

# Overview of AUASB standards and other pronouncements

## OBJECTIVE

The objective of this fact sheet is to provide an overview of matters relevant generally to the application of AUASB Standards and other pronouncements. This overview fact sheet makes much use of *ASA 100 Preamble to AUASB Standards*. *ASA 100* is essential reading in understanding fully not just the intentions of the AUASB as to how all of the AUASB Standards are to be understood, interpreted and applied, but also the detail of the changes to legislation and the institutional framework surrounding the setting of Australian Auditing Standards.

## Background

The *Corporate Law Economic Reform (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9 Act) amended the *Corporations Act 2001* and the *Australian Securities and Investments Commission Act 2001*. Amongst other things, the amendments relate to the setting of Auditing Standards and the status of those Standards in Australia. As a consequence, the previous Auditing and Assurance Standards Board (AuASB) was reconstituted as an independent statutory body with the same name, but a different acronym (AUASB). Under the CLERP 9 Act, the Financial Reporting Council (FRC), which has long had oversight of Accounting Standard setting (AASB) is given oversight also over AUASB Standard setting. Further, AUASB Standards, when applied in the context of a statutory audit under the *Corporations Act 2001* (and under some other legislation), become legislative instruments and hence carry the force of law. The previous AuASB's Auditing and Assurance Standards (AUSs) were given interim legal backing from 1 July 2004 to 30 June 2006, and for reporting periods commencing on or after 1 July 2006, AUASB Standards become effective. The AUASB's approach in respect of the release of the first phase of its redrafting of the previous AUSs can be summarised as an aim to ensure that the AUASB Standards are written in such a way that they are enforceable.

## What is the legal status of AUASB standards?

All ASAs plus ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity* are mandatory for auditors to apply when undertaking statutory audit and review engagements respectively under Part 2M.3 of the *Corporations Act 2001*. Other legislation may create a mandatory obligation to apply AUASB Standards also. Further, members of professional accounting bodies (including CPA Australia) who are subject to that bodies' requirement to comply with AUASB pronouncements, and who undertake audits other than those under the *Corporations Act 2001*, are required to apply AUASB Standards as appropriate. This is the case regardless of the size of the audited or reviewed entity or whether it is in the public or private sector. Additionally, the AUASB's pronouncements other than and including AUASB Standards may be applied in undertaking auditing or assurance engagements. *ASA 100 Preamble to AUASB Standards* explains in more detail the status of the AUASB Standards. The Foreword to AUASB Standards (May 2006) provides a useful diagrammatic hierarchical representation of the different types of AUASB Standards and other pronouncements. The structure depicted is consistent with that adopted by the International Auditing and Assurance Standards Board.

## Ethics

The AUASB Standards reference as mandatory, compliance with the respective codes of conduct of the major professional accounting bodies (including that of CPA Australia) as being those relevant to audit engagements. These codes of professional conduct are aligned with the equivalent international code of the International Federation of Accountants (IFAC).

## What pronouncements constitute AUASB standards?

AUASB Standards mirror the structure and naming conventions of those of the International Auditing and Assurance Standards Board (IAASB), the International Standards on Auditing (ISAs). The AUASB issues other pronouncements that are not Standards. The AUASB Standards consist of the following categories:

- Auditing Standards (ASAs),
- Standards on Review Engagements (ASREs),
- Standards on Assurance Engagements (ASAEs), and
- Standards on Related Services (ASRSs).

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## What constitutes other AUASB standards?

Other AUASB pronouncements, the first two of which were issued with 36 Auditing Standards on 1 May 2006, consist of:

- Foreword to AUASB Standards (issued by the AUASB 1 May 2006)
- Glossary (issued by the AUASB 1 May 2006)
- Previous pronouncements issued by the Australian Accounting Research Foundation (AARF) that have not been reissued by the reconstituted AUASB subsequent to 1 July 2004 when the *Corporate Law Economic Reform (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9 Act) became effective, comprising:
  - Auditing and Assurance Standards (AUSs);
  - Auditing Guidance Statements (AGSs);
  - Auditing and Assurance Alerts (AAAs); and
  - Auditing Guidance Notes (AGNs).

The *Foreword to AUASB Standards* explains in more detail the nature of the AUASB pronouncements other than Standards.

## Structure of AUASB standards

As appropriate, generally AUASB Standards include sections relating to reasons for issuing the Standard, main features, an authority statement, the paragraphs constituting the Standard, main differences from the superseded AUS being replaced if applicable, and main differences from the equivalent ISAs.

## Conformity of AUASB standards with ISAs

AUASB Standards are based on those of the IAASB where an ISA is available. Amendments are made to the ISAs for differences in terminology and the institutional framework appropriate to the Australian setting. Additionally the AUASB has elevated some paragraphs that constituted explanatory guidance in the equivalent ISA to the status of an essential procedure (ie mandatory). Hence compliance with an AUASB Standard enables compliance with the equivalent ISA when it exists.

## AUASB drafting conventions

ASA 100 *Preamble to AUASB Standards* details fully the drafting conventions adopted. Briefly, the most important features are that, as per the previous AUSs, paragraphs containing mandatory requirements are shown in **bold-type** text. However, new is that 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 prefaced by inserting the word 'ordinarily' as a qualifier. Amongst other things, ASA 100 explains the auditor's procedures when in rare and exceptional circumstances a mandatory requirement in an AUASB Standard cannot be complied with, through no fault of the auditor. It explains also that explanatory guidance in the AUASB Standards does not create or extend mandatory requirements or the auditor's obligations under AUASB Standards.

## Application

AUASB Standards and other pronouncements are to be applied, as appropriate, for financial reporting periods commencing on or after 1 July 2006.

## Table of revised auditing standards as at 1 July 2006

| AUASB standards issued 1 May 2006   | Previous equivalent AUS standard*   |
|---|---|
| ASA 100 <i>Preamble to AUASB Standards</i>  |   |
| ASA 200 <i>Objective and General Principles Governing an Audit of a Financial Report</i>        | AUS 202 <i>Objective and General Principles Governing an Audit of a Financial Report</i> (February 2004)    |
| ASA 210 <i>Terms of Audit Engagements</i>   | AUS 204 <i>Terms of Audit Engagements</i> (June 2000)   |
| ASA 220 <i>Quality Control for Audits of Historical Financial Information</i>                   | AUS 206 <i>Quality Control for Audits of Historical Financial Information</i> (June 2004)                   |
| ASA 230 <i>Audit Documentation</i>  | AUS 502 <i>Audit Evidence</i> (February 2004)   |
| ASA 240 <i>The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report</i> | AUS 210 <i>The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report</i> (June 2004) |
| ASA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i>          | AUS 218 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> (January 2002)       |

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| <b>AUASB standards issued 1 May 2006 (cont.)</b>   | <b>Previous equivalent AUS standard* (cont.)</b>   |
|--|--|
| ASA 260 <i>Communication of Audit Matters with Those Charged with Governance</i>                             | AUS 710 <i>Communication with Management on Matters Arising from an Audit</i> (May 1999)                                       |
| ASA 300 <i>Planning an Audit of a Financial Report</i>   | AUS 302 <i>Planning</i> (October 1995)   |
| ASA 315 <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i> | AUS 402 <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements</i> (February 2004)  |
| ASA 320 <i>Materiality and Audit Adjustments</i>   | AUS 306 <i>Materiality and Audit Adjustments</i> (June 2001)   |
| ASA 330 <i>The Auditor's Procedures in Response to Assessed Risks</i>  | AUS 406 <i>The Auditor's Procedures In Response to Assessed Risks</i> (February 2004)  |
| ASA 402 <i>Audit Considerations Relating to Entities Using Service Organisations</i>                         | AUS 404 <i>Audit Implications Relating to Entities Using a Service Entity</i> (July 2002) <sup>1</sup>                         |
| ASA 500 <i>Audit Evidence</i>  | AUS 502 <i>Audit Evidence</i> (October 1995)   |
| ASA 501 <i>Existence and Valuation of Inventory</i>  | AUS 506 <i>Existence and Valuation of Inventory</i> (July 2002)  |
| ASA 505 <i>External Confirmations</i>  | AUS 504 <i>External Confirmations</i> (July 2002)  |
| ASA 508 <i>Enquiry Regarding Litigation and Claims</i>   | AUS 508 <i>Inquiry Regarding Litigation and Claims</i> (July 2002)   |
| ASA 510 <i>Initial Engagements – Opening Balances</i>  | AUS 510 <i>Initial Engagements - Opening Balances</i> (July 2002)  |
| ASA 520 <i>Analytical Procedures</i>   | AUS 512 <i>Analytical Procedures</i> (October 1995)  |
| ASA 530 <i>Audit Sampling and Other Means of Testing</i>   | AUS 514 <i>Audit Sampling and Other Selective Testing Procedures</i> (April 1998)  |
| ASA 540 <i>Audit of Accounting Estimates</i>   | AUS 516 <i>Audit of Accounting Estimates</i> (October 1995)  |
| ASA 545 <i>Auditing Fair Value Measurements and Disclosures</i>  | AUS 526 <i>Auditing Fair Value Measurements and Disclosures</i> (September 2002)   |
| ASA 550 <i>Related Parties</i>   | AUS 518 <i>Related Parties</i> (July 2002)   |
| ASA 560 <i>Subsequent Events</i>   | AUS 706 <i>Subsequent Events</i> (October 1995)  |
| ASA 570 <i>Going Concern</i>   | AUS 708 <i>Going Concern</i> (July 2002)   |
| ASA 580 <i>Management Representations</i>  | AUS 520 <i>Management Representations</i> (July 2002)  |
| ASA 600 <i>Using the Work of Another Auditor</i>   | AUS 602 <i>Using the Work of Another Auditor</i> (July 2002)   |
| ASA 610 <i>Considering the Work of Internal Audit</i>  | AUS 604 <i>Considering Work of Internal Auditing</i> (October 1995)  |
| ASA 620 <i>Using the Work of an Expert</i>   | AUS 606 <i>Using the Work of an Expert</i> (July 2002)   |
| ASA 700 <i>The Auditor's Report on a General Purpose Financial Report</i>                                    | AUS 702 <i>The Audit Report on a General Purpose Financial Report</i> (March 2002)   |
| ASA 701 <i>Modifications to the Auditor's Report</i>   | AUS 702 <i>The Audit Report on a General Purpose Financial Report</i> (March 2002)   |
| ASA 710 <i>Comparatives</i>  | AUS 704 <i>Comparatives</i> (July 2002)  |
| ASA 720 <i>Other Information in Documents Containing Audited Financial Reports</i>                           | AUS 212 <i>Other Information in Documents Containing Audited Financial Reports</i> (October 1995) <sup>1</sup>                 |
| ASA 800 <i>The Auditor's Report on Special Purpose Audit Engagements</i>                                     | AUS 802 <i>The Audit Report on Financial Information Other than a General Purpose Financial Report</i> (May 2002) <sup>1</sup> |
| ASRE 2410 <i>Review of an Interim Financial Report Performed by the Independent Auditor of the Entity</i>    | AUS 902 <i>Review of Financial Reports</i> (July 2002) <sup>1</sup>  |
| <b>Other AUASB Pronouncements Issued 1 May 2006</b>  |  |
| <i>AUASB Glossary</i>  | AUS 104 <i>Glossary of Terms</i> (July 2002) <sup>1</sup>  |
| <i>Foreword to AUASB Pronouncements</i>  | AUS 102 <i>Foreword to Australian Auditing and Assurance Standards and Guidance Statements</i> (January 2002)                  |

\*This list is not exhaustive.

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