



Subject: Agenda for the 92nd meeting of the AUASB
Venue: Executive Boardroom
Tertiary Education Quality and Standards Agency (TEQSA) offices
Tower Level 14, 530 Collins Street Melbourne
Time: Tuesday, 30 May 2017 from 8.30 a.m. to 5.00 p.m.

* Agenda item 2 and 9 will be a closed session.

Time	Agenda Item No.
8.30am.	1. Preliminary Session
8.50am	2. AUASB Strategy*
10.15am	Break(b)
10.30am	2. AUASB Strategy* continued
12.15	3. Auditor Responsibility Statements
12.45pm	Lunch
1.30pm	4. ASA 250 Approval
2.30pm	5. Auditor Reporting
3.15pm	Break
3.30pm	6. ISA 540 Update
4.00pm	7. Other Business
4..30pm	8. Review*
5:00p.m.	Close



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **3**

Meeting Date: 30 May 2017

Subject: Auditor's Responsibilities

Date Prepared: 17 May 2017

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To approve the final versions of the updated Auditor's Responsibilities Statements, incorporating comments received from the AUASB at the 26 April 2017 AUASB meeting.

Background

1. ASA 700 *Forming an Opinion and Reporting on a Financial Report* (revised December 2015) requires an auditor to include, in the auditor's report, a description of the auditor's responsibilities. The standard permits an auditor to make reference in the auditor's report, to a description of the auditor's responsibilities on the AUASB website.
2. When an auditor chooses to adopt this option, paragraph Aus A57.1 of the standard guides auditors to refer to the AUASB's homepage: <http://www.auasb.gov.au/Home.aspx>.
3. The standard also indicates via a footnote to A57:

"The auditor's report should refer to the specific webpage that applies to the auditor's responsibilities applicable in the context of the engagement."

Users of the auditor's report will therefore be directed to the auditor responsibilities description that is applicable to them.
4. Following discussions at a number of AUASB meetings the AUASB approved via an out of session vote the issue of seven auditor responsibility statements in July 2016.
5. The AUASB approved an updated approach in relation to the use of generic terms for "entity" and "those charged with governance" at the 1 March 2017 AUASB meeting.
6. The AUASB Technical Group presented updated versions of the statements at the April 2017 AUASB meeting, with the AUASB recommending a number of changes in relation to the use of the words "entity" and "group", as well as the inclusion of content in the statements for non-listed entities where KAMs are not required to be reported.

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.

AUASB Technical Group Update

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

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

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

2. The updated statements will be located at a more user friendly URL:

http://www.auasb.gov.au/auditors_responsibilities/

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

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

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

Part B – NZAuASB

1. N/A

Part C – “Compelling Reasons” Assessment

1. NA

The proposed changes conform to IAASB modification guidelines for NSS?

Y ☒ N ☐

AUASB Technical Group Recommendation

The AUASB Technical Group recommends that the AUASB:

- Approve the Auditor's Responsibilities Statements (agenda items 3.1 – 3.10).

AUASB Actions

- Review and, if agreed, approve the Auditor's Responsibilities Statements (agenda items 3.1 – 3.10).

Material Presented

Agenda Item 3.0	AUASB Board Meeting Summary Paper
Agenda Item 3.1	Auditor's Responsibilities Statement – Listed / ASA 600 Applies
Agenda Item 3.2	Auditor's Responsibilities Statement – Listed / ASA 600 Does not apply
Agenda Item 3.3	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Applies
Agenda Item 3.4	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Does not apply
Agenda Item 3.5	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Applies / KAMs
Agenda Item 3.6	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Does not apply / KAMs
Agenda Item 3.7	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Applies / Compliance Framework
Agenda Item 3.8	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Does not apply / Compliance Framework
Agenda Item 3.9	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Applies / KAMs / Compliance Framework
Agenda Item 3.10	Auditor's Responsibilities Statement – Non-Listed / ASA 600 Does not apply / KAMs / Compliance Framework

Appendix 1: Auditor's Responsibilities content on AUASB website

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

Introduction

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

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

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

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

* The auditor's report should refer to the specific webpage that applies to the auditor's responsibilities applicable in the context of the engagement.

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

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

Authorisation

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

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Note: Earlier versions of the auditor's responsibilities statements remain valid and can be accessed via the following [link](#).



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

Listed/ASA 600 applies (Fair Presentation Framework)

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

- Identifies and assesses the risks of material misstatement of the financial report, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's² internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by those charged with governance.³
- Concludes on the appropriateness of those charged with governance's³ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's² ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Entity² to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the business activities within the Entity² to express an opinion on the financial report. The auditor is responsible for the direction, supervision and performance of the Group audit.⁴ The auditor remains solely responsible for the audit opinion.

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

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

From the matters communicated with those charged with governance,³ the auditor determines those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

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

⁴ "Group audit" refers to an audit conducted in accordance with the requirements of ASA 600.



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- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's² internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by those charged with governance.³
- Concludes on the appropriateness of those charged with governance's³ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's² ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Entity² to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial report, including the disclosures made by those charged with governance.³
- Obtains sufficient appropriate audit evidence regarding the financial information of the business activities within the Entity² to express an opinion on the financial report. The auditor is responsible for the direction, supervision and performance of the Group audit.⁴ The auditor remains solely responsible for the audit opinion.

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

From the matters communicated with those charged with governance,³ the auditor determines those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

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

⁴ "Group audit" refers to an audit conducted in accordance with the requirements of ASA 600.



AUDITOR'S RESPONSIBILITIES FORMING PART OF THE AUDITOR'S REPORT Non-listed/ASA 600 does not apply/Key Audit Matters Reported (Compliance Framework)

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

- Identifies and assesses the risks of material misstatement of the financial report, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's² internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by those charged with governance.³
- Concludes on the appropriateness of those charged with governance's³ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's² ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Entity² to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial report, including the disclosures made by those charged with governance.³

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

From the matters communicated with those charged with governance,³ the auditor determines those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

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



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 4(a)
Meeting Date: 30 May 2017
Subject: ASA 250 & ASA 2017-2
Date Prepared: 22 May 2017

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To present constituents' submissions on ED 05/16 Proposed Auditing Standard ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report* and ED 06/16 Proposed Auditing Standard ASA 2016-1 *Amendments to Australian Auditing Standards* (containing conforming amendments related to changes in the APESB Code).

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

Background

The IAASB issued the final revised ISA 250 on 5 October 2016. In summary, the following changes were made from the previous ISA 250 in order to:

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

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

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

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

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

The AUASB discussed the proposed standard at their meeting on 26 April 2017 and requested a number of editorial amendments. The AUASB requested that approval be deferred, post the APESB meeting on 19 May 2017.

The APESB approved the NOCLAR Standard (including changes to the code) at the 19 May 2017 meeting. The standard has an application date of 1 January 2018 (with early adoption permitted). The standard is expected to be released by the end of May 2017.

Due to the extensive use of references to the changes in the APESB Code, the final issuance of ASA 250 and ASA 2017-2, the application date will need to be no earlier the 1 January 2018 date approved by the APESB.

Matters to Consider

Part A – General

1. Key comments for board consideration:

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

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

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

AUASB Technical Group (ATG) Comments on Disposition

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

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

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

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

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

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

AUASB Technical Group (ATG) Comments on Disposition

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

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

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

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

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

AUASB Technical Group (ATG) Comments on Disposition

Agreed by the ATG, ASA 250 and the conforming amendments to other AUASB standards will be consistent with the final approved amendments to the APESB Code and with an operative date no earlier than the operative date of the revised APESB Code which is 1 January 2018 with early adoption permitted.

2. All other comments received and proposed disposition

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

Part B – NZAuASB

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

Due to different approaches in relation to the processing of conforming amendments, the paragraph references used in ASA 2017-2 differ to the paragraph references used in the equivalent NZ standard.

AUASB Technical Group Recommendations

The AUASB:

- To consider comments received and proposed disposition paper on ED 05/16 and ED 06/16 and recommend changes; and
- To approve the standards ASA 250 and ASA 2017-2 for issue with an application date of 1 January 2018 with early adoption permitted, subject to internal QA processes being completed and final review by the Chair.

Material Presented

Agenda Item 4(a)	AUASB Board Meeting Summary Paper
Agenda Item 4(a).1	<i>ASA 250 Consideration of Laws and Regulations in the Audit of a Financial Report</i>
Agenda Item 4(a).2	<i>ASA 2017-2 Amendments to Australian Auditing Standard</i>
Agenda Item 4(a).3	Dispositions paper of submissions received 05/16
Agenda Item 4(a).4	Dispositions paper of submissions received 06/16
Agenda Item 4(a).5	Compelling reasons test ASA 250 paragraph AUS A20.1
Agenda Item 4(a).6	Basis for conclusions ASA 250
Agenda Item 4(a).7	Basis for conclusions ASA 2017-2
Agenda Item 4(a).8	Explanatory Statement ASA 250
Agenda Item 4(a).9	Explanatory Statement ASA 2017-2

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Give clearance to issue ASA 250 and ASA 2017-2	AUASB clearance	AUASB	30 May 2017	o/s

ASA 250
(May 2017)

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

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

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

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Draft

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PREFACE

Reasons for Issuing ASA 250

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

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

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

Main Features

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

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

AUTHORITY STATEMENT

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

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

Dated: <TypeHere>

R Simnett
Chair - AUASB

Conformity with International Standards on Auditing

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

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

This Auditing Standard incorporates terminology and definitions used in Australia.

Compliance with this Auditing Standard enables compliance with ISA 250.

AUDITING STANDARD ASA 250

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

Application

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

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2018 with early adoption permitted.

Introduction

Scope of this Auditing Standard

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

Effect of Laws and Regulations

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

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

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

Responsibility of the Auditor

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

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

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

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

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

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

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

² See ASA 200, paragraphs A51–A52

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

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

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

Effective Date

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

Objectives

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

Definition

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

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

³ See ASA 200, paragraph 15

Requirements

The Auditor's Consideration of Compliance with Laws and Regulations

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

Audit Procedures When Non-Compliance Is Identified or Suspected

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

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

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

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

Communicating and Reporting Identified or Suspected Non-Compliance

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

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

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

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

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

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

⁷ See ASA 705, paragraphs 7 and 9

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

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

Documentation

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

* * *

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

Application and Other Explanatory Material

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

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

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

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

Responsibility of the Auditor

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

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

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

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

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

Considerations Specific to Public Sector Entities

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

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

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

Definition (Ref: Para. 12)

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

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

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

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

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

The Auditor's Consideration of Compliance with Laws and Regulations

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

A11. To obtain a general understanding of the legal and regulatory framework, and how the entity complies with that framework, the auditor may, for example:

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

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

A12. Certain laws and regulations are well-established, known to the entity and within the entity's industry or sector, and relevant to the entity's financial report (as described in paragraph 6(a)). They could include those that relate to, for example:

- The form and content of a financial report;
- Industry-specific financial reporting issues;
- Accounting for transactions under government contracts; or
- The accrual or recognition of expenses for income tax or superannuation costs.

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

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

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

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

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

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

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

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

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

Written Representations (Ref: Para. 17)

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

Audit Procedures When Non-Compliance Is Identified or Suspected

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

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

¹² See ASA 570, *Going Concern*.

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

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

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

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

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

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

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

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

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

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

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

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

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

Communicating and Reporting Identified or Suspected Non-Compliance

Potential Implications of Identified or Suspected Non-Compliance for the Auditor's Report
(Ref: Para. 26–28)

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

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

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

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

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

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

- A28. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:
- (a) Law, regulation or relevant ethical requirements require the auditor to report (see paragraph A29);
 - (b) The auditor has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements (see paragraph A30); or
 - (c) Law, regulation or relevant ethical requirements provide the auditor with the right to do so (see paragraph A31).
- A29. In some jurisdictions, the auditor may be required by law, regulation or relevant ethical requirements to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity. For example, in some jurisdictions, statutory requirements exist for the auditor of a financial institution to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to a supervisory authority.

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

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

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

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

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

Considerations Specific to Public Sector Entities

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

Documentation (Ref: Para. 30)

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

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

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

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

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

Draft

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

ASA 2017-2
(May 2017)

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

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

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

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PREFACE

Reasons for Issuing ASA 2017-2

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

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

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

Main Features

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

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

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

AUTHORITY STATEMENT

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

Dated: <TypeHere>

Roger Simnett
Chair - AUASB

Conformity with International Standards on Auditing

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

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

AUDITING STANDARD ASA 2017-2

Amendments to Australian Auditing Standards

Application

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

Operative Date

3. This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2018 with early adoption permitted.

Introduction

Scope of this Auditing Standard

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

Objective

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

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

Definition

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

Amendments to Auditing Standards

Amendments to ASQC 1

7. Paragraph A56 is amended to read as follows:

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

Amendments to ASA 210

8. Paragraph A26 is amended to read as follows:

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

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

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

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

Amendments to ASA 220

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

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

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

Amendments to ASA 240

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Responsibility for the Prevention and Detection of Fraud

Responsibilities of the Auditor (Ref: Para. 9)

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

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

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

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

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

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

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

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

Communications to Regulatory and Enforcement Authorities Reporting Fraud to an Appropriate Authority outside the Entity (Ref: Para. 44-43)

22. Existing paragraph A65 is amended as follows:

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

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

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

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

Amendments to ASA 260

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

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

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

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

Amendments to ASA 450

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

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

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

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

Amendments to ASA 500

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

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

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

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

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

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

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

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

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

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

Amendments to ASRE 2400

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Communication with management and those charged with governance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amendments to ASAE 3000

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

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

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

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

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

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

The practitioner shall consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the practitioner that is to be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others. (Ref: Para. A193~~492~~–A199)

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

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

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

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

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

Communication with Management and Those Charged with Governance

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

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

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

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

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

Law, regulation or relevant ethical requirements may:

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

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

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

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

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

Amendments to ASAE 3402

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

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

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

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

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

Amendments to ASAE 3410

59. Paragraph 78 is amended to read as follows:

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

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

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



AUASB Comments Received and Proposed Disposition Paper

AGENDA ITEM NO. **4(a).3**

Meeting Date: 30 May 2017

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

Date Prepared: 22 May 2017

Document Type: Exposure Draft

Document Number: ED 04/16

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

Proposed Title: *Amendments to Australian Auditing Standards*

	Page Number
EXHIBIT 1: ED 05/16 <i>Amendments to Australian Auditing Standards</i>	3

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

LISTING OF RESPONDENTS

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

ATG = AUASB Technical Group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* * *



AUASB Comments Received and Proposed Disposition Paper

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

Meeting Date: 30 May 2017

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

Date Prepared: 22May 2017

Document Type: Exposure Draft

Document Number: ED 06/16

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

Proposed Title: *Amendments to Australian Auditing Standards*

	Page Number
EXHIBIT 1: ED 06/16 <i>Amendments to Australian Auditing Standards</i>	3

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

LISTING OF RESPONDENTS

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

ATG = AUASB Technical Group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* * *



Proposed modification (3) to international standard ISA 250

Proposed modification

Include Aus A20.1:

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

Rationale for the proposed modification

The international standard is not consistent with Australian regulatory arrangements.

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

OR

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

NA

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

Compelling reason criteria as per agreed Principles of Convergence

Consideration whether the proposed modification meets the criteria

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

Yes.

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

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

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

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

Compelling reason criteria as per agreed Principles of Convergence

Consideration whether the proposed modification meets the criteria

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

NA

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

NA



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

May 2017

Basis for Conclusions

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

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Basis for Conclusions

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

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

No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

Draft

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Draft

BASIS FOR CONCLUSIONS

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

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

Background

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

AUASB

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

Public Exposure

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

Proposed Amendments to the ASAs on Public Exposure in Australia

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

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

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

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

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

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

AUASB Drafting Conventions

9. The AUASB makes format and other editorial changes from the ISAs, such as spelling and terminology changes, to accord with Australian legislative requirements, particularly those relating to legislative instruments.

Other General Changes

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

Major Issues raised by Respondents on Exposure

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

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

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

AUASB Technical Group (ATG) Comments on Disposition

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

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

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

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

Refer paper attached to agenda item 4(a).5 for the compelling reason test for paragraph A20.1.

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

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

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

AUASB Technical Group (ATG) Comments on Disposition

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

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

13. CPA – submission in relation to ED 05/16 and 06/16

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

The revisions to ASA 250 and conforming amendments to other AUASB Standards are consistent with the final approved amendments to the Code; and

The operative date of revised ASA 250 and conforming amendments to other AUASB Standards is no earlier and preferably the same as the operative date of the revised Code.

AUASB Technical Group (ATG) Comments on Disposition

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

Conclusion

The AUASB voted to approve and issue ASA 250 on 30 May 2017 (TBC)

* * *

May 2017

Basis for Conclusions ***ASA 2017-2 Amendments to Australian*** ***Auditing Standards***

Draft

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Basis for Conclusions

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

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DRAFT

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Basis for Conclusions ASA 2017-2 *Amendments to Australian Auditing Standards* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 2017-2.

No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

Draft

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Draft

BASIS FOR CONCLUSIONS

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

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, ASA 2017-2 *Amendments to Australian Auditing Standards*, and is not a substitute for reading the Standard.

Background

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

AUASB

3. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's (FRC) *Strategic Direction*, the AUASB's policy is to adopt the IAASB's ISAs, unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so.
4. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB).
5. The AUASB's principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB's website:
http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB-NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf
6. The AUASB has decided to adopt the revised ISA 800, into the Australian Auditing Standards that are made under section 336 of the *Corporations Act 2001* (the Act). Prior to implementation, the AUASB is required to consult with stakeholders and accordingly has issued Exposure Drafts **ED 06/16** for public exposure and comment. All comments received from stakeholders are considered by the AUASB prior to finalisation of the revised standard.

Public Exposure

7. The revised Australian standard, including the amendments described below, were published for public comment in ED 06/16: Proposed Auditing Standard ASA 2016-1 *Amendments to Australian Auditing Standards* issued on 23 December 2016 and closed on 15 March 2017.

Proposed Amendments to the ASAs on Public Exposure in Australia

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

AUASB Drafting Conventions

9. The AUASB makes format and other editorial changes from the ISAs, such as spelling and terminology changes, to accord with Australian legislative requirements, particularly those relating to legislative instruments.

Other General Changes

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

Major Issues raised by Respondents on Exposure

There were no major issues raised by respondents on Exposure.

Conclusion

The AUASB voted to approve and issue ASA 2017-2 on *30 May 2017 (TBC)*

* * *

Draft

ASA 250
(May 2017)

Explanatory Statement

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

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

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Reasons for Issuing Auditing Standard ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report*

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

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

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

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

The purpose of the Auditing Standard represents the Australian equivalent of revised ISA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report* and will replace the current ASA 250 issued by the AUASB in October 2009 (as amended).

Main Features

The revision of ASA 250 reflects changes developed by the International Auditing and Assurance Standards Board as a result of changes to the IESBA Code

Operative Date

ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* is operative for financial reporting periods ending on or after 15 December 2017.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 05/16 Proposed Auditing Standard ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report* was issued in December 2016 with a 90 day comment period.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulatory Impact Statement

A Regulatory Impact Statement (RIA) will be prepared in connection with the preparation of ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report* Considerations. The RIA is expected to be cleared by the Office of Best Practice Regulation (OBPR).

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Auditing Standard ASA250 Consideration of Laws and Regulations in the Audit of a Financial Report**

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

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

Purpose of Auditing Standard ASA 250

The purpose of ASA 250 is to conform with the equivalent revised international standard on auditing, ISA 250; and to replace the pre-existing auditing standard.

Main Features

The revision of ASA 250 reflects recent enhancements to auditor reporting developed by the International Auditing and Assurance Standards Board.

Human Rights Implications

The Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.

ASA 2017-2
(May 2017)

Explanatory Statement

ASA 2017-2 Amendments to Australian Auditing Standards

Issued by the Auditing and Assurance Standards Board



Australian Government

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Reasons for Issuing Auditing Standard ASA 2017-2

The AUASB issues Auditing Standard ASA 2015-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

Purpose of Auditing Standard ASA 2017-2 Amendments to Australian Auditing Standards

The purpose of the Auditing Standard is to make amendments to the following Auditing Standards:

Main Features

This Auditing Standard makes amendments to the following Auditing Standards:

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

Operative Date

ASA 2017-2 *Amendments to Australian Auditing Standards* is operative for financial reporting periods ending on or after 15 December 2017.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard.

Exposure Draft ED 2016-1 *Amendments to Australian Auditing Standards* was issued on 23 December 2016 with a 90 day comment period.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulatory Impact Statement

A Regulatory Impact Statement (RIA) will be prepared in connection with the preparation of ASA 2017-2 *Amendments to Australian Auditing Standards*. The RIA is expected to be cleared by the Office of Best Practice Regulation (OBPR).

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Auditing Standard ASA 2017- 2 Amendments to Australian Auditing Standards**

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

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

Purpose of Auditing Standard ASA 2017-2

The purpose of ASA 2017-2 is to make amendments to various Australian Auditing Standards.

Main Features

ASA 2017-2 makes amendments to various Australian Auditing Standards as a result of conforming amendments issued by the International Auditing and Assurance Standards Board in respect of changes to the IESBA Code in relation to compliance with laws and regulations.

Human Rights Implications

The Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.



Australian Government

Auditing and Assurance
Standards Board

AUASB Bulletin

Communicating Key Audit Matters for Stapled Security Groups

May 2017

Introduction

This publication aims to communicate the matters auditors need to consider when deliberating on how Key Audit Matters (KAMs) should be identified and communicated in the auditor's report for:

- a stapled security group
- individual entities within a stapled security group.

How should stapled security groups communicate KAMs?

ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* requires KAMs be communicated for entities which:

- prepare general purpose financial reports; and
- are listed entities.

The AUASB has considered how KAMs are communicated for stapled security groups, with different views on this issue have been expressed by AUASB members and constituents.

Consequently the AUASB has (to date) been unable to reach consensus on what changes, if any, are required to auditing standards or what additional guidance may be necessary to address this issue.

This *AUASB Bulletin* has been produced to assist auditors and assurance practitioners address this issue under existing pronouncements. It does not constitute an authoritative pronouncement of the AUASB, nor does it amend or override the Australian Standards on Auditing (ASAs).

This publication does not intend to be exhaustive and reading this publication is not a substitute for reading the ASAs.

Background

Stapled security groups are:

- a group of entities which are stapled issuers
- other entities controlled by the stapled issuers.

A stapled issuer is an entity which:

- has issued equity instruments that are stapled to the equity instrument of another legal entity or entities
- forms and is quoted as a single saleable security which cannot be traded separately.

Each stapled issuer, and the stapled group is required to prepare and lodge audited general purpose financial reports. These financial reports can be separate or may be presented in adjacent columns within the one report as allowed by ASIC Class Order 2015/838.

If each issuer is considered to be a listed entity, ASA 701 requires the auditor's report to include communication of KAMs.

Are stapled issuers 'listed' entities?

A 'listed' entity is defined in the Auditing Standards as 'an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body'¹.

There is only one quotation which is the stapled group. While the public can see only one listing on the ASX official list however, each stapled issuer is admitted to the official list to enable them to be stapled and traded. Accordingly, there may be a view that stapled issuers meet the Auditing Standard's definition of 'listed'.

There is an alternate view that KAMs should not be communicated and are not meaningful for the stapled issuer because the stapled group is, in substance, the listed entity as this is the entity that is traded; individual stapled issuers cannot be traded separately.

At its meeting on 29 November 2016, the AUASB approved the issuance of a exposure draft 07-16 proposing to amend the scope paragraph of ASA 701 to clarify that KAMs are required to be communicated at the stapled group level and that auditors use professional judgement when deciding whether to communicate KAMs specifically for the general purpose financial report of the separate stapled issuer.

The purpose of this exposure draft was to seek input from stakeholders on this matter.

Summary of AUASB deliberations on this issue

At the time of this publication, following feedback from the exposure draft and continued deliberations and consultation with stakeholders, the AUASB did not obtain the required number of member votes to amend ASA 701 and to scope out stapled issuers from the application of ASA 701.

In its deliberations the AUASB considered auditor's reports of stapled security groups and individual entities within a stapled security group released during the recent December 2016 reporting season. It noted that KAMs had been communicated in different ways for stapled security groups by either including KAMs for:

- the stapled security group as a whole

¹ ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards.

- each individual entity within the stapled security group
- both the stapled security group as a whole and for individual entities within the stapled security group.

Guidance for auditors

Based on the scope, requirements and application guidance contained within ASA 701, when communicating KAMs for stapled issuers the auditor should consider the following matters:

- KAMs are required to be identified and communicated in the auditor's report of general purpose financial reports of all listed entities.
- If the stapled issuer and the stapled group financial reports are presented together as allowed by ASIC Class Order 2015/838, the KAM section in the auditor's report details which entity each KAM relates to.
- Whether the communication of KAMs for stapled issuers may be misleading or confusing to users.
- A KAM may be relevant to both the stapled issuer, and the stapled group. For example an investment property in the stapled issuer may be treated as property plant and equipment in the stapled group. In this scenario the KAM description includes how the matter was addressed in each audit.
- Where the auditor has determined that it is appropriate to communicate a KAM for a stapled issuer but in the auditor's judgement the stapled issuer has limited operations there are no KAMs, the auditor documents their rationale, and communicates in the auditor's report as follows:

Key Audit Matters

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

- ASA 701, paragraph 14 allows the auditor to not communicate matters identified as KAMs, if in the auditor's judgement, there are adverse consequences that outweigh the public interest benefit of providing greater transparency. The auditor must document their rationale for such determination.

Next steps

While currently the AUASB has concluded that ASA 701 will not be amended, AUASB technical staff will continue to engage with stakeholders and review current practice relating to this issue during the June 2017 reporting season.

This matter will be raised as an issue for consideration with other International Auditing and Assurance Standard Setters (including the International Auditing and Assurance Standards Board) and reconsidered based on feedback from stakeholders during the Enhanced Auditor Reporting Post-implementation Review Project, currently scheduled to commence later in the 2017/18 year.

Feedback welcome

Queries or feedback are welcomed and should be directed to enquiries@auasb.gov.au or by telephone +61 3 8080 7445.

Auditor Reporting FAQs – Release 3

1. Does the auditor's report for entities which have products quoted on the ASX Aqua Market¹ include key audit matters?

- Key Audit Matters (KAMs) are communicated in the auditor's report for audits of general purpose financial reports of listed entities.
- The definition of listed entity² is an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulation of a recognised stock exchange.
- The ASX's Aqua Market includes products such as Managed Fund Products, Exchange Traded Funds, and Structured Products and are governed by the ASX's Aqua Rules.
- These products are quoted on and marketed by the ASX and therefore meet the definition of listed entities in the Auditing Standards.
- The responsible entity of each entity with assets quoted on the Aqua Market is required to prepare general purpose financial reports.
- Therefore the auditor's report for the responsible entity includes the communication of KAMs.
- In addition these entities must comply with all Auditing Standard requirements relevant to the audit of a listed entity, such as engagement quality control review procedures.

2. What is included in the Material Uncertainty Relating to Going Concern paragraph in the auditor's report?

- If the auditor concludes that there is a material uncertainty in relation to going concern (MURGC), and there has been adequate disclosure in the financial report, this is now required to be reported as a 'MCRGC' paragraph in the auditor's report³. (ie. no longer reported as an Emphasis of Matter paragraph).
- ASA 570 paragraph 22 establishes the minimum information to be presented in the auditor's report under the MCRGC paragraph which is:
 - ◆ To draw attention to the note in the financial report which discloses the matter; and
 - ◆ State that these events or conditions indicate that a material uncertainty exists and that the auditor's opinion is not modified⁴.
- Sample wording is contained in Illustration 1 of the Appendix 2 of ASA 570.

¹ Refer to *ASX Quoting Investment products on ASX* and *Schedule 10A Aqua Products and the Aqua Trading Market* for details and rules for Aqua Products

² ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

³ ASA 570 *Going Concern*, paragraph 22

⁴ ASA 570 *Going Concern*, paragraph 22

- For a listed entity a MURGC is likely to be a KAM however the KAM section refers to the MURGC paragraph.
- Whilst the minimum information required to be included in the MURGC paragraph in the auditor's report is less than what is required if it was communicated as a KAM, the auditor may provide additional information such as the procedures they performed in forming their conclusions, in the MURGC paragraph, however there is no requirement to do so.
- If there is an event or condition which may cast significant doubt on the entity's ability to continue as a going concern, however the auditor concludes the uncertainty is not material and that management's use of the going concern assumption is appropriate (ie. a near miss), no additional disclosure or additional paragraph in the audit report is required. However this is likely to be a KAM for listed entities.

June 2017

Basis for Conclusions

ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report (Amended June 2017)

Prepared by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Basis for Conclusions

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ISSN 2201-3628

The Basis for Conclusions ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report (Amended June 2017)* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide the background and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report (Amended June 2017)*.

No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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BASIS FOR CONCLUSIONS

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

1. The Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides the background and rationale for the development and approval of the amendments to Australian Auditing Standard 701 *Communicating Key Audit Matters in the Independent Auditor's Report (Amended June 2017)* (ASA 701).

The Basis of Conclusions relates to, but does not form part of, ASA 701, and is not a substitute for reading the Standard.

Scope

2. This Basis for Conclusions applies to ASA 701.

Operative Date

3. The amended ASA 701 is operative for financial reporting periods ending on or after **15 December 2016** with immediate adoption permitted.

Background

4. The AUASB issued ASA 701 (extant) in December 2015, effective for reporting periods ending on or after 15 December 2016. Subsequent to this the AUASB received questions in relation to the application of ASA 701 and the communication of key audit matters (KAMs) to the following scenarios:
 - Auditor's reports on financial reports containing parent entity and consolidated financial statements as allowed in CO 10/654 (4 column financial reports);
 - Auditor's reports on stapled security groups and separate issuer's financial reports.
 - Condensed Interim Financial Reports prepared under AASB 134.
5. After careful consideration of these issues the AUASB issued exposure draft 07/16 Proposed Auditing Standard ASA 2016-2, to gather stakeholder feedback on proposed amendments to ASA 701 to clarify that:
 - For consolidated and parent entity financial statements, KAMs are required to be communicated for the consolidated financial report as a whole, and the auditor may elect to communicate KAMs for the parent entity.
 - For a stapled security group, KAMs are required to be communicated for the stapled group financial report as a whole, and the auditor may elect to communicate KAMs for the separate stapled issuer.
 - KAMs are not required to be communicated on audited **condensed** Interim Financial Reports prepared under AASB 134.

Major Issues raised by Stakeholders on Exposure and the AUASB's Response

6. The following summarises the major issues raised by Stakeholders on the proposed amendments included in exposure draft 07/16 Proposed Auditing Standard ASA 2016-2, and how the AUASB has addressed these.

7. When considering the feedback from respondents the AUASB focused on the principles in International Standards on Auditing 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (ISA 701) , which are that a key audit matter is required to be communicated in auditor's reports when an entity:
 - (a) Has prepared a complete set of financial statements; and
 - (b) Is considered to be a listed entity.
8. When determining how the principles detailed above apply in these scenarios the AUASB considered stakeholder feedback detailed below, consulted further with stakeholders and considered all relevant technical information.

Consolidated and parent financial reports

9. Most respondents were in favour of the proposed amendment to ASA 701 for this matter except for one respondent who raised a concern that the proposed amendments were not consistent with ISA 701.
10. The AUASB concluded that when parent entity financial statements are general purpose financial statements, prepared in accordance with the Australian Accounting Standards, and this is described as such in the basis of preparation note and the director's declaration, and the auditor is providing an opinion on the parent entity, the auditor is required to communicate KAMs specific for the parent entity in accordance with ASA 701.
11. At its meeting on 26 April 2017 the AUASB voted not to amend ASA 701 as proposed in exposure draft 07/16 Proposed Auditing Standard ASA 2016-2, and to release a FAQ on this matter.

Stapled security groups

12. Most respondents were in favour of the amendments to ASA 701 however two respondents commented that KAMs should be reported for all general purpose financial reports of listed entities, and that the proposed amendments were not consistent with ISA 701.
13. In its deliberations the AUASB discussed:
 - Each stapled issuer, and the stapled group is required to prepare and lodge audited general purpose financial reports. These financial reports can be separate or may be presented in adjacent columns within the one report as allowed by ASIC Class Order 2015/838.
 - A 'listed' entity is defined in the Auditing Standards as 'an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body'¹.
 - There is only one quotation which is the stapled group. While the public can see only one listing on the ASX official list however, each stapled issuer is admitted to the official list to enable them to be stapled and traded. Accordingly, there may be a view that stapled issuers meet the Auditing Standard's definition of 'listed'.
 - There is an alternate view that KAMs should not be communicated and are not meaningful for the stapled issuer because the stapled group is, in substance, the listed entity as this is the entity that is traded; individual stapled issuers cannot be traded separately.

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

14. Following feedback from stakeholders on the exposure draft and continued deliberations and consultation with stakeholders, the AUASB did not obtain the required number of member votes to amend ASA 701 as proposed in exposure draft 07/16 Proposed Auditing Standard ASA 2016-2.
15. While currently the AUASB has concluded that ASA 701 will not be amended, AUASB Technical Group will continue to engage with stakeholders and review current practice relating to this issue during the June 2017 reporting season.
16. In addition an AUASB Bulletin has been issued to communicate the matters auditors need to consider when deliberating on how KAMs should be identified and communicated in the auditor's report for a stapled security group, and individual entities within a stapled security group.

Condensed financial reports

17. Most respondents were in favour of amending ASA 701 for this matter however one respondent did not support this amendment as in their view, if a company elects to have an audit performed in lieu of a review, it is appropriate to for the auditor's report to include KAMs.
18. When considering this feedback the AUASB discussed that ISA 701 and ASA 701 are inconsistent as under ISA 701 KAMs are not required to be communicated in auditor's reports on condensed interim financial reports, however they are required under ASA 701.
19. This inconsistency was not identified at the time of issuing ASA 701 and the AUASB did not think it was appropriate for ASA 701 to require the communicating of KAMs in the auditor's reports on condensed interim financial reports, when this was not within the scope of ISA 701.
20. Based on this the AUASB voted to amend ASA 701 to clarify that condensed interim financial reports are not in the scope of ASA 701.
21. Note that auditors may elect to communicate KAMs in their reports on condensed interim financial reports.

Conclusion

22. In reaching its final conclusions, the AUASB considered all stakeholder feedback, including the more significant issues outlined above.
23. At its meeting on 26 April 2017 the AUASB voted to approve and issue the following revision to ASA 701.

New paragraph Aus 5.1 inserted after paragraph 5 as follows:

Key Audit Matters are not required to be communicated in auditor's reports on condensed financial reports prepared in accordance with AASB 134 *Interim Financial Reporting*.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5**

Meeting Date: 30 May 2017

Subject: Auditor Reporting FAQs – Release 3

Date Prepared: 22 May 2017

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

To consider and approve:

- a) The AUASB Bulletin - Communicating Key Audit Matters for Stapled Security Groups
- b) Auditor Reporting FAQs - Release 3
- c) Basis for Conclusions – ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

Background

- a) The AUASB Bulletin - Communicating Key Audit Matters for Stapled Security Groups

At its meeting on 26 April 2017 the AUASB agreed it was appropriate to communicate to stakeholders its deliberations on communicating key audit matters for stapled security groups via an AUASB Bulletin. The AUASB Technical Group have drafted the bulletin for the AUASB's comments and approval.

- b) Auditor Reporting FAQs - Release 3

The AUASB have requested that the AUASB Technical Group continue to prepare Auditor Reporting FAQs to assist with implementation. The following FAQs are ready for AUASB comments and approval.

1. Communicating KAMs for entities quoted on the ASX Aqua Market
2. What is included in the Material Uncertainty Relating to Going Concern paragraph in the auditor's report.

- c) Basis for Conclusions – ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

A Basis for Conclusions document is prepared when the AUASB makes decisions on substantive matters relating to the development of a standard. This Basis for Conclusions has been developed to provide the background to, and rationale for the development and approval of ASA 701 (Revised June 2017). This Basis for Conclusions includes the proposed amendments to ASA 701 included in ED 07-16 and the rationale for the conclusions reached.

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

Part B – NZAuASB

N/A

Part C – “Compelling Reasons” Assessment

NA

The proposed changes conform to IAASB modification guidelines for NSS?

Y ☒ N ☐

AUASB Technical Group Recommendation and AUASB Actions

The AUASB Technical Group recommends that the AUASB approve for issue:

- a) The AUASB Bulletin - Communicating Key Audit Matters for Stapled Security Groups
- b) Auditor Reporting FAQs - Release 3
- c) Basis for Conclusions – ASA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report*

Material Presented

Agenda Item 5.0	AUASB Board Meeting Summary Paper
Agenda Item 5(a)	The AUASB Bulletin - Communicating Key Audit Matters for Stapled Security Groups
Agenda Item 5(b)	Auditor’s Reporting FAQs – Release 3
Agenda Item 5(c)	ASA 701 Basis for Conclusions



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **6**

Meeting Date: 30 May 2017

Subject: ED ISA 540 Auditing Accounting Estimates and Related Disclosures

Date Prepared: 22 May 2017

☐ Action Required

☒ For Information Purposes Only

Agenda Item Objectives

To update the AUASB on the progress of the project feeding into the AUASB response to the IAASB ED ISA 540 *Auditing Accounting Estimates and Related Disclosures*.

Background

In April 2017, the IAASB released for comment ED ISA 540 *Auditing Accounting Estimates and Related Disclosures*. Responses for this ED are due 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.

Strategy to gather stakeholder feedback as per project plan:

- Conduct 3 roundtables (Brisbane, Melbourne and Sydney)
- Meet with Regulators
- Liaise with NZAuASB

Progress made to date:

- Brisbane Roundtable held on 8 May 2017: 15 external attendees, represented largely by: big 4, mid-tier, CPA and QAO.
- Melbourne Roundtable held on 19 May 2017: 16 external attendees represented largely by big 4, mid-tier, ACNC, CAANZ, CPA and VAGO.

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.

Key Themes arising (to date):

1. Scalability issues - not only size of audit firm, but also nature of estimates. Constituents are concerned about the capture of estimates where inherent risk (IR) is not low, but the ROMM is not high.
2. Practitioners raised concern that current wording would mean that it is rare than an estimate would be considered to be low risk. Furthermore, an estimate may likely fit into all 3 categories (complexity, judgement, estimation uncertainty) which may lead to confusion as to whether the procedures in all 3 categories needs to be done.
3. Sheer size of the standard and looseness of the application material is problematic. Application material is not viewed as helpful and is considered repetitive.
4. Discomfort around the introduction and application of the concept of low IR. Challenge applying new ISA 540 with extant ISA 315, in terms of the concept of significant risk.
5. Widening gap between practitioners and regulators in relation to estimates captured and extent of audit work.
6. Overly prescriptive approach to standard results in loss of auditor judgement and may lead to “checklist mentality” being applied. Standard seems to be heading down the path of auditor re-performance.
7. Concept of complexity could be problematic, as there is no guidance regarding relativity of complexity, that may impacted by skill of audit team and nature of industry.
8. Lack of clarity still exists where auditor’s range and/or client’s range exceeds materiality.
9. Reference to management throughout the standard, education of preparers/TCWG remains an issue.

Next Steps:

1. Sydney Roundtable 5 June 2017.
2. Liaison with NZAUASB and co-ordinate respective responses.
3. Meetings with regulators and larger firms.
4. Draft response to 18 July 2017 AUASB meeting for Board comment and feedback.

Material Presented

Agenda Item

AUASB Board Meeting Summary Paper

ASA 2017-1
(May 2017)

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

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



Australian Government

Auditing and Assurance Standards Board

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PREFACE

AUTHORITY STATEMENT

CONFORMITY WITH INTERNATIONAL STANDARDS ON AUDITING

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PREFACE

Reasons for Issuing ASA 2017-1

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

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

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

Main Features

This Auditing Standard makes amendments to the following Auditing Standards:

ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (27 October 2009)
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (1 December 2015)
ASA 701	<i>Communicating Key Audit Matters in the Independent Auditor's Report</i> (1 December 2015)
ASA 800	<i>Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i> (26 July 2016)
ASA 805	<i>Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i> (26 July 2016)

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

AUTHORITY STATEMENT

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

Dated: <TypeHere>

R Simnett
Chair - AUASB

Conformity with International Standards on Auditing

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

AUDITING STANDARD ASA 2017-1

Amendments to Australian Auditing Standards

Application

1. In relation to the amendments to ASAs 210, 700 and 701 this Auditing Standard applies to:
 - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
 - an audit of a financial report, or a complete set of financial statements, for any other purpose; and
 - to an audit of other historical financial information as appropriate.
2. In relation to the amendments to ASA 800 this Auditing Standard applies to:
 - an audit of a special purpose financial report for a financial year, or an audit or a special purpose financial report for a half-year, in accordance with the *Corporations Act 2001*;
 - an audit of a special purpose financial report, or a complete set of financial statements, for any other purpose; and
 - to an audit of other historical financial information as appropriate.
3. In relation to the amendments to ASA 810 this Auditing Standard applies to an auditor's responsibilities to report on summary financial statements that are derived from a financial report, or a complete set of financial statements, audited in accordance with Australian Auditing Standards, by the same auditor.

Operative Date

4. This Auditing Standard is operative for financial reporting periods commencing on or after 15 December 2016 with immediate adoption permitted.

Introduction

Scope of this Auditing Standard

5. This Auditing Standard makes amendments to the following Auditing Standards:
 - (a) ASA 210 *Agreeing the Terms of Audit Engagements* (27 October 2009)
 - (b) ASA 700 *Forming an Opinion and Reporting on a Financial* (1 December 2015)
 - (c) ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (1 December 2015)
 - (d) ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* (26 July 2016)
 - (e) ASA 805 *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* (26 July 2016)

Objective

6. The objective of this Auditing Standard is to make amendments principally to:
- (a) Make editorial amendments to the Auditing Standards and have no impact on the requirements of the amended Auditing Standards.
 - (b) Clarify the scope of ASA 701 in relation to condensed interim financial reports.

Definitions

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

Amendments to Auditing Standards

Amendments to ASA 210

8. Bullet point Aus (iv) is changed to Aus (d) in Appendix 1, and is amended to read as follows:

Aus ~~(iv)~~(d) [Where applicable, in respect of other information:

- (i) ~~We~~You will inform ~~you~~us of all the documents that ~~we~~you expect to issue that may comprise other information;

If the other information ~~has been~~ is to be provided prior to the auditor's report date:

[The financial report and any other information you may obtain prior to the date of your auditor's report will be consistent with one another, and the other information will not contain any material misstatements;] *or*

If the other information will not be provided prior to the auditor's report date:

[With regard to any other information that you may not obtain prior to the date of the auditor's report, that we intend to prepare and issue ~~such other information and that we~~you expect to issue it by [insert date.] and we will be provided ~~it~~ to you by [insert date.] to enable you to complete your required procedures.]]

Amendments to ASA 700

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

The auditor's report shall be dated as of the date the auditor signs that report.

10. A footnote is added to the "Auditor's Signature" line in illustrations 1A, 2A, 3 and 4 after the heading as follows:

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

Amendments to ASA 701

11. New paragraph Aus 5.1 inserted after paragraph 5 as follows:

Key Audit Matters are not required to be communicated in auditor's reports on condensed financial reports prepared in accordance with AASB 134 *Interim Financial Reporting*.

Amendments to ASA 800

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

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

Amendments to ASA 805

17. Amend numbering of current paragraph Aus 1.1 to Aus 0.1.
18. Amend numbering of current paragraph Aus 1.2 to Aus 0.2.
19. Amend numbering of current paragraph Aus 1.3 to Aus 0.3.
20. Paragraph A22 and associated footnote is deleted. The following wording is inserted:
[Deleted by the AUASB. Refer to Aus A22.1].
21. A new paragraph Aus A22.1 and footnote is inserted as follows:

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

AUDITOR REPORTING FAQs – RELEASE 2

DRAFT FOR AUASB CONSIDERATION

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

- KAMs are communicated in the auditor's report for audits of general purpose financial reports of listed entities.
- Parent entity financial information is usually presented within a consolidated financial report by way of a note. However, ASIC Class Order 10/654 allows parent entity information to be presented as a separate column in a 4 column financial report.
- In a consolidated financial report, which includes parent entity information in a note only, KAMs do not need to be identified and communicated separately for the parent entity. However, if there is a matter relative to the parent entity which is considered to be a KAM at the consolidated financial report level, the auditor communicates this in the auditor's report on the consolidated financial report.
- If an entity elects to prepare a 4 column consolidated financial report including general purpose parent entity financial statements, they must be prepared in accordance with the Australian Accounting Standards. The auditor identifies and communicates KAMs addressing the audits for both the parent entity and the consolidated entity separately.
- If a KAM is relevant to both the parent and the consolidated entity, the description clearly explains how the KAM relates to each entity, as there will likely be differences. For example, a matter relating to goodwill impairment in the group maybe different from the asset impairment in the parent.
- If in the auditor's judgement there are no KAMs relevant to the parent entity (e.g. if the parent entity has limited operations) the auditor's report reflects this as¹:

Key Audit Matters

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

- If the parent entity prepares a separate set of special purpose financial statements, KAMs are not required to be communicated².

2. How does the auditor determine the documents that comprise the annual report?

- The annual report contains or accompanies the financial report and the auditor's report thereon. This may be a single document or a combination of documents that are prepared to provide owners with information on the entity's operations, financial results and financial position.
- The annual report includes material required by statutory and regulatory requirements from the *Corporations Act 2001* and the ASX listing rules, and may include additional voluntary reporting.
- Determining the documents that comprise the annual report is often clear as they are required by the statutory and regulatory requirements, or are within the one document called "Annual Report".

¹ ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* paragraph A58 and A59

² ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* paragraph A16

- If this is not the case, the auditor using professional judgement determines what comprises the annual report considering the timing, purpose of the documents and for whom they are intended.
- 3. What does the auditor's report include if not all other information has been received as at the date of the auditor's report?**
- The auditor's report of financial reports of listed entities identifies the other information received, and not received, as at the date of the auditor's report.³
 - The auditor's report of financial reports of non-listed entities identifies the other information received as at the date of the auditor's report, however is not required to identify the other information not received. If no other information has been received as at the date of the auditor's report, an other information section is not included in the auditor's report. However, this is unlikely to be the case for audits conducted under the *Corporations Act 2001* as the Directors' Report is other information and is ordinarily received before the auditor's report date.
 - When detailing the other information received, and not received for listed entities, the auditor may refer to the specific name of the documents to avoid any confusion as to the other information which the auditor has read and considered as at the date of the auditor's report.
- 4. How does the auditor's responsibility statements differ for different types of entities?**
- The auditor's responsibilities section in the auditor's report is different depending on the type of entity being audited.
 - All auditor's reports include the content required by ASA 700 paragraphs 37, 38 and 39 (a) and (b)(i) to (iv), and 40 (a).
 - ASA 700 paragraph 39 (b) (v) is applicable for auditor's reports of financial reports prepared in accordance with a fair presentation framework.
 - ASA 700 paragraph 39 (c) is applicable for audits where ASA 600 applies.
 - ASA 700 paragraphs 40 (b) and (c) are applicable for audits of listed entities.
- 5. How does the auditor make reference to the auditor's responsibilities statement on the AUASB website?**
- Auditors may elect to present parts of the auditor's responsibility section⁴ by including a reference within the Auditor's Report to a specific webpage on the Australian Auditing and Assurance Standards Board (AUASB) website (www.auasb.gov.au/Home.aspx).
 - In this scenario the auditor's report refers to the specific webpage that applies to the auditor's responsibilities applicable in the context of the engagement⁵.
 - When referring to the responsibilities statements the auditor includes the URL http://www.auasb.gov.au/auditors_files/ar#.pdf or www.auasb.gov.au/auditors_files/ar#.pdf (where # represents the specific number of the relevant statement)
- 6. Are auditors' reports on special purpose financial reports impacted by the changes to the auditor's report?**
- ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* has been revised and reissued to reflect the changes to auditor reporting.

³ ASA 720, paragraph 21

⁴ ASA 700, paragraph 41

⁵ ASA 700, paragraph Aus A57.1

- Auditors' reports on special purpose financial reports are not within the scope of ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, and therefore there is no requirement for the auditor to communicate KAMs unless required by law or regulation. However, the auditor may elect to communicate KAMs.
- ASA 720 *The Auditor's Responsibilities Relating to Other Information* deals with the auditor's responsibilities relating to other information. Reports containing or accompanying a special purpose financial report with the purpose of providing owners with information on matters presented in the special purpose financial report, are considered to be annual reports, and the requirements of ASA 720 apply⁶.

7. Do auditor's reports on summary financial statements⁷ include communication of key audit matters?

- ASA 810 *Engagements to Report on Summary Financial Statements* has been revised and reissued to reflect the changes to auditor reporting.
- Where the auditor's report on the financial report includes KAMs, the auditor's report on the summary financial statements or concise financial report states that the auditor's report on the financial report includes communication of KAMs.
- The intention is to draw to the users' attention that there are KAMs in the auditor's report on the financial report, however the auditor is not required to describe in detail or repeat the KAMs in the auditor's report on the summary financial statements or concise financial reports.
- The AUASB has recently released a revised [Guidance Statement GS 001](#) which addresses the auditor's considerations in relation to reporting of KAMs for auditors conducting audit engagements of a concise financial report prepared under the *Corporations Act 2001*.

8. What is the auditor's responsibility in relation to information in documents containing summary financial statements⁸?

- For audits of summary financial statements and concise financial reports, the auditor complies with the requirements of ASA 810 *Engagements to Report on Summary Financial Statements*.
- ASA 810 requires the auditor to read and consider the information included in documents containing summary financial statements, and consider whether there is a material inconsistency between that information and the summary financial statements⁹.
- If the auditor identifies a material inconsistency, the auditor discusses this with management and determines whether the summary financial statements or the information included in the document containing the summary financial statements needs to be revised. If management does not make appropriate amendments to address the material inconsistency, the auditor considers the impact on the auditor's report¹⁰.
- If the other information included with summary financial statements, is the same as the other information included in the annual report, the work already performed by the auditor in accordance with ASA 720 may be adequate.
- If the other information included with summary financial statements is not included in the annual report, the auditor may still find the requirements of ASA 720 helpful, and follows the requirements of ASA 810 detailed above.

⁶ ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*, paragraph A17
⁷ Including Concise Financial Reports

⁸ For purposes of this FAQ, summary financial statements includes reference to concise financial reports prepared in accordance with Accounting Standard AASB 1039.

⁹ ASA 810 paragraph 14

¹⁰ ASA 810, paragraph 15

- The AUASB has recently released a revised [Guidance Statement GS 001](#) which addresses the auditor's considerations in relation to reporting of other information for auditors conducting audit engagements of a concise financial report prepared under the *Corporations Act 2001*.