

ASA 100
(April 2006)

Auditing Standard ASA 100
Preamble to AUASB
Standards

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



Australian Government

Auditing and Assurance Standards Board

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PREFACE

Reasons for Issuing Auditing Standard ASA 100 *Preamble to AUASB Standards*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 100 *Preamble to AUASB Standards*, due to the requirements of the legislative provisions explained below.

The Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. 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*.

Main Features

This *Preamble to AUASB Standards* sets out the AUASB's intentions on how AUASB Standards are to be understood, interpreted and applied.

Operative Date

This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standard ASA 100 *Preamble to AUASB Standards* as set out in paragraphs 1 to 49, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Preamble is to be read in conjunction with AUASB Standards.

Dated 28 April 2006

M H Kelsall
Chairman - AUASB

AUDITING STANDARD ASA 100

Preamble to AUASB Standards

Operative Date

- 1 This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.**

Introduction

- 2 This Preamble sets out the intentions of the Auditing and Assurance Standards Board (AUASB), as to how AUASB Standards are to be understood, interpreted and applied. The AUASB issues AUASB Standards comprising:
- (a) Auditing Standards (“ASAs”);
 - (b) Standards on Review Engagements (“ASREs”);
 - (c) Standards on Assurance Engagements (“ASAEs”); and
 - (d) Standards on Related Services (“ASRSs”).
- 3 An auditor shall apply AUASB Standards in conjunction with paragraphs 1 to 49 of this Preamble.**
- 4 The AUASB derives its functions and powers under section 227B of the *Australian Securities and Investments Commission Act 2001*. The AUASB:
- (a) makes Auditing Standards under section 336 of the *Corporations Act 2001* (the Act) for the purposes of the corporations legislation; and
 - (b) formulates auditing and assurance standards for other purposes.

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Auditing Standards made under Section 336 of the Act

Application

- 5 Auditing Standards apply to:
- (a) an audit of a financial report for a financial year, or an audit or review¹ of a financial report for a half-year, prepared in accordance with Part 2M.3 of the Act;
 - (b) an audit of a financial report prepared for any other purpose; or
 - (c) a review by the independent auditor of the entity, of interim financial reports, prepared for any other purpose.¹
- 6 Although Auditing Standards are written mainly in the context of an audit of a financial report, they apply also, as appropriate, to the audit of other financial information.

Enforcement

- 7 Section 307A of the Act requires auditors to conduct audits and reviews of the financial reports² prepared under Part 2M.3 of the Act, in accordance with Auditing Standards. AUASB Standards may have legal enforcement under legislation other than the Act.

Auditing and Assurance Standards for Other Purposes

- 8 Auditing and assurance standards for other purposes consist of standards that are designed for subject-specific areas. They include, for example, assurance engagements that relate to:
- reviews (other than a review by the independent auditor of the entity, of interim financial information, including interim financial reports, prepared for other purposes);
 - evaluating the efficiency and/or effectiveness of an entity's activities;

¹ For legislative purposes, ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, is included in legislation as an "Auditing Standard". ASRE 2410 is to be applied in the review of a half-year financial report prepared under Part 2M.3 of the Act, and a review by the independent auditor of the entity of interim financial reports prepared for any other purpose.

² Financial Reports required by Part 2M.3 of the Act are:

- the annual financial report; and
- the half-year financial report (for certain entities).

- prospective financial information; and
- the effectiveness of internal controls.

Authority of the Paragraphs in AUASB Standards

- 9 AUASB Standards consist of paragraphs that are either:
- (a) mandatory requirements, identified in **bold-type** (black lettering); or
 - (b) explanatory guidance, identified in normal-type (grey lettering).

The paragraphs in AUASB Standards do not have equal authority.

Mandatory Requirements

- 10 Within each AUASB Standard, an auditor's obligations are stated as mandatory requirements that are identified in **bold-type**. The mandatory requirements consist of basic principles and essential procedures.
- 11 An auditor is required to comply with all mandatory requirements except when:
- (a) application of the mandatory requirement(s) would relate to classes of transactions, account balances or disclosures that are immaterial;
 - (b) an auditor, using professional judgement, has chosen not to adopt a particular approach or procedure where the AUASB Standard permits or requires the auditor to choose from alternative approaches or procedures; or
 - (c) a mandatory requirement(s) is conditional and the condition is not present.
- 12 When one or more of the exceptions described in paragraph 11 exist, a mandatory requirement is not relevant and the auditor is not required to document the circumstances giving rise to the exception.
- 13 In the case of an audit engagement, the mandatory requirements of each Auditing Standard are to be applied in conjunction with the mandatory requirements of other relevant Auditing Standards.

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- 14 In the case of a review engagement, the auditor is required to apply the mandatory requirements contained only in the specified standard applicable to that review engagement, in conjunction with this Preamble to AUASB Standards. There is no requirement to apply the mandatory requirements of other AUASB Standards.

Explanatory Guidance

- 15 Explanatory guidance:
- (a) is to be used to improve knowledge and understanding of the scope and application of the basic principles and essential procedures (the mandatory requirements); and
 - (b) may include practical examples to assist in understanding the application of mandatory requirements.
- 16 Explanatory Guidance consists of suggested (or typical) audit procedures, practical examples and other explanatory details and procedures that are included for the purposes of understanding and fulfilling mandatory requirements. Explanatory guidance does not include all possible audit procedures that may be used in the application of mandatory requirements. The auditor may consider it necessary to perform alternative procedures to those contained within the explanatory guidance.
- 17 Explanatory Guidance does not create or extend mandatory requirements or the auditor's obligations under AUASB Standards.

Other Important Elements of AUASB Standards

- 18 In addition to mandatory requirements (see paragraphs 10 to 14 above), and explanatory guidance (see paragraphs 15 to 17 above), each AUASB Standard contains the following elements that impact on its application:

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Authority Statement

- 19 The purposes of the Authority Statement³ are to:
- (a) link the issuance of each individual AUASB Standard to the mandating legislation;
 - (b) identify the paragraphs that comprise the AUASB Standard;
 - (c) set out the requirement to read the AUASB Standard in conjunction with this Preamble; and
 - (d) identify the mandatory requirements of the AUASB Standard.

Application Paragraphs

- 20 Each AUASB Standard contains application paragraphs that, in part or in whole, form part of the mandatory requirements.
- 21 The application paragraphs identify the scope of the AUASB Standard.
- 22 Auditing Standards made under section 336 of the Act⁴ contain mandatory application paragraphs relating 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 Part 2M.3 of the *Corporations Act 2001*; and
 - (b) an audit of a financial report for any other purpose.
- 23 When an Auditing Standard is used for the audit of financial information that is not in the form of a financial report, the application paragraph in that Auditing Standard is excluded from the mandatory requirements.

³ With the exception of the Authority Statement to this *Preamble to AUASB Standards*, the purpose of which is to link to mandating legislation, to identify the paragraphs comprising the standard and to set out the requirement to read the *Preamble to AUASB Standards* in conjunction with the AUASB Standards.

⁴ With the exception of ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity* and ASA 100 *Preamble to AUASB Standards*.

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- 24 Although the Auditing Standards are written mainly in the context of an external audit of a financial report,⁵ they apply also, adapted as necessary, to the audit of other financial information.

Operative Date

- 25 The operative date stipulates the date from which the AUASB Standard is to be applied. The operative date is stated in relation to the commencement date of the financial reporting period. The requirements of an AUASB Standard remain in force until:
- (a) the operative date of any amendment to those requirements;
 - (b) in relevant circumstances, the early adoption of such amendment; or
 - (c) the AUASB Standard is withdrawn by the AUASB.
- 26 When early adoption of an AUASB Standard is allowed, a statement to that effect is included in the operative date paragraph of the AUASB Standard.

Definitions

- 27 Definitions, contained within AUASB Standards, and/or contained within the *AUASB Glossary*, as issued from time to time, are to be applied in the interpretation of AUASB Standards.

Conformity Paragraphs

- 28 The Conformity paragraphs explain the relationship of an AUASB Standard with its equivalent international standard issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). The AUASB takes the position that an AUASB Standard conforms to the equivalent international standard when:
- (a) the mandatory requirements of the AUASB Standard correspond with those in the equivalent international standard or the AUASB Standard contains additional mandatory requirements; and

⁵ Reference to a 'financial report' includes not only a financial report as defined under Part 2M.3 of the Act, but also a financial report prepared for other purposes.

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- (b) the explanatory guidance is substantially the same as the equivalent international standard or the AUASB Standard contains additional explanatory guidance.
- 29 The Conformity paragraphs in AUASB Standards include necessary differences from the equivalent international standard relating to terminology, referencing and Australian regulatory requirements.
- 30 When an AUASB Standard and the equivalent international standard conform, the Conformity paragraphs contain a statement to this effect.
- 31 When an AUASB Standard and the equivalent international standard are not equivalent, the Conformity paragraphs detail the main differences.
- 32 The Conformity paragraphs in each AUASB Standard assist the auditor to determine to what extent (if any) compliance with AUASB Standards might enable also the engagement to be conducted in compliance with international standards. It is the responsibility of the auditor to determine which standards apply to the particular engagement and circumstances. Furthermore, where appropriate, the Conformity paragraphs contain the following sentence:
- “Compliance with this Standard enables compliance with the equivalent international standard”.

Type of Entity

- 33 AUASB Standards are:
- (a) neutral with respect to the audited or reviewed entity’s sector and size; and
 - (b) intended to be applied, as appropriate, to all audit, review, assurance and related service engagements conducted by an external firm in both the public and private sectors.
- 34 If necessary, entity sector and size considerations are included, and identified, in the body of the relevant AUASB Standard.
- 35 AUASB Standards do not take into account any specific circumstances affecting entities that are subject to audit or review.

Applying AUASB Standards

Professional Judgement

- 36 AUASB Standards are principles-based and the auditor is expected to use professional judgement in light of the given circumstances in order to achieve the objectives of the audit, review or other assurance engagement. Professional judgement is exercised:
- (a) in applying relevant mandatory requirements;
 - (b) in determining whether any of the exceptions, described in paragraph 11 of this Preamble, apply; and
 - (c) in deciding how and whether to carry out procedures or actions, described in explanatory guidance, in light of the circumstances and consistent with the objectives of the Standards.
- 37 The use of professional judgement is required and applies in particular to:
- (a) the determination and application of materiality;
 - (b) compliance with ethical requirements relevant to audit and review engagements;
 - (c) the selection and scope of appropriate audit/review procedures;
 - (d) the assessment and evaluation of available options and results, including the persuasiveness of audit/review evidence; and
 - (e) the extent of documentation of audit/review plans, procedures, results, conclusions and communications.

Ethics

- 38 The AUASB takes the view that inclusion in AUASB Standards of references to relevant ethical requirements is important to:
- (a) ensure a high level of public confidence in the audit and review functions;
 - (b) enhance the rigour of AUASB Standards; and

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- (c) ensure conformity between AUASB Standards and the Standards issued by IAASB.

Accordingly, references to compliance with relevant ethical requirements are included in certain mandatory requirements and explanatory guidance paragraphs in AUASB Standards.

- 39 The relevant ethical requirements relating to audit engagements referred to in Auditing Standards are contained in the respective codes of professional conduct of the professional accounting bodies in Australia.⁶ The codes of professional conduct are aligned with the equivalent international code.⁷

Inability to Comply with Mandatory Requirements

- 40 Where, in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained in a relevant mandatory requirement, the auditor is required:

- (a) if possible, to perform appropriate alternative audit procedures; and
- (b) in accordance with ASA 230 *Audit Documentation*, to document in the working papers:
- (i) the circumstances surrounding the inability to comply;
 - (ii) the reasons for the inability to comply; and
 - (iii) justification of how alternative audit procedures achieve the objective(s) of the mandatory requirement.

When the auditor is unable to perform appropriate alternative audit procedures, the auditor is required to consider the implications for the auditor's report.

⁶ In Australia, the codes of conduct of the professional accounting bodies, as issued from time to time, are:

- CPA Australia and The Institute of Chartered Accountants in Australia, *Joint Code of Professional Conduct*; and
- National Institute of Accountants, *Pronouncements of the Board of Directors – Code of Ethics*.

⁷ See IFAC Code of Ethics for Professional Accountants.

Auditing Standards Made Under Section 336 of the Corporations Act 2001

- 41 This Preamble to AUASB Standards is written in the context of the Auditing Standards issued pursuant to section 336 of the Act, and is relevant to understanding and applying AUASB Standards issued for other purposes.
- 42 The initial Auditing Standards, issued as legislative instruments, are operative for audits and reviews pertaining to financial reporting periods commencing on or after 1 July 2006.
- 43 In fulfilling its standard-setting function, the AUASB develops Auditing Standards that have a clear public interest focus and are of a high quality. Wherever possible, the AUASB uses, as appropriate, International Standards on Auditing (ISA) as a base from which to develop Auditing Standards. The Auditing Standards are designed to strengthen confidence in the assurance provided by an audit or review.
- 44 The AUASB has adopted certain drafting principles (see below) in making Auditing Standards under the Australian regulatory environment, wherein the Auditing Standards are legally enforceable and registered as legislative instruments under the *Legislative Instruments Act 2003*.

AUASB Drafting Approach

- 45 The following drafting principles and conventions have been adopted to implement the objectives discussed above:
- (a) mandatory requirements and explanatory guidance are shown in separate paragraphs;
 - (b) paragraphs containing mandatory requirements are shown in **bold-type** text;
 - (c) 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;
 - (d) the present tense of verbs is used in the explanatory guidance when it is the best form of expression. Use of the present tense does not create or imply mandatory requirements. The present tense is used in examples and

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- other explanatory guidance that relate to professional judgement and professional scepticism; and
- (e) practical examples are used in explanatory guidance. Practical examples do not constitute basic principles or essential procedures (mandatory requirements).
- 46 The drafting utilised in AUASB Standards reflects the AUASB's intention that:
- (a) the auditor is required to exercise professional judgement, as described in paragraph 36, according to the given circumstances; and
- (b) explanatory guidance does not extend:
- (i) mandatory requirements; or
- (ii) the auditor's obligations under AUASB Standards.
- 47 AUASB Standards, as mentioned above, are based commonly on their ISA-equivalent standard. For each AUASB Standard, obligations implied within the explanatory guidance of the equivalent ISA have been:
- (a) when appropriate, elevated to a mandatory requirement (**bold-type**); or
- (b) 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
- (c) prefaced by inserting the word 'ordinarily' as a qualifier (see below).

Words and Phrases

- 48 The following words and phrases are used in AUASB Standards for the respective stated purposes (alphabetically):
- (a) *explanatory guidance* means suggested or typical audit procedures, practical examples and other explanatory details and procedures that are included for the purposes of understanding, and complying with, mandatory requirements. Explanatory guidance does not create or

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extend mandatory requirements or the auditor's obligations under AUASB Standards.

- (b) *'in accordance with...the auditor is required to...'* means explanatory guidance that is directly linked to a mandatory requirement, either in the same AUASB Standard or in another AUASB Standard. The phrase is used only where the wording in the explanatory guidance is identical to that in the mandatory requirement.
- (c) *including* means a list of items or examples is provided but the list does not purport to contain all relevant items or examples and intentionally is not exhaustive.
- (d) *mandatory requirements* means relevant basic principles and essential procedures that must be applied in order for the audit or review engagement to comply with AUASB Standards.
- (e) *ordinarily* means the explanatory guidance indicates practical methods or means by which mandatory requirements may be complied with and is to be read in the following context:
- (i) where the word 'ordinarily' is used, the auditor exercises 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.
- (ii) the word 'ordinarily' does not create a rebuttable presumption nor a mandatory requirement.
- (f) *shall* means an imperative obligation on auditors when appearing in **bold-type** mandatory requirements. In certain circumstances, imperative obligations are legally binding and enforceable.

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- (g) *'Under...the auditor needs to...'* means words contained within the explanatory guidance that highlight a linkage between mandatory requirements (**bold-type**) and the relevant explanatory guidance that:
- (i) in part, or in whole, restates the meaning of the mandatory requirement; and
 - (ii) may describe audit or review procedures, more detailed than those contained in the relevant mandatory requirement. However, these described audit or review procedures do not create or extend mandatory requirements.

Furthermore, an auditor may judge it necessary, in order to comply with the relevant mandatory requirement, to:

- perform alternative audit or review procedures in place of some or all of those described in the explanatory guidance; or
- perform some, but not all, of the audit or review procedures described in the explanatory guidance.

The purpose of the linkage between the mandatory requirements and the relevant explanatory guidance is to:

- direct the auditor to the relevant mandatory requirement(s); and
- emphasise that interpretation of the explanatory guidance is to be made in the context of that mandatory requirement.

Conformity with International Standards

49 There is no corresponding Standard issued by IAASB.