulation: Assessments*	When applicable	Assessment of the legislative impact of issuing an AUASB pronouncement.	Office of Best Practice Regulation

\* Published on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

## Pronouncements and Other Publications

### A. Definitions

39. For the purposes of describing the AUASB's processes, the following terms have the meanings attributed below:
- (a) **Pronouncements** means AUASB authoritative documents comprising:
    - (i) Framework pronouncements;<sup>1</sup>
    - (ii) Standards; and
    - (iii) Guidance Statements
  - (b) **Other Publications** means AUASB informative documents comprising:
    - (i) AUASB Functions and Processes
    - (ii) Explanatory Guides;
    - (iii) Basis for Conclusions;
    - (iv) Bulletins; and
    - (v) Other Publications.
  - (c) **Issue** means the AUASB makes public a document that complies with the AUASB processes-policies and procedures.

### B. Process-Policies

40. The AUASB's process-policies relating to the development and issuance of pronouncements and other publications are as follows:
- (a) The AUASB shall determine process-policies and procedures that, where necessary, conform to relevant legislative requirements.
  - (b) Process procedures shall include appropriate consultation with constituents to ensure that:
    - (i) All interested parties are given ample opportunity to express their views; and
    - (ii) Pronouncements and other publications are relevant, consistent and logically derived.

<sup>1</sup> Framework pronouncements comprise: *Foreword to AUASB Pronouncements*, *Framework for Assurance Engagements* and *AUASB Glossary*.

- (c) The AUASB shall issue pronouncements and other publications only:
  - (i) After complying with processes-policies and procedures; and
  - (ii) When approved in accordance with the AUASB's voting and approval policies.

**C. Procedures**

- 41. AUASB pronouncements and other publications are developed and published through a 3-stage process:
  - (a) The Planning Stage;
  - (b) The Development Stage; and
  - (c) The Completion Stage

The Planning Stage

- 42. AUASB pronouncements and other publications can be developed as follows:
  - (a) By adopting an IAASB or other international pronouncement, guide or other publication issued by a national standard setter, adapted for use as an AUASB document; or
  - (b) By developing an original AUASB document that relates to a specific Australian auditing, assurance or related services matter.
- 43. Formalised project plans are prepared by the AUASB Technical Group for all substantive projects, such as the development of Standards, Guidance Statements and Bulletins.
- 44. All projects must be approved by the Executive Director, the Chairman and the AUASB.

*Project Advisory Groups (PAGs)*

- 45. Once a project is approved, the AUASB considers whether a PAG needs to be formed. A PAG is a temporary working group appointed for topics requiring specialist practitioner and/or industry input. A PAG's primary objective is for participants to provide valuable expertise and advice to the development and implementation of an AUASB pronouncement. A PAG is disbanded once its objectives have been achieved.
- 46. Although a PAG may be employed in the development of a pronouncement, the AUASB retains all responsibility including for independence; quality; documentation and archiving; and maintaining the public interest. The discussions and papers of a PAG are confidential and copyright of intellectual property remains with the AUASB.
- 47. When the AUASB has approved the formation of a PAG, a member of the AUASB is assigned the responsibility to chair meetings. The Chair and relevant project manager then set about identifying and contacting a number of people known to be specialists in the subject matter. In determining the composition of a PAG, every effort is taken to secure a good cross-section of participants, including but not limited to, auditors and assurance practitioners who have practical experience in the relevant field.
- 48. The Chair and relevant project manager plan the involvement of PAG members, including the review of drafted material. Planning also includes scheduling a series of meetings as well as the broad objectives and expected outcomes of each meeting.

The Development Stage

49. The AUASB Technical Group develops AUASB documents by:
  - (a) Conducting research;
  - (b) Obtaining input from a PAG, where relevant;
  - (c) Obtaining input from constituents;
  - (d) Preparing detailed issues papers, which identify the principal issues to be resolved by the AUASB; and
  - (e) Drafting exposure drafts, pronouncements and other publications.
50. Throughout the life of a project, the AUASB Technical Group prepares and presents (technical) papers to the AUASB for its progressive consideration, decisions and approvals. Ordinarily, this process occurs at formalised public meetings of the Board but may also be conducted by out-of-session exchanges.
51. Through its on-going reviews and decisions, the AUASB directs the development of AUASB documents, including the public exposure of proposed standards.
52. In accordance with its public interest mandate and the policy described at paragraph 40(b) above, public input to the development of AUASB standards is obtained through the following processes:
  - (a) Roundtable discussion groups;
  - (b) Direct communications with specific people and/or organisations (including surveys); and
  - (c) Wider appeals to constituents generally (including the use of surveys and exposure drafts).

Using these methods, the AUASB is able to gauge the appropriateness and level of acceptance of its proposals as well as obtain important information about issues that need to be considered in the development of the standard.
53. Proposed standards are released for public comment in the form of exposure drafts prior to issuance as an AUASB pronouncement. Normally, exposure drafts are released for periods of 30 or 45 days but this may be varied by the AUASB.
54. The AUASB Technical Group accumulates all comments received from constituents responding to the proposals. Constituent comments are publicised on the AUASB website unless marked “confidential”. The AUASB Technical Group considers all submissions received, in whatever form, and amends the proposed standard where constituent input is relevant and adds value to the standard. A “Basis for Conclusions” document is also prepared at the time of finalising the proposed standard.
55. After completion of the public exposure period, the AUASB Technical Group present the amended proposed standard and basis for conclusions document, together with a collation of all constituent comments, to the AUASB for its consideration, direction and final approval.
56. The public views expressed in submissions and the proposed changes to the exposure draft are considered by the AUASB who may further amend the draft standard prior to its final approval in accordance with AUASB voting protocols. Any further substantive amendments will prompt a consequential change to the Basis for Conclusions document.

57. In extremely rare cases, the AUASB may decide that proposed changes to the original exposure draft, arising from the public exposure, are of such significance that the standard should be publically exposed for a second time.

*Amendments to Existing Standards*

58. Any future substantive amendments to a published standard, such as an update to account for changes in legislation, are subject to the same public exposure process.

*Guidance Statements and Other Publications*

59. Due to their nature, Guidance Statements and other publications are generally not subject to public exposure. These documents contain the AUASB's views or provide other information on auditing and assurance matters. Accordingly, they do not include any "requirements" that must be complied with by auditors and assurance practitioners.

*AUASB Exposure Drafts based on IAASB Standards*

60. As described in paragraph 42 above, AUASB pronouncements may be developed by using a document issued by the IAASB or other national standard-setter.
61. The AUASB uses IAASB standards as equivalent Australian standards unless there are compelling reasons not to do so. This approach was initiated to contribute to global recognition that Australian standards equate to international practice.
62. In addition, the AUASB is required to make such amendments to the International Standards on Auditing (ISAs) as to ensure the Australian Auditing Standards both exhibit and conform to the Australian regulatory environment and statutory requirements. Further amendments are made where there are compelling reasons to do so. Amendments are made with a public interest focus.
63. The AUASB's process for the development of a standard based on an equivalent IAASB standard follows the same policies and processes as detailed above. However, recognition is given to the IAASB's due process in the development of its standards, particularly in determining the AUASB's public exposure processes.

[See Appendix 1 for a summary of the exposure draft process when using an equivalent IAASB standard.]

64. When the IAASB issues an exposure draft, the AUASB seeks from, and receives, comments from any interested party, including:
- (a) Practitioners in both the private and public sectors;
  - (b) The professional accounting bodies;
  - (c) Directors and board audit committees;
  - (d) Analysts and investors in financial markets;
  - (e) Regulators;
  - (f) Academics; and
  - (g) Members of the public.
65. The AUASB determines how best to communicate with, and obtain the views from, its constituents. Requests can be made generally to all constituents or may be through direct contact with selected people/organisations. The use of roundtable discussion groups usually

results in particularly valuable input because that environment facilitates and encourages frank commentary and interaction among participants. Whenever possible, the AUASB endeavours to inform constituents of the likely changes to the IAASB standard that will be necessary in the Australian standard – such as the inclusion of requirements under the *Corporations Act 2001*.

66. Once the AUASB has completed its research and obtained constituent input, a formal response to the IAASB exposure draft is prepared and submitted to the IAASB.

### *Regulation Impact Assessment*

67. In accordance with the Australian Government's best practice regulation requirements, and in the context of its legislative mandate, the AUASB is required to consider carefully the impact of proposed new or revised auditing and assurance pronouncements, including costs that may be incurred by business and the community. Accordingly, before issuing new or revised pronouncements (Standards or Guidance Statements), the AUASB undertakes a preliminary regulation impact assessment.
68. Where the preliminary assessment indicates that a new or revised pronouncement is likely to have an impact on business or the community that is 'higher than nil', or 'low', the AUASB is required to consult with the Office of Best Practice Regulation (OBPR) to determine whether further analysis is required. In some instances a *Regulation Impact Statement* may be required.
69. A *Regulation Impact Statement* involves a more detailed consideration of the various options available to address a stated issue or problem, including both regulatory and non-regulatory options, together with the likely benefits and costs to constituents under each option. A regulation impact statement also documents the consultation processes involved in the development of a new pronouncement. It provides a clear statement of the conclusions reached, the recommended option, a review of that option and a plan for implementation.
70. Regulation impact assessments, and where required, a *Regulation Impact Statement* are considered by the Board at the time a pronouncement is approved.
71. The AUASB is required to develop an *Annual Regulatory Plan* which informs readers about regulatory changes the AUASB has made in the past financial year, and plans to make in the next financial year. The AUASB is also required to submit half-yearly returns which summarise the regulation impact assessments completed in the relevant period.
72. All *Regulation Impact Statements* and *Annual Regulatory Plans* are published on the AUASB website.

### *Legislative Instruments*

73. Auditing Standards made by the AUASB under section 336 of the *Corporations Act 2001* are legislative instruments under the *Legislative Instruments Act 2003* (LIA). As soon as practicable after an Auditing Standard is approved (i.e. "made") by the AUASB, the standard is registered on the Federal Register of Legislative Instruments (FRLI). Auditing Standards are then tabled in both Houses of Parliament and therefore, are subject to the parliamentary scrutiny and disallowance provisions of the LIA. The date of commencement of an Auditing Standard is the date specified by the AUASB.

Completion Stage

- 74. AUASB Exposure Drafts, pronouncements and other publications are approved for publication in accordance with the AUASB's approvals protocols – effectively by way of a prescribed majority vote.
- 75. Publication involves placing the approved AUASB document on the AUASB website and notifying constituents. In limited cases, additional methods of publication may follow, such as hard-copy printing.

**D. Guidance Statements and other Publications**

- 76. The due process detailed above applies equally to the development and issuance of AUASB Guidance Statements and other publications, with the exception of the public exposure process.
- 77. Following AUASB consideration of a draft Guidance Statement or other publication, the draft is amended, as appropriate, and presented to the AUASB for further consideration or final approval. Approval by the AUASB of the Guidance Statement or other publication is subject to the AUASB voting protocols described above.

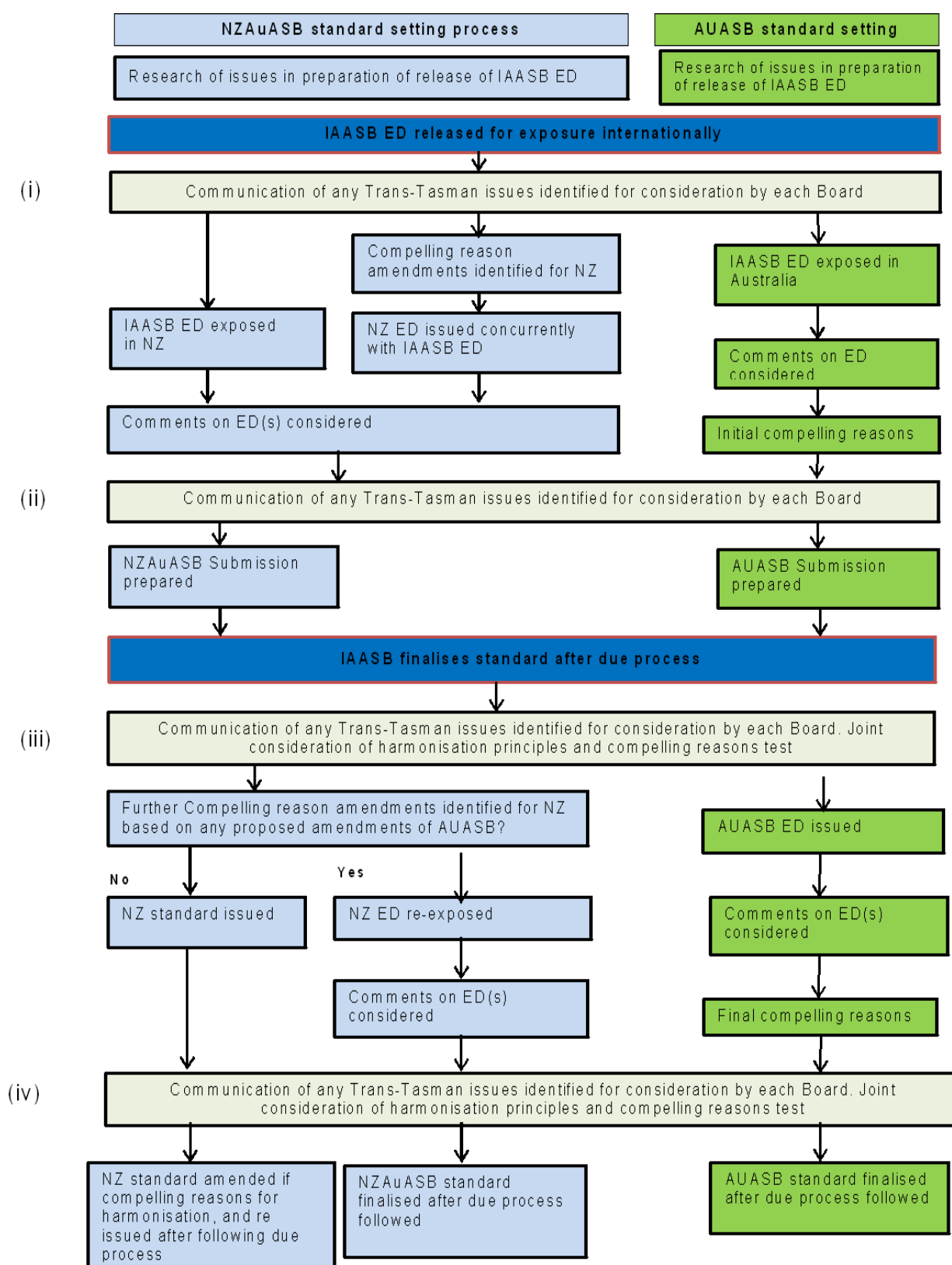
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## AUASB'S EXPOSURE DRAFT PROCESS WHEN USING AN EQUIVALENT IAASB STANDARD

The following table outlines the AUASB's approach to the public exposure of an AUASB standard that adopts the equivalent IAASB standard. Although the table sets out the usual approach, the AUASB may choose to issue an IAASB Exposure Draft as an exposure draft of the AUASB. Appendix 2 depicts the AUASB and NZAuASB communication protocols.

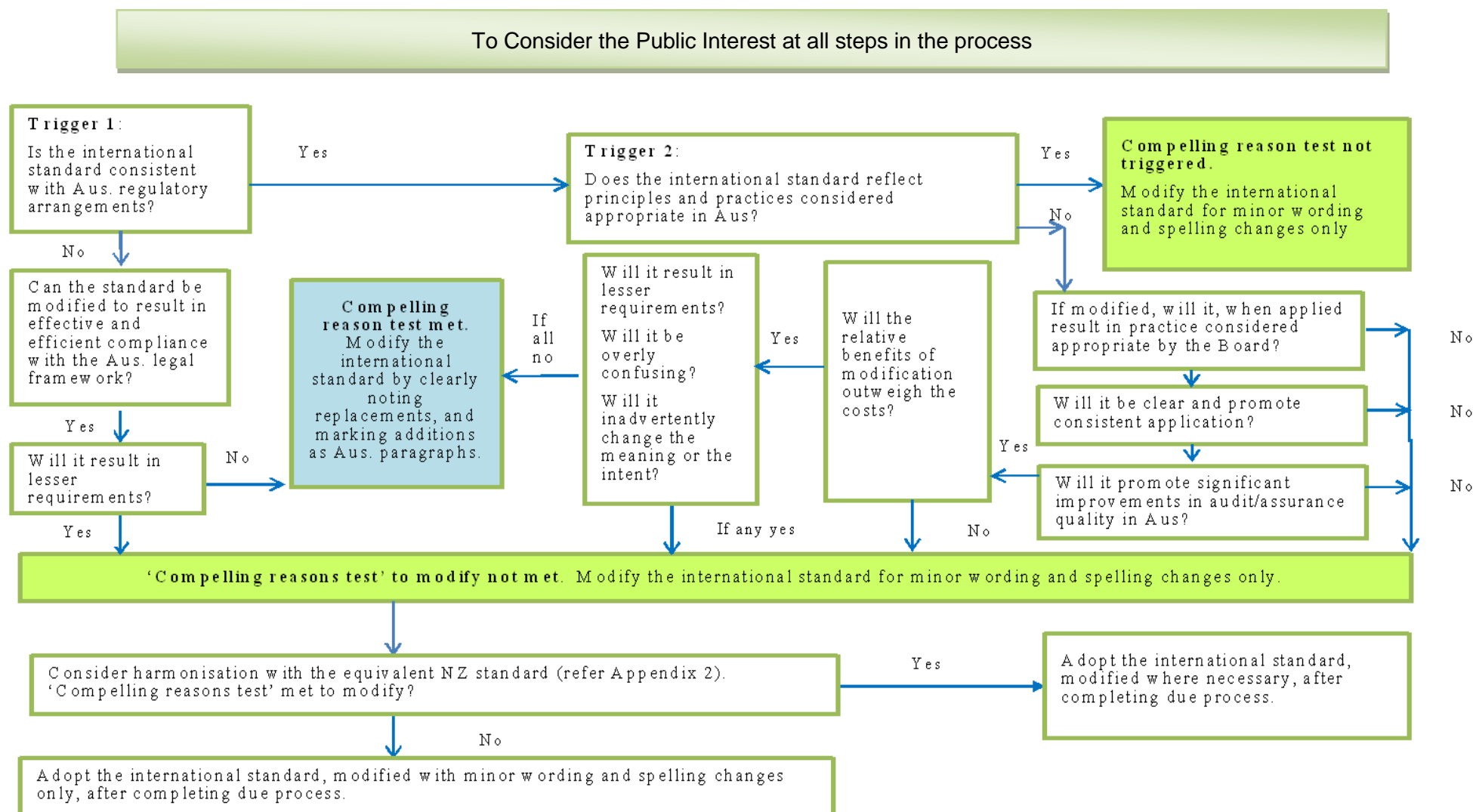
Step	Action
1	The AUASB determines if a proposed IAASB standard is relevant for use in Australia.
2	The AUASB communicates with, and obtains input from, its constituents in relation to the IAASB exposure draft.
3	The AUASB issues a formal submission to the IAASB in relation to the Exposure Draft.
4	Once the IAASB approves and issues the standard, the AUASB Technical Group: <ul style="list-style-type: none"> <li>• Converts the standard into AUASB format;</li> <li>• Inserts applicable "Aus" paragraphs to reflect legislative requirements, and other suggestions that the AUASB determine meet the compelling reasons test; and</li> <li>• Prepares the AUASB Exposure Draft (ED).</li> </ul>
5	AUASB continues to review documentation and requests further changes until the ED is approved for publication.
6	AUASB Technical Group communicates with the Office of Best Practice Regulation (OBPR); prepares and submits a regulation impact assessment; and provides supporting documentation.
7	ED published and copy sent to OBPR. When required, a <i>Regulation Impact Statement</i> is prepared.
8	AUASB Technical Group accumulates public submissions and processes changes. Submissions, revised ED and basis for conclusion paper presented to AUASB for consideration and further changes.
9	If applicable, the AUASB Technical Group finalises the <i>Regulation Impact Statement</i> and obtains final clearance from OBPR.
10	The AUASB Technical Group presents the final standard, Basis for Conclusions and regulation impact documents to the AUASB for final approval in accordance with voting protocols.
11	If applicable, the AUASB lodges the approved standard and OBPR clearance with the Register of Legislative Instruments (FRLI).
12	The AUASB issues the standard and accompanying Basis for Conclusions document by publishing on the AUASB website and notifying constituents.

# **FLOWCHART DEPICTING CURRENT PROCESSES OF THE NZAUASB AND AUASB, AND COMMUNICATION POINTS**

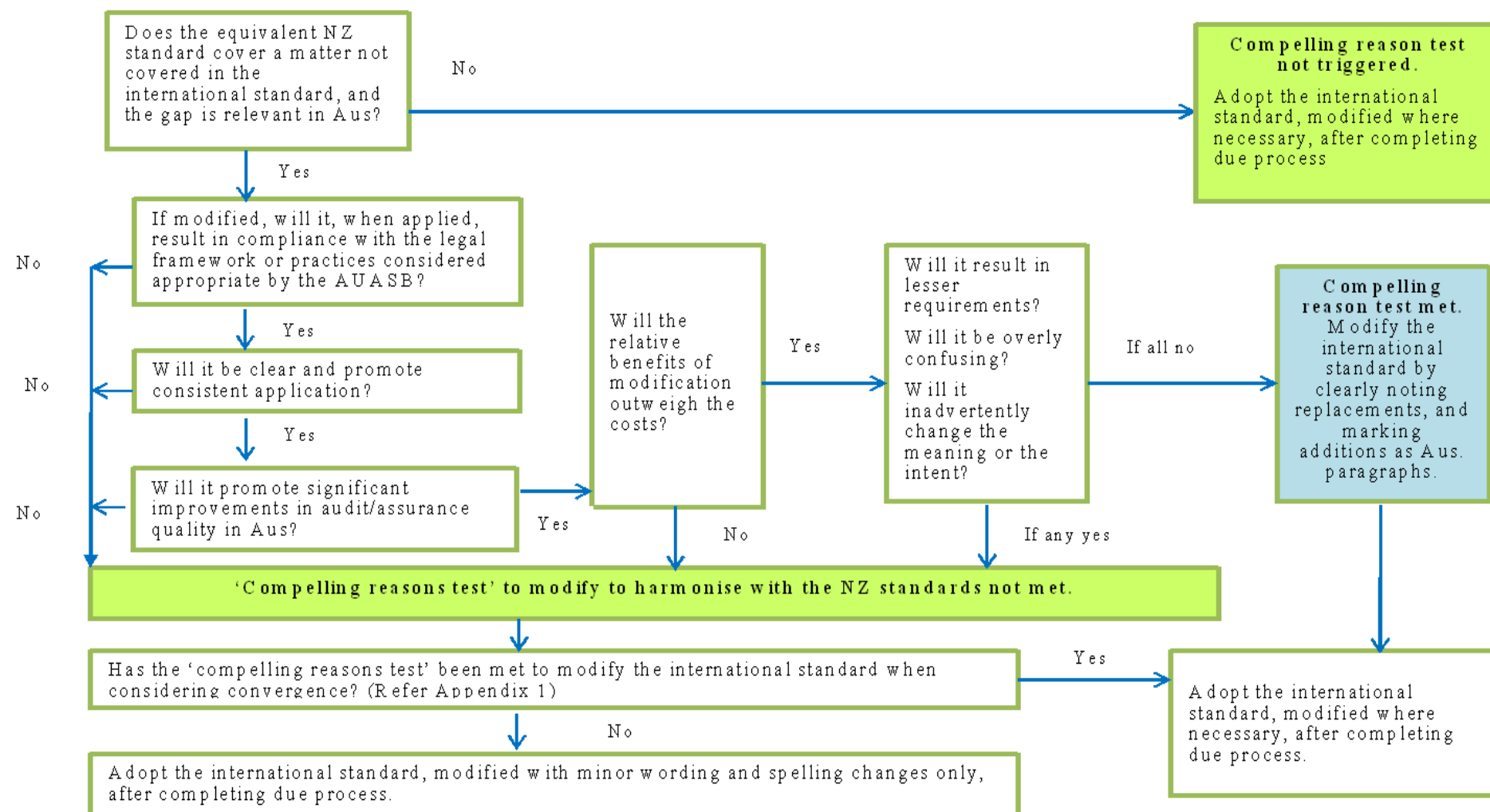




# **FLOWCHART TO DEPICT THE ‘COMPELLING REASONS TEST’ IN THE PRINCIPLES OF CONVERGENCE WITH THE IAASB STANDARDS**



# **FLOWCHART TO DEPICT THE ‘COMPELLING REASONS TEST’ IN THE PRINCIPLES OF CONVERGENCE WITH THE IAASB STANDARDS**



**DATE:** 6 April 2018

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

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

**SUBJECT:** Report on IAASB March 2018 Meeting

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### Introduction

1. This report provides an overview of the International Auditing and Assurance Standards Board (IAASB) meeting held in Amsterdam on 12-16 March 2018.
2. It was a very full agenda that included some difficult standards, nevertheless the Board made good progress on key projects. We certainly found it a very productive meeting. Some high-level observations about the meeting are:
  - the Board's clear commitment to bring scalability into the standards;
  - the Board's specific consideration of the readability of the standards, and efforts to do justice to the subject matter, by keeping it as long as needed but as short as possible;
  - the detailed discussion on specific words to ensure the key concepts are well addressed.
3. The full meeting papers can be accessed [here](#).

### ISA 540

4. The Board considered the current draft of ISA 540 (Revised). The consensus is that the standard is now more understandable and readable, with a much better flow – it is clear it has come a long way.
5. Key comments on the proposed changes following the December meeting were as follows:
  - The need to align the standard closely with extant ISA 315 (Revised).
  - The term significant data needs to be explained better, and should not be used to imply that management should identify significant data. The auditor uses the concept when assessing risk.
  - Support for streamlining the application material. However, some concern that the example of land infrastructure assets had been deleted, as it is an important example for the public sector.

- There was a call for examples on derived data to assist with clarifying the term.
- Outreach to firms indicated that more guidance is needed on the work the auditor is required to do when a management's expert has been used.
- There was a robust discussion on control risk, and how much to add into ISA 540(Revised) as opposed to leaving ISA 315(Revised) to deal with it. The term 'level of precision of controls' also needs to be better explained.
- There was a lengthy discussion on how management bias has been incorporated in the requirements in ISA 540(Revised), given the proposal to include it as an inherent risk factor in ISA 315 (Revised).
- Some members queried the use of the phrase 'to the degree relevant' to demonstrate scalability in obtaining an understanding of the system of internal control, and that it could create an open-ended requirement. It was suggested it would be more helpful to make it clear what is required for all estimates, and for the auditor to determine whether it is applicable or relevant. There was some concern raised about the need to understand controls over all estimates.
- Some members queried the removal of 'sufficient appropriate' to describe the audit evidence the auditor needs to seek from relevant sources, as well as how to determine whether a source is relevant.
- Scalability is still questioned, as well as the examples used in the Appendix 4. It was noted that a less complex example is needed, as well as to demonstrate the documentation requirements.
- There was a robust discussion about the length of the standard, and whether to include detailed examples and the appendices. Particularly, the purpose and need for Appendix 1 was raised again. There was some concern about whether the appendices have the same standing as the application material. It was agreed that the standard needs to demonstrate scalability, and that examples are important, but that it may be more appropriate to publish detailed examples in a separate publication outside the standard. The Task Force agreed to add relevant and simplified material within the standard and to remove Appendix 1 and Appendix 4.
- There is further work to do to ensure the standard does not imply an auditor can decide not to perform risk assessment procedures, including those required by other standards. Also, further alignment is needed with reference to significant accounting estimates in extant ISA 315.
- It should be clarified that the auditor's range should include amounts supported by sufficient and appropriate evidence, but that it does not mean the auditor should seek contradictory evidence in all cases.
- There was a good discussion about the proposed effective date. Some members expressed concern about the proposed effective date for periods ending on or after 15 December 2019. They consider it a very tight timeframe and that it would be difficult for firms to implement the standard by that date. Firm outreach conducted supports this concern. There is also the challenge of translation for non-English jurisdictions. The possibility of re-

exposure also needs to be figured in, as well as training of practitioners and regulators. The interplay with ISA 315 (Revised) is also of concern, as ISA 315 (Revised) will not be finalised.

The PIOB member expressed concern about how it would not serve the public interest if this standard is delayed. A Task Force member noted that perhaps if it is of such importance that there may be a need to call on firms to accelerate application of this standard. The Chair noted it may be better to change the effective date to one year later, but for the IAASB to strongly encourage/facilitate early adoption. The Task Force was asked to reflect further on the matter.

6. Areas that the Task Force will continue to work on are: scalability, examples demonstrating the spectrum of risk, length of the standard and professional scepticism.
7. The next version of the draft standard will be discussed at an IAASB teleconference on 24 April 2018, with a view to approve the standard in June. The decision whether to re-expose the standard will be discussed once the standard has been approved. A paper on re-exposure criteria and history of re-exposure will be brought the June meeting, as well as IASB re-exposure criteria.

### **ISA 315 (Revised)**

8. This was the second read of the full standard.
9. The Board continues to support the general direction of the proposed changes, but the overall feedback was that the flow of the standard remains complex, and that further clarity is needed. Suggestions included a flowchart to provide additional guidance on the flow of the standard.
10. We share this view as we struggled to read through the application material, especially towards the back of the standard. In our view there is a need to simplify and condense, and to consider the logical flow of the requirements compared to the application material. Our reference group also expressed this view.
11. There also remains continuing concerns about how to operationalise some of the concepts, and how to address scalability.

#### *Introductory paragraphs*

12. There was broad support for the introductory paragraphs but the Task Force was asked to make it shorter, simpler and with less reference to other standards. Specifically, the paragraph describing the spectrum of risk was difficult to read and understand and could benefit from some refinement.

#### *Definitions*

13. The Board welcomed the addition of definitions for application controls and general IT controls, and the intention to modernise them. It was noted that the definition of controls does not address automated controls.

14. There were mixed views about broadening the definition of inherent factors to include quantitative factors as well, and including susceptibility to management bias as an inherent risk factor to replace fraud considerations. The concern is that susceptibility to management bias covers only part of fraud considerations and that there is a need to make a fuller link to ISA 240.
15. Greater clarity is needed that the definition of assertions is not about management representations.
16. The new definition of a reasonable possibility being 'more than remote' needs to be clarified.
17. There was concern about articulating the definition of significant risk as the risk at the highest end of the spectrum relative to other risks, and whether this means there is always a significant risk.

#### *Risk assessment procedures*

18. The Board requested the Task Force to clarify guidance on the use of automated tools/techniques as part of the risk assessment procedures.

#### *Understanding the entity's system of internal control*

19. The Task Force received lots of feedback on this section. There was overall support for the structure and changes made regarding IT, but general confusion about the application material, which was difficult to follow. It was noted that a flowchart would help with the understanding.
20. Some further clarification is needed in the application material about the concept of 'direct' and 'indirect' controls, and when general computer IT controls are relevant. There should also be a clearer linkage between the understanding of other components and controls relevant to the audit. The Task Force was also asked to consolidate the identification of deficiencies in the various components of internal control into a single requirement.

#### *Identifying and assessing the risk of material misstatement*

21. The Task Force was asked to clarify this process, which was found to be confusing. A flowchart may also be helpful here.
22. There was also some confusion about the interaction of the financial statement level risks with risks at the assertion level, and the consequences of identifying a significant risk at the financial statement level.
23. There was overall support for the stand back requirement but also a need to simplify it. For example, the use of material and significant in the same requirement may be confusing, and the link to ISA 330 needs to be better explained.

#### *Data analytics*

24. There was some debate about the consistent use of an applicable term to use to describe the use of data analytics. More may be needed to clarify that 'automated techniques' specifically include data analytics but flexibility is needed for current and future tools and techniques.

25. The Board is supportive of further coordination with the Data Analytics Working Group (DAWG) to clarify guidance as needed.

#### *Appendices*

26. There was overall support for the Appendices.
27. The targeted approval date of the ED is June 2018. We think it may be difficult to achieve based on the work still required, and having ISA 540 for approval on the agenda as well in June. The Task Force Chair is confident that the ED will be ready for approval in June.

#### **Audits of Small and Medium Entities**

28. The Board discussed a paper in an executive session from an informal working group that highlighted and convinced the Board of the urgency to further analyse and consider issues in the context of the audits of simpler and non-complex entities.
29. The Board had a robust discussion on the issues and the need to keep an open mind in determining options to address the challenges. Accordingly, the Board supported the establishment of a Working Group to explore issues and develop a consultation paper. The Board agreed that the project should also look at the scope of entities across all sectors and all entities.

#### **Agreed -Upon Procedures**

30. The Board considered a draft of proposed ISRS 4400 (Revised)<sup>1</sup> and generally agreed with the Task Force's proposals. The key views expressed included support for:
- the use of the term findings instead of factual findings
  - disclosure of non-independence in the AUP report, and continuing to work with the IESBA about what the independence criteria are for non-assurance engagements
  - sufficient flexibility to address various circumstances when an AUP engagement is performed (for example, AUP engagements performed in the public sector)
  - use of professional judgement by the practitioner in the standard
  - the example reports provided, including the use of two separate reports when reporting on recommendations
  - not requiring written representations, but to recognise the practitioner may obtain representations, with some guidance what those should be.
31. The Board will perform a first read of the standard in September, and is hoping to approve the ED in March 2019.

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

32. This was the second reading of the draft standard. There was overall support for the standard, including its structure and objective. However, there was some

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<sup>1</sup> International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed Upon Procedures Regarding Financial Information*

concern about the length of the standard which makes it cumbersome and difficult to apply, particularly for SMPs. The Board asked the Task Force to consider further streamlining the application material, recognising that it is a complex topic, and that length may be necessary. The Board also asked the Task Force to relocate the Appendix outside the standard, which although it has useful content, makes the standard overly long and complex.

33. The Board further requested the Task Force to develop further guidance to address different sizes and complexity of firms, and to explore the appropriate location for the guidance. There were some mixed views about the appropriate authority of guidance located elsewhere.
34. The Board suggested a new term for the quality risk assessment process (referred to as QRAP). There were mixed views as to whether it should be 'risk assessment process' or 'quality risk management process'. In addition, the Board recommended that the quality risk assessment process should also be applied to the monitoring and remediation component, to make it consistent with the other components.
35. Further key feedback included:

#### *Scalability, objective and components*

- Support for how professional judgement has been addressed, but more emphasis needed on professional scepticism
- Clarify the scope of the services to which the standard relates
- Support for the components, but mixed views about how they had been referenced.

#### *Definitions and Other terms*

- Consider whether all definitions are needed
- Agree with the use of 'responses' to risks instead of 'controls' or 'policies and procedures'.
- Reconsider places where sufficient and appropriate are used together
- Redefine network services, and clarify the nature of the relationships
- Various proposed refinements to definitions.

#### *Structure*

- Overall support for keeping the governance and leadership component first
- Further refine and streamline the references between the components
- Improve linkages with ISA 220 and more direct requirements for what needs to be done at the engagement level
- Add a requirement that the firm may need to have additional quality objectives, quality risks or responses

#### *Quality risk assessment process*

- Support for the concept of the risk threshold for identifying and assessing risks, but to clarify how it is described
- Develop application material to emphasise the scalability of this section



- Clarify that risk identification and assessment is a 2-step process, but may be done simultaneously in some cases
- Build more proactivity into considering quality objectives, quality risks and responses because of changes in circumstances.

#### *Other components*

- Governance and leadership - support for the use of 'financial and operational' priorities rather than 'commercial considerations'
  - Information and communication- clarify that communication (transparency reporting) is strongly encouraged but not required
  - Relevant ethical requirements- more specific responses needed
  - Monitoring and remediation – clarify when firm leadership is required to do the evaluation of the system (at least annually or more frequently)
  - Networks – better clarify requirements as it does not capture those directives that sometimes come from the network to the network firms. Further outreach to do to discover the issues.
36. The Board will consider the next draft at the September meeting with the intention of approving the ED for issue at that meeting.

#### **EER Assurance Project**

37. The Board received an update on the Task Force's work to date on understanding the contextual background of reporting frameworks, the first of the ten key challenges, materiality, and outreach and project planning.
38. Members expressed broad support for the Task Force's early work and the planned direction of the project. The Task Force will continue to address the ten key challenges and develop guidance. The plan is to present the issues relating to materiality, assertions and criteria at the June Board meeting.
39. The IAASB is planning to have 6 roundtables later this year on the exposure draft of the new guidance. The Oceania one is to be in Sydney on 2 November just before the World Congress, and will be hosted by CA ANZ. We are planning an additional roundtable in Auckland for the last week in October.

#### **Professional scepticism**

40. Lyn provided an update to the Board on the Professional Scepticism Subgroup's proposed way forward, work done to date on feedback from the ITC, and the conclusions and recommendations related to a requirement to seek contradictory evidence as part of the concept of professional scepticism.
41. The recommendation from the subgroup was to henceforth use the term "inconsistent evidence" rather than "contradictory evidence" in IAASB pronouncements, and to not add a requirement to seek inconsistent evidence in all circumstances. This generated a healthy debate, with mixed views. A major concern was the timing and the implications of the recommendation, for example, in the context of ISA 540. However, the Board agreed this is the start of the discussion and that the ideas should be considered further.
42. The Board supports the group's proposed way forward:

- Provide advice on key projects
- Distribute regular communication on professional skepticism
- Provide input into the IAASB's Strategy for 2020–2023, including the Consultation Paper and the stakeholder survey
- Foster good relationships with IESBA and IAESB.

### **Strategy 2020-2023**

43. The Board discussed the possible approach to developing the IAASB's strategy for 2020-2023, including the planned activities for 2018. The discussion included the online approach to the stakeholder survey, and the types of issues and questions to consider. The Board considers that broader thinking is needed for the strategy and supports reaching out and soliciting views from a wider group of stakeholders such as investors, preparers and government representatives. The survey will include targeted questions for specific stakeholder groups, with some being more strategic, and some more technical. The IAASB supports that 2019 be a continuation of the 2017-2018 work plan.

### **Next meeting**

44. The next physical meeting will be held 18-22 June 2018 in New York. The next IAASB teleconferences will be held on 18 and 24 April, and 22 May.



# Updated Project Plan

<b>Project Title:</b>	ISA / ASA 540 <i>Auditing Accounting Estimates</i>
<b>Project ID:</b>	ASA 540-2017/2018
<b>Project Objective(s):</b>	<ol style="list-style-type: none"><li>1. To provide comments on ED ISA 540</li><li>2. To issue revised ASA 540 and conforming amendments to other standards based on the amended ISA and making appropriate Australian amendments</li></ol>
<b>Priority:</b>	High
<b>Issue/Reason:</b>	Refer AUASB Strategic Direction re adoption of ISAs
<b>Date Prepared:</b>	19 April 2017 / Updated March 2018
<b>Date To Be Approved:</b>	26 April 2017 / TBA (subject to IAASB timelines)
<b>Date Updated: (if applicable)</b>	

**Note:** The original project plan approved at the April 2017 AUASB meeting has been included as an [appendix](#) to this document

## **Updated Background to Phase 2:**

At the time of the AUASB April 2018 meeting, it is not known whether the IAASB will re-expose or issue ISA 540. That decision will be made by the IAASB at the June IAASB meeting.

This updated project plan phase 2, has 3 timing options if the IAASB issues the standard and also considers the timing in the event of the IAASB deciding to re-expose ISA 540.

The detail behind the timetable is based on the IAASB voting for approval to issue the revised standard on ISA 540 and conforming and consequential amendments to ISAs 200, 230, 260, 500, 580 and 700 at their June 2018 IAASB meeting. The technical group understands that the PIOB would then approve the revised standard conforming and consequential amendments at their September 2018 meeting.

## **AUASB required action:**

The AUASB is requested to select one of the proposed options as presented.

## **Phase 2 (Updated)**

1. To release a revised ASA 540 and Amending Standard for standards affected by ASA 540 (ASAs 200, 230, 260, 500, 580 and 700) after making appropriate Australian amendments for compelling reasons.
  - a) Draft proposed ED ASA 540 based on the ISA including appropriate Australian amendments (compelling reasons)
    - *Current comments on compelling reasons:*
      - There are no “Aus” paras in the extant ASA 540.

- In discussions to date – there have been no indicators in relation to compelling reasons.
  - b) Draft AUASB Amending Standard Exposure Draft for standards affected by IAASB auditing accounting estimates conforming amendments. Standards affected are ASAs 200, 230, 260, 500, 580 and 700, as equivalent to those issued by the IAASB.
  - c) Issue AUASB Exposure Drafts for ASA 540 and conforming amendments with 60 days comment period.
  - d) Consider comments received on ED, coordinate with NZAuASB and present disposition paper to the AUASB for approval with:
    - (i) Finalised Revised and Compiled Standards
    - (ii) Finalised *Basis for Conclusions* document
  - e) Obtain OBPR *Regulatory Impact Assessment* (RIA) document(s) and/or *Regulatory Impact Statement* (RIS) as required
2. Anticipated Timeframe (*times for phases 1-4 below are based on past experience in dealing with the IAASB*)

*Assumptions:*

- *The AUASB is able to obtain a word version or at least PDF of final ISA 540 and conforming amendments before PIOB approval*
- *The AUASB receives the final word documents by the suggested times*
- *The effective date of the standard is pushed out one year (currently December 2019)*

*Option 1: IAASB approves ISA 540 at the June IAASB meeting. AUASB exposes ASA 540 and other conforming amendments for a 60 day comment period*

	<b><i>Week commencing</i></b>	<b><i>Action</i></b>
1	18 June	IAASB approves for issue ISA 540 and conforming amendments
	12 September	AUASB approves “expected” EDs for issue for 60 day period to be released only after IAASB releases documents. The AUASB would be approving questions on exposure, the final ISA and any compelling reasons
2	24 September	PIOB approves for issue ISA 540 and conforming amendments
3	8 October	IAASB release approved ISA 540 and conforming amendments
4	22 October	AUASB receives word documents from IAASB to convert and prepares exposure drafts including internal quality control
5	12 November	AUASB release of EDs for 60 day period
6	Mid February	AUASB teleconference - disposition of comments and final comments.
7	March AUASB meeting	AUASB approval standards for issue

*Option 2: IAASB approves ISA 540 at the June IAASB meeting. AUASB flexes timing by exposing ASA 540 for a 30 day comment period*

	<b>Week commencing</b>	<b>Action</b>
1	18 June	IAASB approves for issue ISA 540 and conforming amendments
	12 September	AUASB approves “expected” EDs for issue for 60 day period to be released only after IAASB releases documents. The AUASB would be approving questions on exposure, the final ISA and any compelling reasons.
2	24 September	PIOB approves for issue ISA 540 and conforming amendments
3	8 October	IAASB release approved ISA 540 and conforming amendments
4	22 October	AUASB receives word documents from IAASB to convert and prepares exposure drafts including internal quality control
5	31 October	AUASB release of EDs for 30 day period
6	14 December	AUASB teleconference - disposition of comments and final comments.
7	11 January	AUASB teleconference approval standard for issue
8	Jan/Feb	Consequential amendments/compiled standards for ED

*Option 3:*

Another consideration for the AUASB to expedite the process is for the AUASB to exposure the standards after approval at the June 2018 IAASB meeting but before PIOB approval. This option is dependent upon the IAASB releasing their final standard in word version to the AUASB. This option has the associated risk that the PIOB requests changes (even minor) to the final standard – this could cause version issues. This option is not the technical group’s preference.

*Timing where the IAASB possibly re-exposes ISA 540*

	<b>Week commencing</b>	<b>Action</b>
1	18 June	IAASB approves for re-exposure ISA 540 and conforming amendments
2	16 July	IAASB release EDs for a 60 consultation period
3	July-August	Outreach
4	Early September	AUASB teleconference to approve AUASB submission
5	Mid September	AUASB submission to IAASB

## Resources

Ashley Wood – Project Specific AUSAB member.

Rene Herman – Project Specific dedicated AUASB technical group member.

# Draft Project Plan

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<b>Project Title:</b>	ISA / ASA 540 <i>Auditing Accounting Estimates</i>
<b>Project ID:</b>	ASA 540-2017
<b>Project Objective(s):</b>	<ol style="list-style-type: none"> <li>3. To provide comments on ED ISA 540</li> <li>4. To release an amended ASA 540 based on the amended ISA and making appropriate Australian amendments</li> </ol>
<b>Priority:</b>	High
<b>Issue/Reason:</b>	Refer AUASB Strategic Direction re adoption of ISAs
<b>Date Prepared:</b>	19 April 2017
<b>Date To Be Approved:</b>	26 April 2017
<b>Date Updated: (if applicable)</b>	

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## Project Objectives

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

## Background

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

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

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

## **Stakeholders**

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

## **Risks/Issues**

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

## **Action Plan**

1. Develop project plan and obtain AUASB approval.

### Phase 1

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

### Phase 2

3. To release an amended ASA 540 based on the amended ISA and making appropriate Australian amendments
  - f) Re-draft ASA 540 based on the ISA after making appropriate Australian amendments
  - a) Ensure Australian amendments pass the Compelling Reasons test
  - b) Present draft ASA 540 to the AUASB (date TBC) for approval to release an ED.
  - c) Issue AUASB Exposure Draft for ASA 540 with 60 days comment period.

- d) Consider comments received on ED and present disposition paper to the AUASB for approval with:
- (i) Finalise Compiled Standard including conforming amendments (if any)
  - (ii) Finalise relevant *Basis for Conclusions* document
  - (iii) Finalise OBPR *Regulatory Impact Assessment* (RIA) document(s) and/or *Regulatory Impact Statement* (RIS) as required
  - (iv) Prepare *Explanatory Memorandum*.

## Resources

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

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

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

## Project Timetable

Date	Description
May – August 2017	Phase 1
TBD	Phase 2





# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**      **3(d).1**  
**Meeting Date:**            17 April 2018  
**Subject:**                    ISA 540 – Update  
**Date Prepared:**            9 April 2018

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☐ **Action Required**

☒ **For Information Purposes Only**

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## Agenda Item Objectives

To update the AUASB on the ISA 540 discussions from the March 2018 IAASB meeting.

## Update

The general consensus from the March IAASB meeting is that ISA 540 is now more understandable and readable with a much easier flow. The IAASB still has several areas that they are requesting the task-force work through and these relate to: scalability, examples demonstrating the spectrum of risk, length of the standard and professional scepticism.

The 2 areas that remain open and were subject to discussion relate to:

- Effective Date: Implementation period considered too short – strong desire to push out for a year
- Re-exposure of the document – will only be decided later in the process, with the taskforce requested to bring a paper on re-exposure criteria and history of re-exposure to the June meeting, as well as IASB re-exposure criteria

At the 7 March 2018 AUASB meeting, the AUASB raised three key matters/concerns on ISA 540. These concerns were fed-through to the Australian and New Zealand IAASB members ahead of the March IAASB meeting.

At the request of the IAASB, the ISA 540 taskforce at the March meeting made several changes to the draft ISA 540 – these changes were circulated to the IAASB and discussed by the IAASB on the last day of the IAASB meeting. Some of the changes addresses the 3 AUASBs concerns.

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1. Scalability continues to be of concern, particularly when looking at the suggested appendix 4. The intent is there, but it's not coming through.
  - Clarification of the spectrum of risk concept. Clarification that it is spectrum of IR and not spectrum of ROMM. Linkage of estimation uncertainty, complexity and subjectivity to assessment of IR and not ROMM.
  - ISA 540 isn't dealing with control risk – that is covered in ISA 315.
  - Rewording of conditionality wording to assist with scalability and linkage of entity's system of IC to *significant* accounting estimates – although this new term is being questioned and the IAASB seeks clarification
2. Documentation requirements is a significant step up. The suggested appendix 4 also demonstrates the uplift in expected documentation. This is particularly problematic for simple estimates.
  - Suggested appendix 4 – bonus example removed
  - Documentation requirements simplified/clearer and leads in with *significant* professional judgements
3. Developing an auditor's range or point estimate – seems a significant uplift in audit effort.
  - Application material included to indicate that even though the auditor has fulfilled all the requirements of the ISA, a wide range may still be appropriate and clarified why disclosures are increasingly important in these situations and added reference providing guidance that it may be important for the auditor to re-challenge whether SAAE has been obtained about reasonableness of amounts in the range.

Other significant changes made by the ISA 540 taskforce:

1. Expectations around sufficient appropriate audit evidence clarified. Emphasis is now relevancy of evidence whether conditional or contradictory
2. Clarification of work effort around significant risk relating to accounting estimates

#### **Next steps:**

The next version of the draft standard will be discussed at an IAASB teleconference on 24 April 2018, with a view to approve the standard in June.

#### **Material Presented**

Agenda Item 3(d).1

AUASB Board Meeting Summary Paper



# Project Plan

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<b>Project Title:</b>	ISA / ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>
<b>Project ID:</b>	ASA 315-2018
<b>Project Objective(s):</b>	<ol style="list-style-type: none"><li>1. To provide comments on ED ISA 315</li><li>2. To issue revised ASA 315 and conforming amendments to other standards based on the amended ISA and making appropriate Australian amendments</li></ol>
<b>Priority:</b>	High
<b>Issue/Reason:</b>	Refer AUASB Strategic Direction re adoption of ISAs
<b>Date Prepared:</b>	5 April 2018
<b>Date To Be Approved:</b>	17 April 2018 / TBA (subject to IAASB timelines)
<b>Date Updated: (if applicable)</b>	

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## Project Objectives

1. To provide comments to the IAASB on ED ISA 315 based on stakeholder input (Phase 1).
2. To release a revised ASA 315 and conforming and consequential amendments to impacted standards, based on the amended ISA, after making appropriate Australian amendments to conform to Australian regulatory and statutory requirements, and further amendments where is a compelling reason to do so (Phase 2).

This project plan is for phase 1 only. Phase 2 will be developed once the timing of the issuing of the IAASB ED is confirmed.

## Background

The IAASB is in the process of re-writing ISA 315 with the objective of establishing more robust requirements and appropriately detailed guidance to drive auditors to perform appropriate risk assessment procedures in a manner commensurate with the size and nature of the entity.

At its March 2018 meeting the IAASB indicated it may approve an exposure draft at its June 2018 meeting. This project plan assumes that an ED will be approved at the June meeting.

## **Stakeholders**

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

## **Risks/Issues**

- Issues are not identified and communicated to the IAASB on the ED.
- Final ISA 315 not consistent with feedback from the AUASB (and its stakeholders).
- Proposed amendments to the ISA are made only in accordance with the “compelling reasons” policies and such changes are consistently applied to the relevant standards.
- Proper consideration is given to stakeholder input.

## **Action Plan**

### Phase 1

To provide comments to the IAASB on ED 315 based on stakeholder input. Note this plan is based on the AUASB approving the change in the timing of issuing EDs for standards based on IAASB standards. If this is not approved the ED will be issued after the release of the final IAASB standard.

- Draft AUASB’s ED ASA 315 based on the IAASB’s ED including known Australian amendments. Note there are no “Aus” paras in the extant ASA 315 and in discussions to date there have been no indicators in relation to compelling reasons. Exposure period dependent on the IAASB’s ie. needs to be less than the IAASB’s to allow time to consider comments. Likely to be around 60 days.
- Outreach conducted via roundtables in Sydney and Melbourne in August 2018.
- Consider if further outreach is required ie. Webinar for other states.
- AUASB to review submissions received from Australian stakeholders and the submission to the IAASB at its 12 September 2018 meeting.

### Phase 2

To be developed once the timing of the issuance of the IAASB’s ED is known.

## Resources

Justin Reid – Project Specific AUSAB member.

Anne Waters – Project Specific dedicated AUASB technical group member.

DRAFT



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.** 3(g)  
**Meeting Date:** 17 April 2018  
**Subject:** IAASB National Standards Setters Meeting Agenda  
**Date Prepared:** 10 April 2018  
**Prepared by:** Matthew Zappulla, AUASB Technical Director

☒ **Action Required**

☐ **For Information Purposes Only**

## Objective of the agenda item:

1. Inform AUASB Members about the upcoming IAASB National Standards Setters Meeting Agenda and obtain feedback about items board members would like raised as part of the AUASB update.

## Background

2. The annual IAASB National Standards Setters (NSS) Meeting is being held in Vienna, Austria on 8 & 9 May 2018. The meeting is held back to back with the IESBA NSS meeting, with a number of events/sessions planned involving both the Auditing and Ethical Standards Setters collectively.
3. The AUASB Chair and Technical Director will attend on behalf of the AUASB. In addition the NZAuASB Chair and Technical Director will also attend, along with NSS representatives from 15 of the other largest and most influential jurisdictions who apply the IAASB/IESBA standards in their territories.
4. The Agenda for the NSS meeting is controlled by the IAASB, however the IAASB did request input from NSS representatives about the Agenda in the current year. The AUASB and NZAuASB Chairs and Technical Directors collaborated to influence the NSS Agenda and have had considerable success in adding Agenda items of particular interest to our region, as described below.
5. The meeting agenda requests each NSS representative to prepare and present a 10 minute presentation sharing information about significant national developments or issues (whether related to standard setting, convergence, or emerging issues) being addressed at the national level that may be of international relevance. Consequently, the AUASB members are asked for their input about which topics the AUASB Chair should present to the upcoming NSS meeting.

## NSS Agenda

6. As at the time of finalizing this AUASB Board Paper the current NSS Agenda will cover the following topic areas:
  - Chairman's Welcome and Introduction
  - Update on key activities of IAASB
  - Joint IESBA-IAASB NSS Session on Technology
  - National Trends and Developments of International Relevance and Strategic Importance

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- Small and Medium Sized Practices (SMP) / Small and Medium Sized Entities (SME) Issues
  - NSS Session: Collaboration and Strategy [NB: Refer Paragraph 7 below for more details]
  - Update on IAASB Strategy and Work Plan:
    - ◆ ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements
    - ◆ ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
    - ◆ Emerging Forms of External Reporting (Including an update on status of the global EER project; a presentation from External Reporting Board (New Zealand) on assurance of service performance information; and a presentation from Independent Regulatory Board for Auditors (South Africa) on South African Assurance Engagements. Practice Statement 1)
    - ◆ ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
    - ◆ ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements - Discussion of implementation issues
7. As part of its submission to the IAASB on what should be included on the NSS Agenda the AUASB and NZAuASB Technical Groups requested that additional sessions on Audit Quality, Auditor Reporting (incl. other information), EER, Data Analytics, the responses to the Monitoring Group Consultation Paper and finally a standalone session for NSS representatives without the IAASB be considered. As seen via the current agenda list in Paragraph 6 above, some of these suggested were adopted by the IAASB and have been added. We also still have the ability to raise other items via our local jurisdictional update.
  8. The NSS Session on Collaboration and Strategy will be led by the AUASB and NZAuASB Chairs. The objective of this session to chart a way forward for the NSS's as a community of influence both with the IAASB and beyond in the future. This idea arose from the observation that such an important group of stakeholders did not operate collectively when it came to the recent Monitoring Group Consultation Paper responses. The focus and structure for this session is currently under consideration and AUASB members are welcome to provide input on what the emphasis of this session should be. The IAASB has agreed they will not attend this session to ensure NSS representations can speak without fear or favour.
  9. Additionally the IAASB staff has requested the AUASB Technical Director lead the presentation with the NSS groups on ISA 720 relating to 'Other Information'. The AUASB Technical Group will assist with the development of this presentation in the week following the April AUASB meeting, drawing upon the work the AUASB has already done on this topic. Again AUASB members are encouraged to provide any input they believe will be useful to this session.

### **AUASB Technical Group Recommendation / AUASB Actions**

1. AUASB Members note the topics to be covered at the upcoming May 2018 IAASB National Standards Setters Meeting.
2. AUASB Members provide feedback to the AUASB Chair and Technical Director on topics they believe should be addressed as part of the AUASB presentation on 'National Trends and Developments of International Relevance and Strategic Importance' to the NSS meeting.

## Strategic Project Outline

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Project Title: Emerging External Reporting (EER)

Team member responsible: Marina Michaelides

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### I. Background

1. Emerging forms of external reporting (EER) by entities increasingly provides additional information that goes beyond the traditional (financial statement) focus, e.g. sustainability and integrated reports <IR>. There are growing public and societal expectations that entities should report a broader information set than is reflected in traditional financial statements and that such reports should be both relevant and reliable. Assurance on EER is an important part of addressing these expectations by building credibility and trust in EER.
2. The AUASB has committed in its strategic plan to influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial information which encapsulates emerging forms of external reporting.
3. In February 2017, the AUASB made a submission to the International Auditing and Assurance Standards Board (IAASB) discussion paper: *Supporting Credibility and Trust in Emerging Forms of External Reporting: The Key Challenges for Assurance Engagements*. This submission was developed through direct engagement and consultation with a representative sample of stakeholders. Stakeholders included directors, assurance providers, regulators, professional accounting bodies, education bodies, reporters, preparers and report users in both Melbourne and Sydney.
4. Assurance engagements on EER subject matter are currently conducted under a number of standards, including ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, AA1000 AccountAbility Assurance Standard (2008) (current version expected in mid 2018). Subject matter specific standards, e.g. ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements*, can also be applied.
5. There is an opportunity for the AUASB to:
  - Contribute to international effort to address EER assurance challenges with guidance, which has gathered pace with the establishment of the IAASB EER Task Force and the EER Project Advisory Panel (PAP) to support it;
  - Collaborate with like-minded national standard setters, most notable in New Zealand and South Africa; and
  - Undertake pro-active stakeholder consultation in Australia to identify any specific guidance needed in our jurisdiction.

### II. Scope

6. EER can encapsulate a broad range of Reports, including:
  - Integrated Reports (IR), referencing the International Integrated Reporting Council (IIRC) <IR> Framework.
  - Sustainability Reports, referencing the Global Reporting Initiative (GRI) G4 Standards.
  - Specific subject matter information in Reports, including:
    - National Greenhouse and Energy Reporting (NGER).
    - Environmental, social and governance (ESG) issues.



- Service Performance Information (SPI).
- Climate Change Disclosures (CCD): Climate Disclosure Project and Task Force for Climate Disclosures (TCFD).

Whilst the IAASB discussion paper took a framework-neutral approach, particular attention was paid to the frameworks promoted globally by the IIRC, the GRI and others established in response to legislative or stock exchange requirements in different jurisdictions. A combined approach to addressing credibility and trust in EER also featured, acknowledging the key role played by Audit and Risk Committees, management, internal and external audit.

Key challenges to the assurance practitioner with respect to EER identified in the AUASB's stakeholder outreach on the IAASB EER Discussion Paper were as follows:

- Addressing materiality and implementing a robust materiality process.
- Maturity of governance and controls over EER reporting systems.
- Future-oriented information.
- Scoping EER engagements and establishing suitable criteria.
- Availability of assurance practitioners with appropriate subject matter expertise and competence.

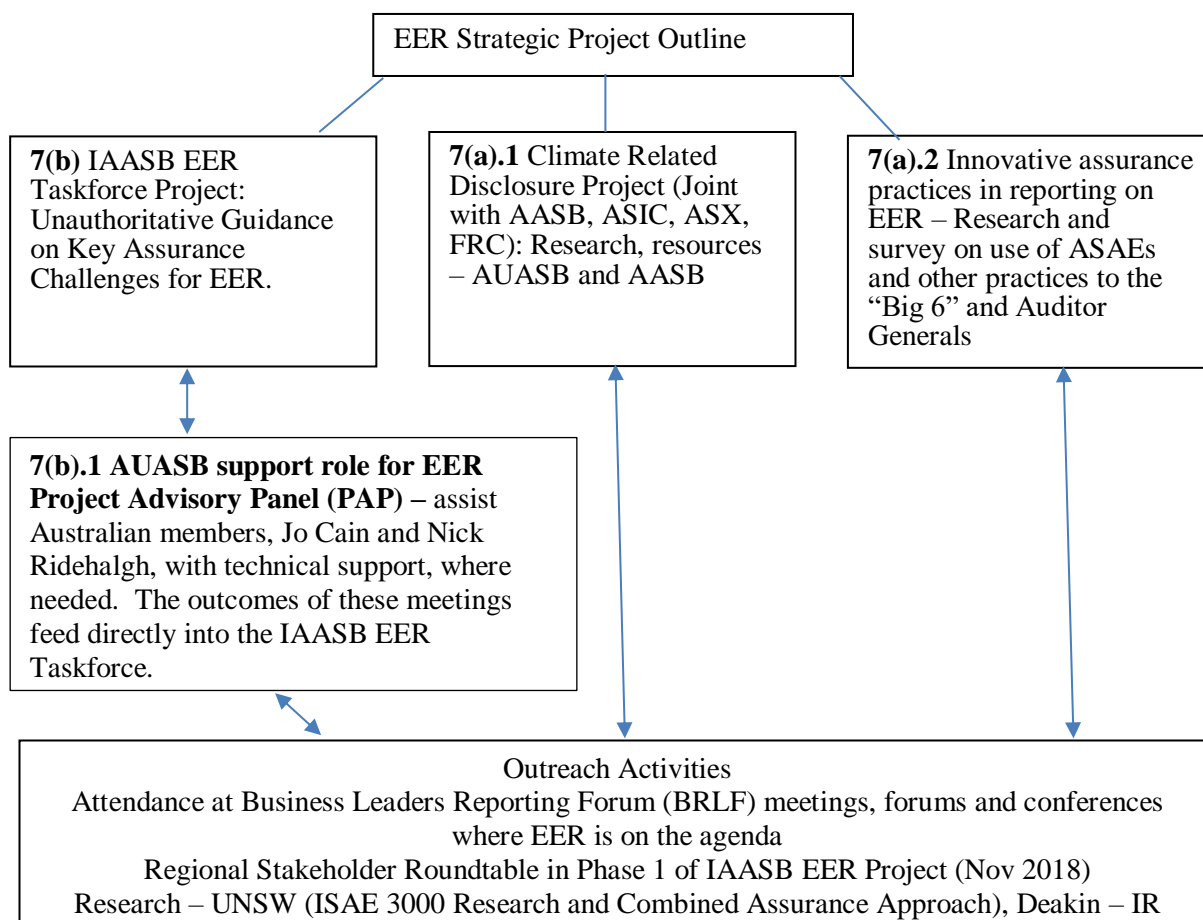
### **III. Project objectives, public interest benefits, link to corporate strategy and short, medium and long-term goals:**

#### **Project objectives**

7. The project objectives are for the AUASB to understand and address:
  - a) The gap in credibility and trust in EER in Australian capital markets.
  - b) The key assurance challenge(s) with EER identified with our stakeholders.

Via these two project objectives, the following three specific areas will be addressed as shown:

1. IAASB EER Taskforce Project: Unauthoritative Guidance on Key Assurance Challenges for EER – 7(b).
2. Innovative assurance practices in reporting on EER – 7(a).
3. Climate Related Disclosure Project – 7(a).



#### Public interest benefits

8. The public interest benefits of this proposal:
  - a) Improve credibility and trust in EER in Australian capital markets through high quality standards and guidance on assurance.
  - b) Contribute to enhanced quality and consistency in EER assurance throughout the world and strengthen public confidence in the audit and assurance profession.

#### Link to corporate strategy

9. This EER Assurance Project Plan directly contributes to the achievement of strategic objective 5 in the AASB and AUASB Strategy 2017-2021: Influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial reporting.

#### IV. Liaison with other standard setters

10. Further environment scanning, analysis and knowledge building on EER and related assurance in other jurisdictions, in particular New Zealand, South Africa, United Kingdom, Malaysia and the Netherlands to identify potential partners.
11. Work with the New Zealand Auditing and Assurance Standards Board (NZAuASB) on a joint project to meet the strategic objectives of both Boards.
12. Work with the AASB towards achieving strategic objective 5 in the AASB and AUASB Strategy 2017-2021.

## **V. Education**

13. Participate in CPA Australia's current development of a module on EER assurance for external assurance practitioner certification.
14. Build content understanding of Deakin and UNSW elective courses on <IR> and Value Creation in their accounting degree programs, incorporating assurance and credibility enhancement modules.
15. Keep abreast of other related education initiatives in the pipeline through relationships with key education providers.

## **VI. Research to date**

16. The following relevant research papers have already been identified:
  - a) University of New South Wales: *Combined Assurance as a New Credibility Enhancement Technique*.
  - b) Stanford University, University of Auckland, University of Pretoria: *The Economic Consequences Associated with Integrated Report Quality: Early Evidence from a Mandatory Setting*.
  - c) University of New South Wales: *Does Integrated Reporting Matter to Capital Markets?*
  - d) CPA Australia: *An Exploration of the Information Needs of Selected Stakeholders of Integrated Reporting*.

## **VII. Links to relevant documents, not required reading – background information only:**

AUASB submission to the IAASB Discussion Paper (2017): [Supporting Credibility and Trust in Emerging Forms of External Reporting: The Key Challenges for Assurance Engagements](#).

## **Appendix 1**

### **7(a).1 Climate Related Disclosures - Impact for Reporters/Preparers and Assurance Practitioners**

Draft project plan is in progress. This is yet to be agreed with the AASB.

### **7(a).2 Australian Piece – Innovative Assurance Practices and Reporting on EER**

Conduct a survey of the “Big 6” and Auditor Generals on the current use of the ASAEs and other innovative practices in EER, e.g. <IR>. Other innovative assurance practices on reporting of EER could include:

- Combined Assurance – Governance (reporting Board processes/discussions), internal and external assurance
- ASAE 3000 – Limited and reasonable assurance
- ASAE 3000 and AA1000
- ISA 720 – Other Information.

The survey would look to explore further current practices being adopted in this area and future thinking about innovative practices.

Outcome: Article/Bulletin – aimed at Director’s and Assurance Practitioners on what options are available for reporting in the EER space (e.g. increased disclosure in the Operating and Financial Review (OFR) or adoption of <IR>) and what assurance practices could be used to enhance the credibility and trust of this information.

### **7(b) IAASB EER Taskforce Project: Guidance on Key Assurance Challenges for EER**

AUASB to co-ordinate with IAASB EER Task Force (Alistair Neilson, World Business Council of Sustainable Development (WBCSD secondee) to share information. AUASB to offer assistance as required.

Attendance and co-ordination of IAASB EER Regional Round Table in Sydney in November 2018.

Consider attendance and co-ordination of meetings on EER at the World Accounting Congress (WAC) in Australia in November 2018.

# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**           **5(b)(iii)**  
**Meeting Date:**               17 April 2018  
**Subject:**                     Financial Reporting and Assurance Frameworks  
**Date Prepared:**             9 April 2018

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☒ **Action Required**

☐ **For Information Purposes Only**

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## **Agenda Item Objectives**

1. To seek input/clarification from the AUASB in relation to the next steps of the Financial Reporting and Assurance Frameworks Strategic Project. The key outcome of this discussion, will be determining the project objectives and scope which will allow a clear list of action items to be developed. The Board discussion will occur during agenda item 5(b)(iii) at the April AUASB 2018 meeting.

## **Background**

2. The AUASB committed in their strategic plan to working together with the AASB on the financial reporting framework project currently being undertaken by the AASB. The AASB project aims to develop objective criteria to determine which entities should be required to prepare and lodge financial statements, what should be included in those financial statements and the appropriate assurance requirements that would apply to those statements.
3. The initial focus of this project has been on the not-for-profit private sector in Australia, in particular charities registered with the ACNC. The narrow focus was in response to the ACNC legislative review by the government which was legislated to occur after the first five years of operation. The review was officially announced and began in December 2017.
4. So far, the AUASB Technical Group has contributed to two AASB papers published in 2017, a research report and a consultation paper on the Charities/Not-for-profit private sector. The AUASB Technical Group and Chair also participated in outreach conducted by the AASB following the publication of the documents to obtain stakeholder input on the issues raised.
5. In addition to the participation in outreach and contribution to documents, the AUASB Technical Group prepared a submission to the ACNC Legislative Review. The submission highlighted areas of inconsistency and/or duplication between sections of the ACNC Acts and the requirements of the applicable assurance standards. A holistic review of the assurance requirements in the ACNC Act was recommended.
6. In 2018, the AASB has expanded the project to prepare similar documents for the Public and For-profit sectors. The AUASB Technical Group has continued to assist the AASB with this project and contributed to auditing and assurance elements of the draft research reports developed by the AASB for the public and for-profit sectors.

### **What we know is happening**

7. As outlined in the background, the AASB has expanded their project to prepare documents for the Public and For-profit sectors, which will be followed by outreach. In relation to the public sector segment of the project, the AASB has presented a high level summary of findings to the Australasian Council of Public Accounts Committees (ACPAC) mid-term meeting. It is expected that the Public sector research report and discussion paper will be published by the end of April 2018.
8. In addition to the work being undertaken as part of the AASB's financial reporting framework project, the AASB has further progressed their Revised Conceptual Framework project. The AASB will soon publish a discussion paper and begin outreach to discuss options for replacing special purpose financial reports (SPFR) as a result of the conflicting use of reporting entity in the IASB's revised conceptual framework. Adopting the IASB's conceptual framework and removing the Australian notion of Reporting Entity will mean that when an entity is required to prepare a financial report in accordance with accounting standards, SPFR will no longer be an option available.

### **AUASB Discussion**

9. To move the project forward, three key areas need to be discussed and agreed upon from the AUASB's perspective:
  - a) What is the objective/s of the project;
  - b) Based on the objective/s, what is the scope of the project; and
  - c) Based on the objective/s and scope, what are the key actions/milestones for the project to allow it to be progressed and how do we measure success?
10. The attached paper Agenda Item 5(b)(iii) Briefing Paper – Financial Reporting and Assurance Framework provides discussion points for each of the items listed in paragraph 9 above.

### **Material Presented**

Agenda Item 5(b)(iii)	AUASB Board Meeting Summary Paper
Agenda Item 5(b)(iii)	Briefing Paper – Financial Reporting and Assurance Framework
Agenda Item 5(b)(iii)	A guide for funding organisations

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### **Action Required**

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Agree upon objectives, scope and action items for the project	Board action points and deliverables	AUASB and Technical Group	18 April 2018	o/s

No.	Action Item	Deliverable	Responsibility	Due Date	Status
2	Strategic Project Outline	Preparation and presentation of outline based on discussion at April meeting	AUASB Technical Group	13 June 2018	o/s

**Purpose of briefing paper:**

The purpose of this briefing paper is to provide the AUASB with an overview of the Financial Reporting and Assurance Frameworks strategic project. The paper is structured to consider the questions in paragraph 9 of the BMSP and to provide sufficient information to facilitate discussion at the AUASB April 2018 meeting.

**1. Project objectives:***Overview*

As outlined in the background of the BMSP, the initial focus of the project has been on charities registered with the ACNC. The last time the Board was presented with a strategic project outline for the Financial Reporting and Assurance Framework project, the project objective was:

“To obtain an understanding of the audit and assurance impacts arising from the AASB charities framework project, with a view to balancing the ACNC objectives of maintaining trust and confidence in the sector through increased accountability and transparency together with promoting the reduction of unnecessary regulatory obligations on the sector. Consideration will be made in relation to:

- the identification of options relating to the type of auditing or assurance engagement conducted, including the level of assurance provided; and
- qualifications and certification requirements for assurance practitioners and auditors.”

*Considerations*

As the AASB project has now moved from specifically focusing on charities registered with the ACNC to the public and for-profit sectors, the Board needs to determine what the objective of the project is. There may be elements of the objective in the overview which are still relevant, or the focus of the project could change. Below are some points to consider:

- The AASB objective is to “clarify and simply the Australian Financial Reporting Framework, in conjunction with policymakers and regulators”. Should the AUASB objective align with this from an assurance point of view?
- Does this project provide opportunities to show thought leadership? Does identifying and addressing financial reporting and assurance issues that may exist in the present financial reporting and assurance framework demonstrate thought leadership?
- Should the project continue to follow on from the work the AASB is undertaking, or should there be assurance specific work initiated? Potentially not all relevant assurance issues will arise under the work being undertaken by the AASB.
- What is the public interest benefit of the project?
  - E.g. reviewing the assurance requirements and working towards legislative change can lead to improved coherence and clarity of assurance requirements and assist in ‘future proofing’ acts against subsequent updates made to the audit and assurance standards.
  - E.g. identifying areas where the assurance standards may be causing issues for stakeholders and developing guidance or other educational materials to support the application of the standards by practitioners. This should result in improved clarity for, and consistent application by, practitioners.



## **2. Project Scope:**

### *Overview*

Similarly to the Project Objectives section, when the Board was last presented with the strategic project plan, the focus of the project was on the framework for charities registered with the ACNC and had a view of supporting the AASB in their work. The project scope was to:

“Work with the AASB and the ACNC in relation to auditing and assurance impacts resulting from proposed changes to the reporting framework for charities.

Work with NZAuASB to identify common areas of interest in relation to auditing and assurance issues impacting on the charity and NFP sectors. This is particularly important given the recent progress in New Zealand on reporting tiers for NFP entities as well as the reporting of service performance information.

Identify any other significant gaps impacting these entities in order to provide guidance and influence where required.”

In addition to the project moving beyond the framework for charities, the AUASB has also undertaken two linked projects:

- Audit quality – Prescribed Reports – a key goal of the project from the AASB perspective is achieving legislative change. The opening of legislation allows assurance sections of acts to be improved; this includes the removal of duplication and inconsistencies between acts and assurance standards and may provide opportunities to amend prescribed reports in legislation.
- SME/SMP – the wide range of stakeholders targeted by the outreach being undertaken by the AASB may assist in the identification of issues with assurance standards for small/medium entities and small/medium practitioners.

### *Considerations*

The scoping of the project is important to allow action items to be determined. Below are some points to consider:

- The present framework of assurance standards is flexible, should the focus be on assisting policy makers to determine the appropriate level (audit, review or AUP) and scope (financial report, single statement etc.) of assurance requirements.
- Are there things outside of the standards we should be considering, for example, the qualifications of assurance practitioners?
- Should the project consider common areas of interest between the Australian and New Zealand Financial Reporting and Assurance Frameworks
- Who are our key stakeholders?
- Are there any implications that the Board can see of there no longer being SPFR?

### 3. Action items

#### *Overview*

After the AUASB/UNSW Auditor Roundtable in October 2017, a list of action items for the charity component of the project was developed. These included:

- Continue to work with the AASB in relation to outreach activities being held in November 2017.
- Continue consultation with CPA Australia and CA ANZ in relation to auditing and assurance options for the sector.
- Input from academics in relation to the use of different auditing and assurance options such as reviews and other assurance engagements.
- Consideration of the NZAuASB guidance for assurance practitioners in relation to the NZ reporting tiers for charities.

The AUASB participated in outreach activities, consulted with CPA and CAANZ in relation to audit and assurance options in the sector as part of the preparation of the ACNC legislative review submission and considered research which highlighted the low take up of reviews in the charity sector. The determination of whether guidance similar to the NZAuASB is dependent on the results of the legislative review.

#### *Considerations*

Based on the potential objective and scope discussed above, the action points will need to be decided. The action points are the way the project will be taken forward and are key to measuring impact and success. Below are some points to consider:

- What is the outcome of identifying issues with the Assurance Framework in a particular sector? Should we be preparing guidance similar to NZ? E.g. *A guide for funding organisations* (Agenda Item 5(b)(iii) *A guide for funding organisations* attached)?
- Should we be preparing guidance for legislation drafters? This is already part of work for prescribed reports, but should this be expanded and available on the website for all government?
- How do the action items for the prescribed reports and SMP/SME projects impact on the action items for this project?
- Continued participation in AASB outreach, do Board members wish to attend? Should there be AUASB specific outreach on topics?

#### *Other items for consideration*

- What is the role of the Board for each of the action items?
  - Offering guidance to technical group and approving required documents?
  - Something more hands on?

## ASSURANCE FOR NOT-FOR-PROFITS:

# A guide for funding organisations

### IN THIS GUIDE

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What is  
an audit?

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What is  
a review?

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What  
are the  
alternatives?



**AUDITING &  
ASSURANCE  
STANDARDS**



**NOT FOR PROFIT  
ACCOUNTING  
STANDARDS**

The External Reporting Board (XRB) is the independent Crown Entity responsible for accounting and assurance standards in New Zealand. The New Zealand Auditing and Assurance Standards Board (NZAuASB) has delegated authority from the XRB Board to develop or adopt, and issue auditing and assurance standards.

All XRB standards are designed to give New Zealanders trust and confidence in the financial reporting of our organisations, across the profit, public and not-for profit sectors.

# Introduction

Assurance engagements give stakeholders' confidence in the credibility of an organisation's information. The most commonly used and best-known assurance engagement is an audit of financial statements, but there are also many other options available. This document provides funding organisations with an overview of the different assurance options and how to choose the right one.

Some not-for-profit (NFP) organisations are required by law to have their financial statements audited or reviewed, but not all. In determining which organisations must have assurance the Government has considered the needs of users of the organisations financial reports, and whether the benefits outweigh the costs.



Funding organisations include any organisation that provides funding for the not-for-profit sector, such as philanthropic funding organisations, city councils and government departments.

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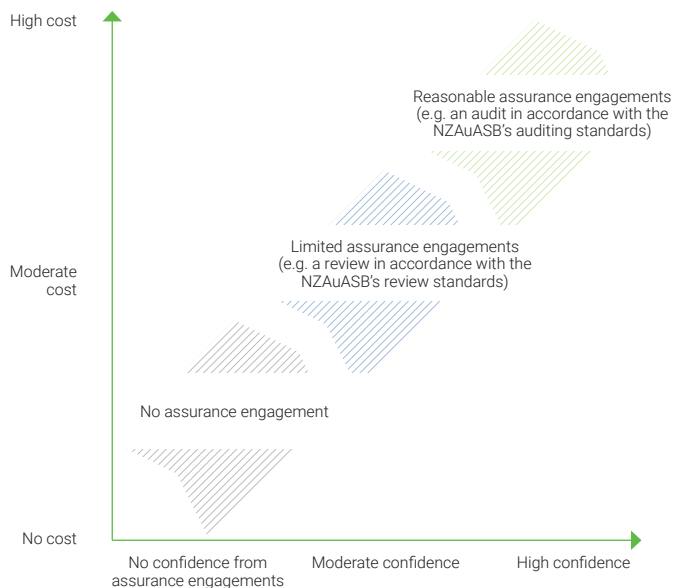


Assurance engagements are only one link in the chain involved in the provision of high quality financial reporting. High quality information is best achieved when all participants in the financial reporting chain play their roles as best they can. See page 9 for more information.

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All assurance engagements that are required by law (statutory assurance engagements) must be carried out by an accredited accountant and to standards issued by the NZAuASB. See page 10 for more information.



## Requesting assurance from a NFP

Funding organisations need to have confidence in the credibility of the information supplied by NFP organisations when applying for funding. Many funding organisations request audited financial statements from NFPs, including those smaller organisations which do not have a statutory requirement to have their financial statements audited or reviewed. This can be an added financial burden on that organisation, which may not be necessary. It is important that the funding organisation has a clear understanding of why it is requesting assurance, and is confident that the type of assurance it is requesting provides the best solution to funders assurance needs.

The first thing you need to consider is whether an audit or review of the NFP's financial statements will provide the information you need. The following pages provide an overview of what you can expect from an audit and a review of an NFP's financial statements. We also provide some information about other types of assurance engagements which might be more appropriate.

There are also non-assurance services available which can address funding organisations specific concerns, such as agreed-upon procedures. However, non-assurance services over the financial statements are not included in the NZAuASB's mandate, more information is available from Chartered Accountants Australia and New Zealand ([www.charteredaccountantsanz.com](http://www.charteredaccountantsanz.com)).

# What is an audit?



## What is an audit engagement?

An audit engagement is where an independent auditor provides their opinion as to whether the financial statements are prepared in accordance with the applicable financial reporting framework. The purpose is to increase the confidence of users in the credibility of the financial statements.

The auditor obtains reasonable assurance (not absolute assurance) about whether the financial statements, as a whole, are free from material misstatement due to either fraud or error. The auditor examines, on a test basis, evidence supporting the amounts and disclosures in the organisation's financial statements, assessing the accounting principles used and significant estimates made by the organisation. The auditor will also evaluate the overall financial statement presentation. The independent auditor's opinion is expressed as a positive opinion statement. For example: "In our opinion, the financial statements present fairly, in all material respects, ..."

## What can be reasonably expected of an audit engagement?

An audit is not an absolute guarantee. The auditor cannot practically test all or even a majority of the transactions recorded by the organisation. This would simply take too long and be too expensive. Instead, the audit is designed to provide a level of assurance that is reasonable but not absolute.

The auditor does not provide any opinion on the efficiency or effectiveness of how the NFP has spent its resources. That assessment needs to be done by the users of the financial information. Similarly, the auditor does not necessarily verify whether funds are being used for the intended purposes.

The auditor also considers the NFP's financial controls and procedures to ensure appropriate audit procedures are designed and performed. This is not for the purpose of expressing an opinion over the effectiveness of the NFP's

internal controls. If an audit opinion expresses that financial statements are appropriately prepared (i.e. a clean audit report), it does not mean that the NFP has implemented effective controls and procedures over its operations and financial affairs.

While an auditor is required by the NZAuASB's auditing standards to consider fraud, an audit of financial statements is not a fraud detection engagement (which is usually referred to as forensic accounting). A clean audit report does not guarantee "no fraud".

### **Which NFPs must have their financial statements audited?**

- All registered charities with annual expenditure over \$1m
- Not-for-profit friendly societies with annual expenditure over \$30m
- Not-for-profit friendly societies with annual expenditure less than \$30m (unless they opt out of preparing financial statements, or operating payments are less than \$125,000 and the entity's rules don't require an audit)
- Community trusts under the Community Trust Act 1999
- Corporate societies under the Gambling Act 2003



# What is a review?



## What is a review engagement?

A review engagement is less thorough and detailed than an audit. The reviewer provides a conclusion as to whether anything has come to their attention to indicate that the financial statements have not been prepared in all material respects, in accordance with the applicable financial reporting framework. The purpose of a review is still to provide the users of the financial statements with confidence.

The reviewer obtains a meaningful level of assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. The reviewer's conclusion is expressed as a negative opinion statement. For example: "Based on the work performed, as described in the report, nothing has come to our attention ..."

## What can be reasonably expected of a review?

A review provides a lower level of assurance than an audit. Therefore, there is a greater risk that material misstatements will not be identified in a review as compared to an audit.

The procedures performed for a review are substantially less than those performed for an audit. They mainly consist of enquiry and analytical procedures, after obtaining an understanding of where material misstatements are likely to arise in the financial statements.

As reviews generally require less work to complete, they may be less costly and time consuming compared to an audit.

## Which NFPs require a review of their financial statements?

All registered charities with annual expenditure less than \$1m but more than \$500k are required to have a review of their financial statements at a minimum. These entities can opt up to an audit if they choose to do so.

# What are the alternatives?



There are other assurance options which may provide more meaningful information for funders. The NZAuASB provides a full suite of standards which are flexible and scalable, and can be applied to a wider range of matters other than audits or reviews of financial information.

These assurance engagements can cover areas such as:

- the controls in place at an NFP to deter and/or detect the misappropriation of the NFP's resources
- whether an NFP has spent its funding in accordance with the criteria set by the funding organisation
- whether an NFP's policies, procedures and management processes are appropriate to meet its objectives and desired outcomes
- whether an NFP has been effective and efficient in delivering a funded plan/program/activity.

These assurance standards can be customised by a suitably qualified assurance practitioner to apply to a wide range of matters. They can be delivered to provide either reasonable assurance (high level of assurance but not absolute, with a positively expressed opinion similar to an audit) or limited assurance (a meaningful level of assurance but less than reasonable assurance, with a negatively expressed conclusion, similar to a review).

# When is an assurance engagement most likely to be effective?

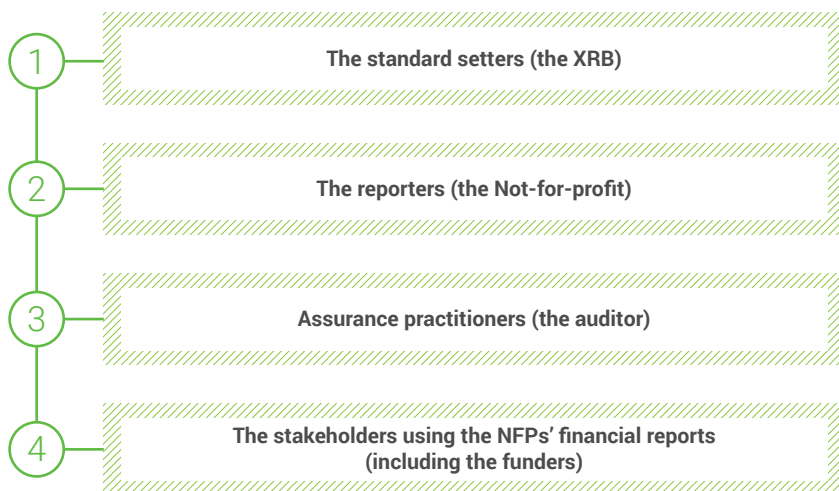


## A chain is only as strong as its weakest link.

The aim of any assurance engagement is to provide confidence in NFPs information. This is best achieved in an environment where all participants:

- understand their responsibilities and fulfill them as best as they can, and
- assist other key participants in undertaking their role.

High quality financial reporting involves a chain of participants that begins with the organisation which sets the standards and ends with the users of the financial report. Audit or review engagements are important links in this chain but these are unlikely to be effective if other links are broken. An overview of the financial reporting chain is provided below.



1

## **The standard setters (the XRB)**

The External Reporting Board (XRB) is the independent Crown Entity responsible for accounting and assurance standards in New Zealand.

The XRB delegates responsibility for standards to its two key boards:

- the New Zealand Accounting Standards Board (NZASB), responsible for accounting standards; and
- the New Zealand Auditing and Assurance Standards Board (NZAuASB), responsible for auditing and assurance standards.

Standards for the not-for-profit sector have been developed to ensure accountability to funders and members and to instill confidence in the organisation and sector, while still being cost effective to use.

The XRB website ([www.xrb.govt.nz](http://www.xrb.govt.nz)) provides details of which accounting standards an organisation needs to apply.

2

## **The reporters (the Not-for-profit)**

The group of individuals entrusted with the governance of the NFP play a vital role. This group is often referred to as the board, trustees, or management committee. They are responsible for preparing the NFP's financial reports.

This governance group is responsible for ensuring that the NFP's financial reports are prepared in accordance with the right financial reporting standards.

They must implement internal controls to ensure that the NFP's financial affairs are prudently conducted (e.g. risk of fraud is appropriately managed) and that all the relevant financial information is captured in the NFP's accounting records and summarised in its financial reports to external stakeholders.

3

### Assurance practitioners (the auditor)

If an NFP is required by law to have its financial statements audited or reviewed, the statutory audit or review must be undertaken:

- to the standards issued by the NZAuASB; and
- by an appropriately accredited accountant.

There are two types assurance practitioners that can undertake statutory audit or review engagements:

- **Licensed auditors:** This is the highest level of statutory recognition for assurance practitioners in New Zealand. A licensed auditor can audit or review (in accordance with the NZAuASB assurance standards) the financial statements of Financial Market Conduct (FMC) reporting entities.
- **Qualified auditor:** Chartered Accountants Australia and New Zealand (CAANZ) and CPA Australia members who are recognised as qualified auditors can carry out an audit or review in accordance with the NZAuASB assurance standards.

Other NFPs with no statutory requirement for an audit or a review may opt to require an audit or review of their financial statements in accordance with the NZAuASB standards.

4

### The stakeholders using the NFPs' financial reports (including the funders)

There are a range of stakeholders who use the financial reports developed by NFPs, this includes funding organisations.

Users of financial reports need to have a reasonable level of financial knowledge, and have the time to engage properly with the report.

Users need to understand the key elements included within the statements and the relationships between those elements.

They also need to have a reasonable understanding of business and economic activities relevant to the NFP, to ensure they have the context to be able to interpret NFP's financial information.



The NZAuASB is a committee of the XRB established under Schedule 5 of the Crown Entities Act.

The NZAuASB has delegated authority from the XRB to develop, or adopt and issue auditing and assurance standards for assurance practitioners (including professional and ethical standards).

#### **NZAuASB standards**

Assurance standards issued by the NZAuASB are provided across three key categories:

- 1. Professional and ethical standards** – these standards specify the ethical principles and quality control requirements that all assurance practitioners must adhere to.
- 2. Standards for assurance engagements over financial statements** – these are the two most common assurance engagements – audit and review of the financial statements. These have been developed to provide greater confidence in the information included in the financial statements.
- 3. Standards for assurance engagements other than audits and reviews** – these standards can be customised by an expert assurance practitioner to apply to a wide range of matters other than annual financial reports.

[www.xrb.govt.co.nz](http://www.xrb.govt.co.nz)



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**      **5(b)iv**  
**Meeting Date:**            18 April 2018  
**Subject:**                  Auditor Reporting  
**Date Prepared:**          10 April 2018

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☐ **Action Required**

☒ **For Information Purposes Only**

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## Agenda Item Objectives

To provide an update on Auditor Reporting strategic project.

## Background

The objective of this project is to:

### *Shorter term (2017-18)*

- Support implementation and understand the experience of key stakeholders in order to issue guidance and communications as appropriate.

### *Longer term (2018-2020)*

- Understand the experience in years 2 – 4 in order to:
  - a) continue to support implementation and issue guidance and other communications as appropriate to support consistency of application.
  - b) consider if it is beneficial and appropriate to issue other communications based on the Australian experience.
- Preparation for Post implementation review:
  - a) evaluate areas of the standards commonly misunderstood or misapplied. This will enable us to identify areas of the standards that may require redrafting.
  - b) understand the cost vs fees implications to practitioners, and the perceived value to users. This will enable us to evaluate the impact of the changes to the capital markets and whether efficient economic value is achieved. We can use this to inform our decision on further expansion of application (for

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

example, communication of key audit matters for public interest entities), and/or re-balancing any non-value adding activities to market participants.

- c) assess whether the intended benefits of the new auditor's report have been achieved.
- d) understand our stakeholders' views on any proposed future amendments to auditor reporting standards identified and proposed from our evidence gathering activities and outreach.
- e) actively influence the IAASB in the future direction of international auditor reporting standards.

### **Update since last meeting**

- Other information
  - a. based on feedback from auditors and observations from reviewing a sample of auditor's reports, the following article was authored by Anne Waters, AUASB Senior Project Manager, and published as part of the CA ANZ's *Perspective* series, [\*Improving transparency of the auditor's work performed on 'Other Information'\*](#). This article discusses practical issues faced by practitioners and tips to assist. Refer to Appendix 1.
  - b. To be discussed at the NSS meeting
    - i. What are they observing in their jurisdiction?
    - ii. Is the Other Information paragraph improving the communicative value of the AR?
  - c. Feedback to be received through the ACC and investor survey
    - i. Does the Other Information paragraph provide clarity over the work performed by the auditor?
- Working with a number of academics on in progress relevant research which will assist us with the post implementation review.
- Meeting with the firms on their experience and observations including second year experience.
- Feedback from Audit Committees via the FRC Audit Quality survey.
  - a. impact on effectiveness of communication / interaction with the auditor?
  - b. impact on perception of quality of the audit?
  - c. impact on the quality of disclosures in the FR?
- Feedback from investors via the FRC Audit Quality survey and / or interviews.
  - a. impact on their views of audit quality?
  - b. does it increase transparency about the audit and is this valuable to users?
  - c. Does it impact your confidence in the audit that was performed?

### **Material Presented**

Agenda Item

AUASB Board Meeting Summary Paper





# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** (5)(e)(i)  
**Meeting Date:** 17-18 April  
**Subject:** AUASB Glossary (2018)  
**Date Prepared:** 27 March 2018

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☒ **Action Required**

☐ **For Information Purposes Only**

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## Agenda Item Objectives

1. The objectives of this project are to:
  - (a) update the AUASB Glossary; and
  - (b) identify and appropriately rectify inconsistent definitions between standards (if any).

## Background

2. Other than auditing and assurance standards, the AUASB has the authority under section 227B of the *Australian Securities and Investments Commission Act 2001* to make other pronouncements such as guidance statements and framework pronouncements. The AUASB Glossary is part of the suite of framework pronouncement made by the Board.
3. The current AUASB Glossary was prepared and approved for publication in 2009, the IAASB Glossary was last updated in December 2016. Since the AUASB Glossary (2009) was published, a number of standards have been issued, reissued or amended. The changes in those standards have included new or amended definitions.
4. The approach proposed to update the glossary in this project is to:
  - (a) prepare a document comparing the AUASB Glossary to the most recent IAASB Glossary identifying any amended or new definitions;
  - (b) compare the document to the AUASB standards identifying in which standards definitions appeared, as the IAASB Glossary does not identify particular standards; and
  - (c) appropriately rectify inconsistent definitions between standards if any are identified during the work performed (Note: a term may have more than one definition and is notated in the AUASB Glossary with bracketed words indicating the relevant standard it should be read in the context of).

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

## **Matters to Consider**

### ***Part A – General***

5. The Board is asked to provide feedback on the AUASB Technical Group’s proposed approach (Refer **para 4**) to update the AUASB Glossary and address the inconsistencies (if any) between standards. AUASB members are asked to consider and approve the Draft AUASB Glossary (2018) project plan prepared (Agenda item (5) (e) (ii)).
6. For inconsistencies identified, the AUASB Technical Group will determine whether the term:
  - (a) has more than one definition and both definitions be included in the glossary and appropriate notated; or
  - (b) should only have one definition and an amendment to a standard or standards is required.

Where a definition should be amended the AUASB Technical Group intends to bring an amending standard to the June 2018 Board meeting for approval. However, this will be impacted by the extent of changes.

7. The AUASB Glossary (2018) will be published close to the expected dates for the reissuing of ISA 540 and ISA 315 by the IAASB. The reissued ISA 540 and ISA 315 will include new or amended definitions. The AUASB Technical Group proposes to issue the updated glossary in June and will amend the glossary for the terms in ISA 540 and ISA 315 upon the AUASB issuing them as ASAs.

### ***Part B – NZAuASB***

N/A

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

N/A

The proposed changes conform with IAASB modification guidelines for NSS? N/A

## **AUASB Technical Group Recommendations**

8. Support the proposed approach of preparing AUASB Glossary (2018).

## **Material Presented**

Agenda Item (5)(e)(i)	AUASB Board Meeting Summary Paper
Agenda Item (5)(e)(ii)	AUASB Project Plan – AUASB Glossary(2018)

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## **Action Required**

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Approve the project plan – AUASB Glossary(2018)	Project plan approval	AUASB	18 April	Pending

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# Project Plan

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<b>Project Title:</b>	AUASB Glossary (2018)
<b>Project ID:</b>	XXX
<b>Project Objective(s):</b>	Update the AUASB Glossary and identify and appropriately rectify inconsistent definitions between standards (if any).
<b>Priority:</b>	Medium
<b>Issue/Reason:</b>	The current AUASB Glossary was prepared and approved for publication in 2009. Since the publication, a number of standards have been issued, reissued or amended. The changes in those standards have included new or amended definitions.
<b>Date Prepared:</b>	27 March 2018
<b>Date To Be Approved:</b>	18 April 2018
<b>Date Updated: (if applicable)</b>	N/A

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## Project Objectives

1. The objectives of this project are to:
  - (a) update the AUASB Glossary; and
  - (b) identify and appropriately rectify inconsistent definitions between standards.

## Stakeholders

2. AUASB staff; Users of AUASB standards; Academia; Other professional bodies

## Background

3. Other than standards, the AUASB has the authority under section 227B of the *Australian Securities and Investments Commission Act 2001* to make other pronouncements such as guidance statements and framework pronouncements. The AUASB Glossary is part of the suite of framework pronouncement made by the Board.
4. The current AUASB Glossary was prepared and approved for publication in 2009, the IAASB Glossary was last updated in December 2016. Since the AUASB Glossary (2009) was published, a number of standards have been issued, reissued or amended. The changes in those standards have included new or amended definitions.
5. The approach proposed to update the glossary in this project is to:
  - (a) prepare a document comparing the AUASB Glossary to the most recent IAASB Glossary identifying any amended or new definitions;

- (b) compare the document to the AUASB standards identifying in which standards definitions appeared, as the IAASB Glossary does not identify particular standards; and
- (c) appropriately rectify inconsistent definitions between standards if any are identified during the work performed (Note: a term may have more than one definition and is notated in the AUASB Glossary with bracketed words indicating the relevant standard it should be read in the context of).

## **Scope**

- 6. Framework pronouncement AUASB glossary and any amending standards required.

## **Risks/Issues**

- 7. Relatively low risk because:
  - (a) the glossary draws upon definitions already in the Standards; and
  - (b) no significant decisions or judgements need to be made regarding definitions.
- 8. Issue being that the AUASB Glossary (2018) will be published close to the expected dates for the reissuing of ISA 540 and ISA 315 by the IAASB. The reissued ISA 540 and ISA 315 will include new or amended definitions. The AUASB Technical Group proposes to issue the updated glossary in June and will amend the glossary for the terms in ISA 540 and ISA 315 upon the AUASB issuing them as ASAs.

## **Action Plan**

- 9. Board members:
  - (a) Approval of proposed project plan (Agenda item (5) (e) (ii)) to update AUASB Glossary (2009).
  - (b) Approval of proposed AUASB Glossary (2018).
  - (c) If required, approval of amended standards.
- 10. Technical staff:
  - (a) Document inconsistencies between AUASB Glossary , IAASB glossary
  - (b) Refer to the AUASB standards, identifying and recording in which standards definitions appeared.
  - (c) Prepare AUASB Glossary (2018).
  - (d) Present AUASB Glossary (2018) to the board.
  - (e) If required, prepare and present subsequent documents addressing the inconsistencies between standards.

## **Resources / Research**

- 11. IAASB Glossary (December 2016)
- 12. AUASB Standards

## Timetable

Date	Description
April	<ul style="list-style-type: none"><li>• Discuss with the technical team about the best approach to update AUASB Glossary (2009).</li><li>• Document inconsistencies between AUASB Glossary and IAASB glossary.</li><li>• Present the project plan to the board for approval.</li><li>• Compare to the AUASB standards identifying and recording in which standards definitions appeared.</li></ul>
May	<ul style="list-style-type: none"><li>• Communicate the inconsistencies (if any) to the technical team for feedback.</li><li>• Prepare draft AUASB Glossary (2018).</li><li>• Present to the technical team for amendment suggestions.</li><li>• Edit and amend the draft.</li><li>• Mail-out to the board</li></ul>
June	<ul style="list-style-type: none"><li>• Present the AUASB Glossary (2018) to the board for feedback and approval</li><li>• Discuss with the technical team and amend the draft based on board's feedback</li><li>• Publish the AUASB Glossary (2018) document</li><li>• If required, start preparing subsequent documents addressing the inconsistencies between standards.</li></ul>