

ASA 100 Preamble to AUASB Standards

OBJECTIVE

The objective of ASA 100 *Preamble to AUASB Standards* is to set out the intentions of the AUASB as to how all of the AUASB Standards are to be understood, interpreted and applied. AUASB Standards consist of Auditing Standards (ASAs), Standards on Review Engagements (ASREs), Standards on Assurance Engagements (ASAEs), and Standards on Related Services (ASRSs). Although only one paragraph of ASA 100 is in bold-type, because that paragraph references all other paragraphs, the complete contents of ASA 100 are mandatory in their application. The status, approach, authority, application, and content structure of the AUASB Standards are explained in ASA 100, along with the drafting rules adopted by the AUASB.

Application

Financial reporting periods commencing on or after 1 July 2006.

Application of AUASB standards

ASA 100 explains the functions and powers of the AUASB bestowed by legislation and the classes of audit and assurance engagements to which AUASB Standards apply. AUASB Standards are based predominantly on International Standards on Auditing and hence are principles-based. ASAs and ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity* apply to statutory audit and review engagements respectively under Part 2M.3 of the *Corporations Act 2001*. Additionally, when undertaken by professional accounting body members where membership requires adherence to AUASB Standards, they apply to audits and reviews of annual and interim financial reports prepared for purposes other than under the *Corporations Act 2001* and may be applied, as appropriate, to the audit or review of financial information other than financial reports and to assurance engagements not involving financial information.

In summary, for statutory audits and reviews under the *Corporations Act 2001*, AUASB Standards have legal enforcement under that Act and may have legal enforcement under legislation other than that Act. Where there is no legal backing provided to the AUASB Standards, they continue to be mandatory to apply when the engagement relates to historical financial information and is undertaken by a member of a professional accounting body that requires their application, regardless of entity size or whether it is in the public or private sector. Otherwise, they and other assurance standards issued by the AUASB, may be applied, as appropriate in other assurance engagements. Such other assurance engagements might be, for instance, engagements that evaluate the efficiency and/or effectiveness of activities, engagements relating to prospective financial information, or engagements to assess the effectiveness of internal controls.

Mandatory and non-mandatory requirements

Subject to the application requirements above, for audit engagements auditors are required to comply with all mandatory requirements of all ASAs, depicted in **bold-type** paragraphs, when the ASA and some or all of such paragraphs are relevant. A requirement is not relevant under 3 circumstances; (i) when application relates to classes of transactions, account balances or disclosures that are immaterial; (ii) when an auditor chooses not to adopt a particular approach/procedure where alternative approaches/procedures are available; or (iii) when mandatory requirements are conditional and the condition is not present. When a requirement is not relevant because of one or more of these 3 circumstances, ASA 100 makes clear that it is not necessary to document the circumstances giving rise to non-application. Subject to the application requirements above, for review engagements, only the specified standard applicable to that review engagement need be applied. For statutory review engagements under the *Corporations Act 2001*, the specified standard is ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*.

The purpose and role of explanatory guidance

ASA 100 explains that explanatory guidance does not create or extend mandatory requirements or the auditor's obligations under AUASB Standards. Rather it is to be used to improve knowledge and understanding of the scope and application of the mandatory requirements and basic principles, and may include practical examples to assist in understanding the application of mandatory requirements. Further, explanatory guidance is not meant to be exhaustive of all possible audit procedures that may be used in the application of mandatory requirements, with alternative procedures perhaps necessary.

ASA 100 Preamble to AUASB Standards

Professional judgement

ASA 100 highlights that professional judgement needs to be exercised in: (i) applying relevant mandatory requirements; (ii) determining whether any of the exceptions that prevent compliance with the ASAs apply; and (iii) deciding how and whether to carry out procedures or actions of the type described in explanatory guidance, in light of the circumstances and consistent with the objectives of the ASAs. In particular, ASA 100 points out the need for the exercise of professional judgement in: (i) the determination and application of materiality; (ii) compliance with ethical requirements relevant to audit and review engagements; (iii) the selection and scope of appropriate audit/review procedures; (iv) the assessment and evaluation of available options and results, including the persuasiveness of audit/review evidence; and (v) the extent of documentation of audit/review plans, procedures, results, conclusions and communications.

Ethics

ASA 100 explains that the relevant ethical requirements relating to audit engagements referred to in mandatory requirements or explanatory guidance within the ASAs are contained in the respective codes of professional conduct of the professional accounting bodies in Australia. These codes of professional conduct are aligned with the equivalent international code of the International Auditing and Assurance Standards Board (IAASB). Footnote reference is made in ASA 100 to the codes of conduct of each of the three main Australian professional accounting bodies.

Inability to comply with mandatory requirements

Where in rare and exceptional circumstances factors outside the auditor's control prevent compliance with an essential procedure, if possible, performance of appropriate alternative audit procedures is required, along with documentation in the working papers of: (i) circumstances surrounding the inability to comply; (ii) reasons for the inability to comply; and (iii) justification of how alternative audit procedures achieve the required objectives (see also ASA 230 *Audit Documentation*). When appropriate alternative audit procedures are unable to be performed, the implications for the auditor's report must be considered.

AUASB drafting approach

The drafting conventions adopted are: (i) mandatory requirements and explanatory guidance are shown in separate paragraphs; (ii) paragraphs containing mandatory requirements are shown in **bold-type** text; (iii) the word 'shall' is used within mandatory requirements paragraphs to denote the obligations an auditor is required to comply with in the conduct of an audit or review; (iv) the present tense of verbs is used in the explanatory guidance when it is the best form of expression. and (v) practical examples are used in explanatory guidance. For each AUASB Standard, obligations implied within the explanatory guidance of the equivalent ISA used as a base have been (i) when appropriate, elevated to a mandatory requirement (**bold-type**); or (ii) linked to a mandatory requirement(s), thereby demonstrating the AUASB's intention that the explanatory guidance is interpreted in the context of the relevant mandatory requirement; or (iii) prefaced by inserting the word 'ordinarily' as a qualifier (see below).

ASA 100 includes formal meanings for each drafting convention adopted, but the word 'ordinarily' is used so extensively within the explanatory guidance that it warrants special mention. It indicates practical methods or means by which mandatory requirements may be complied with and is to be read in the context of the exercise of professional judgement in considering whether the noted circumstances apply to the current audit, review or other assurance engagement; and, if so, whether the suggested procedures are appropriate to perform; or where there are alternative procedures which are more appropriate, whether these alternative procedures are to be performed. It does not create a rebuttable presumption or a mandatory requirement.

Copyright © CPA Australia (ABN 64 008 392 452), 2005. All rights reserved. Save and except for third party content, all content in these materials is owned or licensed by CPA Australia. All trade marks and trade names are proprietary to CPA Australia and must not be downloaded, reproduced or otherwise used without the express consent of CPA Australia. You may access and display these pages on your computer, monitor or other video display device and make one printed copy of any whole page or pages for your personal use only.

Acknowledgements

CPA Australia wishes to acknowledge the assistance of the Monash University Centre for Research in Accounting and Finance, in the production of the original set of fact sheets.

Disclaimer

CPA Australia has used reasonable care and skill in compiling the content of these materials. However, CPA Australia makes no warranty as to the accuracy or completeness of any information contained therein nor does CPA Australia accept responsibility for any acts or omissions in reliance upon these materials.

This Fact Sheet is; (i) intended to be a guide only and no part of the contents are intended to be advice, whether legal or professional; (ii) is not a complete representation of the standard and consequently is no substitute for reading the latest and complete standards. All individuals are advised to seek professional advice to keep abreast of any legal or other reforms and developments.

Limitation of Liability

To the extent permitted by applicable law, CPA Australia, its employees, agents and consultants exclude all liability for any loss or damage claims and expenses including but not limited to legal costs, indirect special or consequential loss or damage (including but not limited to, negligence) arising out of the information in the materials. Where any law prohibits the exclusion of such liability, CPA Australia limits its liability to the resupply of the information.