

(April 2006)

Explanatory Statement
***ASA 330 The Auditor's
Procedures in Response
to Assessed Risks***

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



Australian Government

Auditing and Assurance Standards Board

Explanatory Statement

Reasons for Issuing ASA 330 *The Auditor's Procedures in Response to Assessed Risks*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 330 *The Auditor's Procedures in Response to Assessed Risks* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* 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*.

Process of making Auditing Standards

Section 1455 of the *Corporations Act 2001* and *Corporations Regulation 10.5.01* gave interim legal endorsement from 1 July 2004 to the majority of Auditing Standards made by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation. The AUASB has reviewed the Auditing Standards and has proceeded to make them as legally enforceable Auditing Standards under the *Corporations Act 2001*.

The Auditing Standards have been made also in accordance with the Financial Reporting Council's Strategic Direction to the AUASB dated 6 April 2005, pursuant to section 225 of the *ASIC Act*.

The Strategic Direction, *inter alia*, provides that the AUASB develops Auditing Standards that:

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- 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 a base;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the Strategic Direction, the AUASB has undertaken a process of thorough review and revision that has:

- addressed the enforceability of mandatory requirements;
- clarified auditors' obligations under the Auditing Standards;
- provided for sector neutrality in the Auditing Standards; and
- included other amendments as necessary.

Purpose of Auditing Standard ASA 330 *The Auditor's Procedures in Response to Assessed Risks*

The purpose of Auditing Standard ASA 330 is to establish mandatory requirements and to provide explanatory guidance on determining overall responses and designing and performing further audit procedures to respond to the assessed risks of material misstatement at the financial report and assertion levels in a financial report audit.

Auditing Standard ASA 330 is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing 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.

Main changes from Auditing Standard AUS 406 (February 2004) *The Auditor's Procedures In Response to Assessed Risks*

The main differences between ASA 330 and AUS 406 are that in ASA 330:

1. The word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility is described in AUS 406 by the word 'should'.
2. The explanatory paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas in AUS 406 some obligations are implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.
3. The following implied obligations in AUS 406 have been elevated and re-stated as specific mandatory requirements:
 - (a) when the auditor plans to perform only substantive procedures, the auditor shall design substantive procedures, for the relevant assertions, that are effective in reducing risks of material misstatement to an acceptably low level (paragraph 14);
 - (b) if the auditor's procedures detect a material misstatement that was not identified by the entity and that is indicative of a material weakness in internal control, the auditor shall communicate that weakness to management and those charged with governance on a timely basis (paragraph 44);

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- (c) when the auditor plans to use audit evidence about the operating effectiveness of controls obtained in a prior audit, the auditor shall perform audit procedures during the current period to establish the continuing relevance of the audit evidence (paragraph 52);
- (d) when the approach to significant risks consists only of substantive procedures, the auditor shall perform tests of details only or a combination of tests of details and substantive analytical procedures to address such significant risks (paragraph 73); and
- (e) where the auditor plans to use audit evidence from the performance of substantive procedures in a prior audit, the auditor shall perform audit procedures during the current period to establish the continuing relevance of the audit evidence (paragraph 84).

Consultation prior to issuing this Auditing Standard

The AUASB has consulted publicly as part of its due process in developing this Auditing Standard. Exposure Draft ED 2/05 *Proposed Auditing Standard: The Auditor's Procedures in Response to Assessed Risks (Re-issuance of AUS 406)* was issued on 31 August 2005 with a 45 day comment period. Submissions were received by the AUASB and it has considered these submissions as part of the development and finalisation of this Auditing Standard.