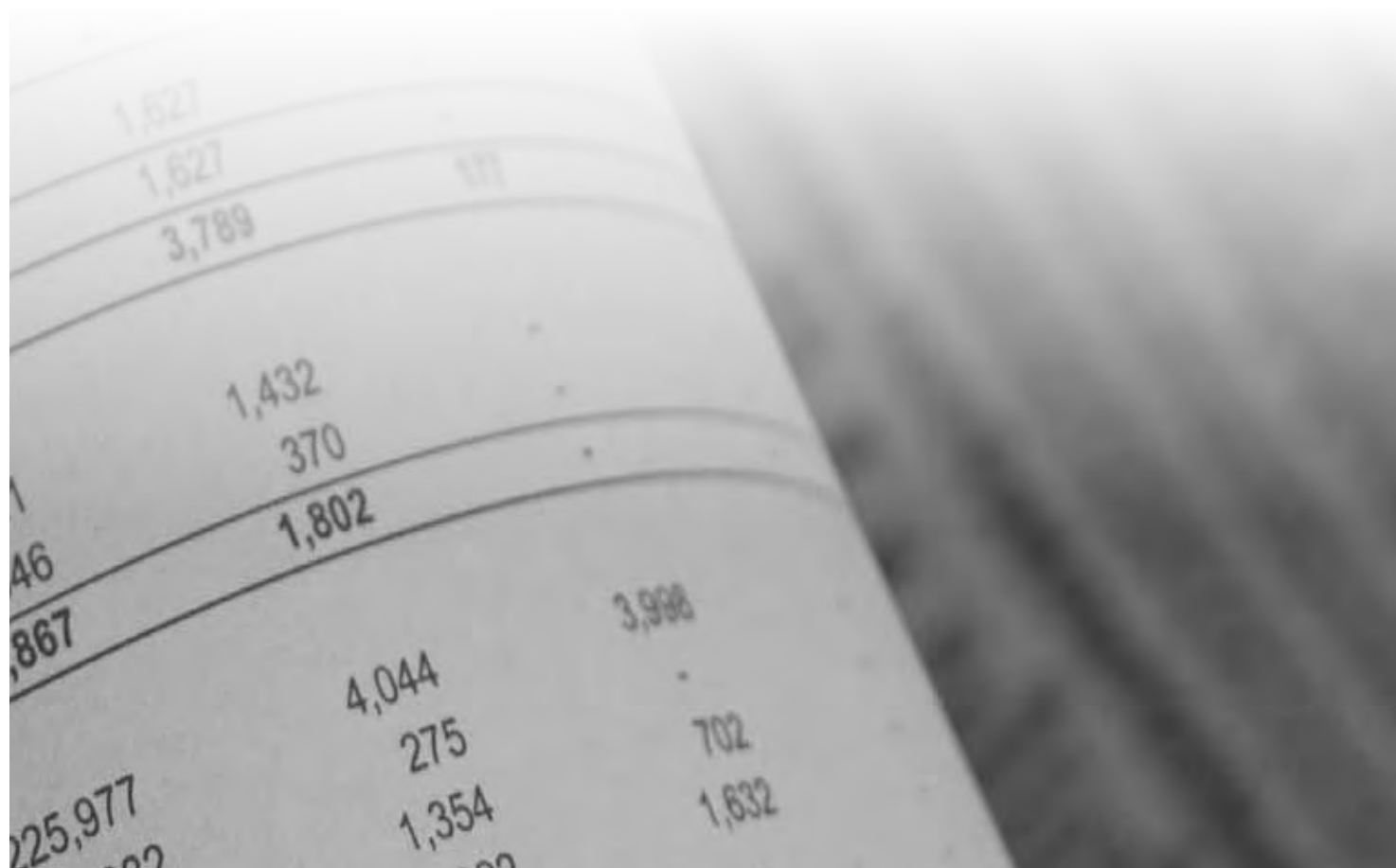




Australian Government
Auditing and Assurance Standards Board

Overview of the revised and redrafted Australian Auditing Standards

June 2010



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FOREWORD

The *Overview of the revised and redrafted Australian Auditing Standards* (June 2010) has been developed to assist auditors who are implementing the revised and redrafted Australian Auditing Standards in *Clarity* format.

The AUASB issued revised and redrafted Australian Auditing Standards in *Clarity* format in October 2009. The Standards apply to audits of financial statements and financial reports, with financial reporting periods commencing on or after 1 January 2010. The Standards also apply to firms that are required to have established systems of quality control for their audit practices, in accordance with those standards from that date.

This booklet provides detailed descriptions of some of the changes and important aspects of the revised and redrafted Australian Auditing Standards. It is not exhaustive, but is designed to capture the effects of a number of the *Clarity* Standards, in terms of new concepts, changes in scope, requirements, reporting and documentation.

For implementation of the revised and redrafted Auditing Standards to be successful, practitioners need to understand the changed technical aspects of the standards. We hope that the guidance in this booklet provides assistance in the quest for that understanding.

Merran Kelsall
AUASB Chairman

Overview of the revised and redrafted Australian Auditing Standards

Operative on or after 1 January 2010

Introduction

The Auditing and Assurance Standards Board (AUASB) has prepared the following *Overview of the revised and redrafted Australian Auditing Standards* (the *Overview*) as supplementary material for the information sessions held in December 2009, and March and May 2010, on the *Clarity* versions of the Australian Auditing Standards.

“Australian Auditing Standards” represent the suite of Auditing Standards issued by the AUASB, comprising:

- Auditing Standards made under section 336 of the *Corporations Act 2001* (including ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* and ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*);
- ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
- ASA 810 *Engagements to Report on Summary Financial Statements*.

The Auditing Standards listed above are also referred to as the “Auditing Standards” in this *Overview* document.

The *Overview* aims to provide a helpful guide to certain aspects of a selection of Auditing Standards. It contains limited information about some of the changes to, and/or significant aspects of, the selected Auditing Standards.

The following are new features of each Auditing Standard:

- a paragraph(s) describing the auditor’s objective(s);
- usually one or more definition(s); and
- where appropriate, application and other explanatory material (hereafter referred to generally as “guidance material”) covering considerations specific to public sector and smaller entities.

The *Overview* does not include direct commentary on the above features of the Auditing Standards, but, may refer to them.

Requirements and guidance material are described only, and are not reproduced from the relevant Auditing Standard. References to paragraph numbers in the Auditing Standards are included to assist the reader to find the relevant text within the Auditing Standards.

The *Overview* does not amend or override the Auditing Standards, the texts of which alone are authoritative. Reading the *Overview*, which is not exhaustive, is not a substitute for reading the Australian Auditing Standards. In conducting an audit in accordance with the Australian Auditing Standards, an auditor is required to comply with all the Auditing Standards that are relevant to the engagement.

Auditing Standard

ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements

Differences in Scope

1. This is a new Auditing Standard relating to quality control requirements for firms that perform any type of assurance engagement.
2. The underlying International Standard is ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements* issued by the International Auditing and Assurance Standards Board. However it should be noted that ASQC 1 does not relate to agreed-upon procedures (related services engagements).
3. The Auditing Standard incorporates definitions, terminology, and references particular to Australia.

New Concepts

1. This is the first time quality control requirements for firms have been incorporated into an Auditing Standard made under the *Corporations Act 2001*.

Selected Aspects of the Requirements

1. All requirements are new.

Other Matters

1. A reminder: although ASQC 1 applies to the firm; for audits undertaken in accordance with the *Corporations Act 2001* (the Act), the engagement partner is required to comply with the Auditing Standards (including ASQC 1) under section 307A of that Act. [See also ASA 220, Para. Aus A2.1]
2. For firms already required to comply with APES 320 *Quality Control for Firms* (issued by the Accounting Professional and Ethical Standards Board), the requirements in ASQC 1 are consistent with APES 320 to the extent they relate to assurance engagements.

Documentation

1. ASQC 1 requires documentation as supporting evidence of the firm's compliance with each element of its system of quality control.
2. The firm shall establish policies and procedures that require retention of documentation.
3. The firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.

Auditor's Report

1. ASQC 1 does not impact the specific form and content of the auditor's report; however, it requires the firm to establish controls to ensure all auditors' reports issued are appropriate in the circumstances.

Auditing Standard

ASA 101 *Preamble to Australian Auditing Standards*

Differences in Scope

1. This is a new Auditing Standard, which sets out mandatory components that are *additional* to those dealt with elsewhere in the Australian Auditing Standards, which are operative beginning on or after 1 January 2010.
2. ASA 101 applies to the suite of Australian Auditing Standards only—it should not be confused with ASA 100 *Preamble to AUASB Standards*. ASA 101 does not replace or amend ASA 100.
3. ASA 101 also applies to a firm required to comply with ASQC 1.

New Concepts

1. The Auditing Standard describes the authority of the paragraphs in Australian Auditing Standards.
2. The *Clarity* format and layout of the Australian Auditing Standards differs significantly from the pre-existing Australian Auditing Standards and accordingly, the AUASB considers it necessary to distinguish mandatory components from guidance material.
 - For example all the text in the Auditing Standard is in normal type font (i.e. requirements are no longer in “bold” type, with guidance material in “normal” type).
 - Individual requirements and their related guidance are no longer directly following each other – they are grouped into sections under headings and cross referenced.
 - Consistent with the existing Auditing Standards, the guidance material does not create or extend mandatory components. [Para. 9-10]

Other Matters

1. It is important to note the requirement at paragraph 10 [see also ASA 200 Para. 19]:

The auditor shall consider the whole text of an Auditing Standard to understand, interpret and apply the mandatory components.

Documentation

1. Consistent with ASA 100 [Para. 12], when, in the circumstances of the audit, a requirement is not relevant due to the conditions described in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, the auditor is not required to document the reason(s) why the requirement is not relevant. [Para. 12]

Auditing Standard

ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Differences in Scope

1. ASA 102 is a new Auditing Standard. It applies to the firm, engagement quality control reviewer, the auditor, and assurance practitioner.

The existing AUASB Auditing Standards require the assurance practitioner to comply with “relevant ethical requirements” when performing audits, reviews and other assurance engagements—but do not refer to the firm and engagement quality control reviewer in this regard.

New Concepts

1. The purpose of the standard is to ensure references to ethical requirements, contained within AUASB Standards, remain current, as any future changes to ethical requirements will be made in ASA 102 only.

Selected Aspects of the Requirements

1. There is only one requirement in the Auditing Standard—i.e. the auditor, assurance practitioner, engagement quality control reviewer and firm are required to comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements. [Para. 5]

Other Matters

1. The guidance material sets out that in complying with relevant ethical requirements, the auditor, assurance practitioner, engagement quality control reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants* (issued by the Accounting Professional and Ethical Standards Board), which are to be taken into account in determining whether relevant ethical requirements have been met.
2. The definition at Para. 4(e) describes relevant ethical requirements as including APES 110, applicable provisions of the *Corporations Act 2001* and other applicable law or regulation.



Auditing Standard

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

New Concepts

1. The auditor needs to meet all of the objectives set out in individual Auditing Standards that are relevant in planning and performing an audit, to meet the overall audit objectives of ASA 200. The overall objectives of the auditor remain:
 - *to obtain reasonable assurance that the financial report is prepared in all material respects in accordance with the applicable financial reporting framework; and*
 - *to report on the financial report, and communicate findings in accordance with Australian Auditing Standards. [Para. 11]*
2. The guidance material in paragraphs A67 to A76 is of particular importance in understanding the purpose and use of the auditor's overall objectives specified in the Auditing Standard and the objective(s) specified in each Auditing Standard.

Selected Aspects of the Requirements

1. Establishes that an Auditing Standard is "relevant" to an audit when the Auditing Standard is operative and the circumstances set out in the Auditing Standard exist. [Para. 18]
2. An understanding of the entire text of the Auditing Standard is required to understand its objectives and apply its requirements properly. [Para. 19 and ASA 101 Para. 10]
3. To assert compliance with Australian Auditing Standards in the auditor's report means that the auditor must comply with the requirements of all Auditing Standards relevant to the audit. [Para. 20]
4. The auditor determines whether any audit procedures in addition to those required by the Australian Auditing Standards are necessary to meet the objectives stated in the Australian Auditing Standards. [Para. 21(a)]
5. The auditor evaluates whether sufficient appropriate audit evidence has been obtained. [Para. 21(b)]
6. The Auditing Standard requires compliance with each requirement of an Auditing Standard unless in the circumstances of the audit:
 - the entire Auditing Standard is not relevant;
 - it is a conditional requirement, and the condition does not exist;
 - the requirement applies to transaction classes, account balances or disclosures that the auditor has determined are immaterial. [Para. 22-Aus 22.1]
7. Failure to meet an individual Auditing Standards objective(s) requires:
 - documentation because it is a "significant matter";
 - the auditor to assess whether this prevents them from achieving their overall audit objectives; and
 - whether the circumstances require the auditor's opinion on the financial report to be modified, or for the auditor to withdraw from the engagement (where this is possible under applicable law or regulation). [Para. 24]

Other Matters

1. The fundamental audit principle of “professional judgement” is described in detail.
2. ASA 200 retains definitions, terminology, and references particular to Australia.
3. Para. Aus 23.1 retains the requirement in the pre-existing auditing standard regarding rare and exceptional circumstances when an auditor is unable to comply with a relevant essential procedure.

Documentation

1. The auditor must document any failure to achieve an objective in an Auditing Standard relevant to the audit as it is considered a “significant matter” [See ASA 230 *Audit Documentation*].

Auditor’s Report

1. Failure to meet an objective(s) in an individual Auditing Standard may result in a modified audit opinion.

Auditing Standard

ASA 210 Agreeing the Terms of Audit Engagements

New Concepts

1. The auditor accepts, or continues, an audit engagement only when the auditor has established that the preconditions for the audit are present.
2. References to “management” are to be read as “management and, where appropriate, those charged with governance” throughout the Auditing Standard.

Selected Aspects of the Requirements

1. The auditor has to determine whether the financial reporting framework to be applied in the preparation of the financial report is acceptable.
[Para. 6(a), Para. A2-A10 and Appendix 2]
2. The auditor has to obtain the agreement of management that it acknowledges and understands its responsibility for:
 - the preparation of the financial report;
 - internal control relevant to the preparation of the financial report; and
 - providing the auditor with access to all information requested by the auditor, as well as access to persons within the entity from whom the auditor needs to obtain audit evidence. [Para. 6(b)]

The description of management’s responsibility for internal control is in terms of “such internal control as management determines is necessary” whereas previously, management’s responsibility was described as “establishing and maintaining internal controls”.

3. The auditor shall not accept an engagement where management has imposed a limitation on the scope of the auditor’s work that the auditor believes will result in a disclaimer of opinion. [Para. 7]
4. The Auditing Standard lists matters to be included in an engagement letter.
[Para. 10]
5. The Auditing Standard describes additional acceptance considerations when:
 - the financial reporting framework prescribed by law or regulation is unacceptable; or
 - the layout or wording of the auditor’s report is prescribed by law or regulation.
[Para. 18-21]

Other Matters

1. Appendix 1 contains an example engagement letter, which reflects the new requirements and terminology in the Auditing Standard.

Auditor's Report

1. In cases where the layout or wording of the auditor's report prescribed by law or regulation is different in form, or in terms, to that required by the Australian Auditing Standards, the auditor needs to evaluate:
 - whether users might misunderstand the assurance obtained from the audit, and if so,
 - whether additional explanation in the auditor's report can mitigate possible misunderstanding.

When additional information cannot mitigate possible misunderstanding, the auditor cannot refer to the audit as having been conducted in accordance with the Australian Auditing Standards. [Para. 21]



Auditing Standard

ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*

Selected Aspects of the Requirements

Changes to requirements arise from the elevation of guidance material contained in the pre-existing Auditing Standard.

1. Where responses to enquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.
2. In determining the overall responses to assessed risks, the auditor needs to:
 - assign and supervise their engagement team taking account of:
 - their knowledge, skill and ability; and
 - the auditor's assessment of the risks of material misstatement due to fraud;
 - evaluate whether the selection and application of accounting policies by the entity, (particularly those related to subjective measurements and complex transactions) may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and
 - incorporate an element of unpredictability in the selection of the nature, timing, and extent of audit procedures. [Para. 29]
3. Based on the presumption that there are risks of fraud in revenue recognition, the auditor is required to assess which types of revenue, revenue transactions or assertions give rise to such risks.
4. The Auditing Standard retains the basic principle that the risk of management override of controls is present in all entities. Due to the unpredictable way in which such an override could occur, it represents a risk of material misstatement due to fraud and thus a significant risk. [Para. 31]
5. Regardless of the auditor's risk assessment, the auditor must test the appropriateness of journal entries—the auditor shall:
 - *make enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;*
 - *select journal entries and other adjustments made at the end of a reporting period; and*
 - *consider the need to test journal entries and other adjustments throughout the period. [Para. 32(a)]*
6. In reviewing accounting estimates, the auditor shall:
 - evaluate whether the judgements and decisions made by management in making the accounting estimates indicate a possible bias that may represent a risk of material misstatement due to fraud. If so, the auditor shall re-evaluate the accounting estimates taken as a whole; and
 - perform a retrospective review of management's judgements and assumptions related to significant accounting estimates made in the prior year's financial report. [Para. 32(b)]
7. In response to the risk that management overrides controls, the auditor must determine whether to perform audit procedures in addition to those included in the Auditing Standard. [Para. 33]

8. If the auditor identifies a misstatement and has reason to believe that it is, or may be the result of fraud, and that management is involved, the auditor shall re-evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management, or third parties when reconsidering the reliability of evidence previously obtained. [Para. 36]

Other Matters

1. The following requirement in the existing Auditing Standard has been transferred to ASA 200:

The auditor, in planning and performing the audit to reduce audit risk to an acceptably low level, shall consider the risks of material misstatements in the financial report due to fraud. [Para. 11(a)]

Documentation

1. Consistent with the pre-existing Auditing Standard, the auditor is required to document the reasons for concluding that the presumption there is risk of fraud in revenue recognition is not applicable in the circumstances of the engagement. [Para. 47]

Auditing Standard

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

New Concepts

1. The Auditing Standard clearly distinguishes between two categories of laws and regulations:
 - those that are generally recognised as having a direct effect on the determination of material amounts and disclosures in the financial report; and
 - other laws and regulations that do not have a direct effect on the financial report, however compliance with which may be fundamental to the entity's operations, its ability to continue as a going concern, or to avoid material penalties. [Para. 6]

Selected Aspects of the Requirements

Changes to the requirements arise from the elevation of guidance material contained in the pre-existing Auditing Standard.

1. 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 the Auditing Standard. [Para. 12-16]
2. Where management/those charged with governance do not provide the auditor with sufficient evidence supporting the entity's compliance with laws and regulations, and the auditor judges the effect of the non-compliance may be material, the auditor must consider seeking legal advice. [Para. 19]
3. The auditor needs to consider obtaining legal advice if the auditor believes audit communications relating to suspected fraud may not be acted upon. [Para. 24]
4. The auditor shall determine if there is a requirement to report non-compliance to parties outside the entity. [Para. 28]

Other Matters

1. The Auditing Standard requires the auditor to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the financial report. [Para. 13]
2. In the case of other laws and regulations, the auditor is required to:
 - make enquiries, regarding compliance, with management/those charged with governance; and
 - inspect documentation, if any, with relevant licensing or regulatory bodies. [Para. 14]

Documentation

1. The auditor is required to document any identified or suspected non-compliance with laws or regulations, and any related discussions with management/those charged with governance, or parties outside the entity. [Para. 29]

Auditor's Report

The impact of the Auditing Standard on the auditor's report relates to non-compliance with laws and regulations.

1. The auditor is required to express:
 - a qualified or an adverse opinion (per ASA 705) if non-compliance with laws or regulations has a material effect on the financial report, and has not been adequately reflected in the financial report. [Para. 25]
 - a qualified opinion or disclaimer of opinion (per ASA 705), on the basis of a scope limitation, if management/those charged with governance precludes the auditor 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. [Para. 26]
 - where the auditor is unable to determine whether non-compliance has occurred due to limitations imposed by circumstances, rather than by management/those charged with governance, the Auditing Standard requires the auditor to consider its effect on the auditor's opinion in accordance with ASA 705. [Para. 27]

Auditing Standard

ASA 260 *Communication with Those Charged with Governance*

Differences in Scope

1. Those charged with governance now includes persons who act with both management and governance responsibilities.

New Concepts

1. The auditor is required to communicate specific matters and significant findings to those charged with governance.
2. The auditor of listed entities is now required to advise those charged with governance of the total fees charged by the auditor's firm (including network firms) for audit and non-audit services for the period covered by the financial report audit. (See item no. 2 below in Selected Aspects of the Requirements.)

Selected Aspects of the Requirements

1. The auditor has to communicate with those charged with governance:
 - their views on significant qualitative aspects of the entity's accounting practices;
 - any significant difficulties encountered during the audit;
 - any significant matters communicated to management (where management is separate from those charged with governance);
 - all written representations requested from management (where management is separate from those charged with governance); and
 - any other matters the auditor considers significant to the oversight of the financial reporting process. [Para. 16]
2. The auditor of listed entities has to communicate to those charged with governance total fees charged by the auditor's firm (including network firms) for audit and non-audit services for the period covered by the financial report audit. Fees are to be allocated to appropriate categories to assist those charged with governance in assessing the auditor's independence. [Para. 17]
3. The auditor is required to assess the adequacy of the communication process, between the auditor and those charged with governance, for the purposes of the audit. If it has not been adequate, the auditor has to evaluate any effect on the assessment of the risks of material misstatement and the ability to obtain sufficient appropriate audit evidence, and take appropriate action. [Para. 22]

Other Matters

1. Appendix 1 includes cross references to other Auditing Standards requiring communications with those charged with governance on matters not specified in this Auditing Standard.
2. Appendix 2 provides examples of significant qualitative aspects of the entity's accounting practices (for example, accounting policies, accounting estimates, financial report disclosures and related matters) that the auditor may consider providing their views on to those charged with governance.

Documentation

1. The auditor is required to document any matters that have been orally communicated with those charged with governance, including to whom and when they were communicated. They also have to retain any written communications about such matters as part of the audit documentation.
[Para. 23]

Auditing Standard

ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Differences in Scope

1. This is a new Auditing Standard relating to the reporting of “significant deficiencies” in internal control.
2. It is closely linked to:
 - ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*;
 - ASA 330 *The Auditor’s Responses to Assessed Risks*; and
 - ASA 260 *Communication with Those Charged with Governance*.

New Concepts

1. The term “material weakness” is no longer used in the Australian Auditing Standards and has been replaced with “significant deficiency”.
2. All requirements and guidance material relating to the communication of “material weaknesses” in the pre-existing Auditing Standard are combined into one Auditing Standard.
3. The Auditing Standard introduces two new terms:
 - a “deficiency in internal control”; and
 - a “significant deficiency”.

The changes to the definitions were made to clarify the meaning of “material weakness”, to improve the consistency with which auditors treat identified weaknesses in internal control as material, and how such matters are reported.
4. A “deficiency” in internal control exists when:
 - a control is designed, implemented, or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial report on a timely basis; or
 - a control, necessary to prevent, or detect and correct, misstatements in the financial report on a timely basis, is missing. [Para. 6 (a)]
5. A “significant deficiency” is defined as a *deficiency or combination of deficiencies in internal control that, in the auditor’s professional judgement, is of sufficient importance to merit the attention of those charged with governance*. [Para. 6 (b)]

Selected Aspects of the Requirements

1. The Auditing Standard requires the auditor to:
 - Determine whether the auditor has identified one or more deficiencies in internal control. [Para. 7]
 - Assess whether identified deficiencies in internal control, individually or in combination, constitute significant deficiencies. [Para. 8]
 - Communicate in writing, all significant deficiencies in internal control and their potential effects to those charged with governance, and where appropriate management. [Para. 9]

- Communicate other identified deficiencies in internal control that the auditor considers to be of sufficient importance to merit management's attention. [Para. 10]
 - Explain in the written communication to those charged with governance, and where appropriate management, that any deficiencies identified and communicated have been identified through the process of auditing the financial report, which does not ordinarily include expressing an opinion on the effectiveness of internal control. [Para. 11]
2. There is no expectation that the Auditing Standard's use of the term "deficiencies" to describe internal control weaknesses will result in the auditor reporting more, or less, than would have been the case with "material weaknesses" under the existing Auditing Standards. The standard does not impose additional responsibilities on the auditor regarding obtaining an understanding of internal control and designing and performing tests of controls over and above the requirements of ASA 315 and ASA 330.

Other Matters

1. This Auditing Standard includes additional guidance material relating to:
- the matters that the auditor may consider in determining whether a deficiency, or combination of deficiencies, in internal control is/(are) significant;
 - the timing and level of detail of the written communication to those charged with governance;
 - considerations specific to smaller entities; and
 - considerations specific to public sector entities.

Documentation

1. No specific documentation requirements, but the auditor is required to communicate certain matters in writing (see above).

Auditing Standard

ASA 320 *Materiality in Planning and Performing an Audit*

Differences in Scope

1. The Auditing Standard deals only with the concept of materiality used in planning and performing an audit. ASA 450 *Evaluation of Misstatements Identified during the Audit* (a new Auditing Standard) deals with how materiality is applied in evaluating identified and/or uncorrected misstatements.

Selected Aspects of the Requirements

1. The Auditing Standard contains explicit requirements on determining materiality at three levels:
 - materiality for the financial report as a whole;
 - if applicable, materiality for particular classes of transactions, account balances or disclosures; and
 - performance materiality. [Para. 10-11]
2. The auditor has to determine whether performance materiality needs to be revised if the materiality applied to the financial report as a whole, or to particular classes of transactions, account balances, or disclosures, are revised. [Para. 13]

Other Matters

1. New definition introduced – performance materiality.
 - This is the materiality amount set at less than that applied to the financial report as a whole, or to particular classes of transactions, account balances, or disclosures.
 - Performance materiality is used to reduce to an appropriately low level the probability that the aggregate of uncorrected and/or undetected misstatements exceed(s) materiality for the financial report as a whole.

Documentation

1. Audit documentation is required to include amounts and factors considered in determining:
 - materiality for the financial report as a whole;
 - materiality for particular classes of transactions, account balances or disclosures;
 - performance materiality; and
 - revisions to any level of materiality. [Para. 14]

Auditing Standard

ASA 402 Audit Considerations Relating to an Entity Using a Service Organisation

Selected Aspects of the Requirements

Changes to requirements arise from new requirements and the elevation of guidance material contained in the existing Auditing Standard.

1. The user entity's auditor is required to obtain an understanding of the services provided by a service organisation and how the user entity uses such services in its operations. The auditor's understanding is necessary to enable identification and assessment of risk. The user entity's auditor is also required to obtain an understanding of the controls at the user entity that relate to the services provided by the service organisation. [Para. 9]
2. Where the user entity's auditor is unable to obtain sufficient understanding, the auditor is required to obtain such understanding by performing one or more of the following:
 - obtain a type 1 or type 2 report, if available;
 - obtain specific information from the service organisation;
 - perform procedures at the service organisation that will provide the auditor with the necessary information about the service organisation's controls; or
 - use another auditor to perform procedures at the service organisation to provide the necessary information about the service organisation's controls. [Para. 12]
3. The user entity's auditor is required to determine the sufficiency and appropriateness of the type 1 or 2 reports by reference to the competency of the auditor preparing the report(s), the Auditing Standards under which the reports were prepared, the quality and scope of evidence provided by the reports and whether complementary user entity controls are relevant. [Para. 13-14]
4. In responding to assessed risks, if the user entity's auditor plans to use a type 2 report, the Auditing Standard sets out specific requirements to determine if the type 2 report provides sufficient appropriate audit evidence. [Para. 17]
5. The user entity's auditor is required to enquire of user entity management whether the service organisation has reported any fraud, non-compliance with laws and regulations or misstatements that affect the user entity. If so, the user entity's auditor must determine the effect on the audit procedures. [Para. 19]

Other Matters

1. The Auditing Standard includes a new and comprehensive definitions section.
2. The topic of subservice organisations is included in the guidance material as part of understanding controls related to services provided by service organisations.

Auditor's Report

1. The user entity's auditor shall modify the auditor's report if the auditor is unable to obtain sufficient appropriate evidence regarding the services provided by a service organisation.
2. No reference to the work of the service organisation's auditor is to be made in the auditor's report of the user entity's auditor unless required by law or regulation.
3. When reference to the work of the service organisation's auditor is made in the auditor's report of the user entity's auditor (either due to a legal or regulatory requirement, or because it is relevant to the understanding of a modification in the auditor's report of the user entity's auditor), the user entity's auditor needs to indicate in the auditor's report that such a reference does not reduce the responsibility of the user entity's auditor for the audit opinion.

Auditing Standard

ASA 520 *Analytical Procedures*

Differences in Scope

1. The Auditing Standard includes requirements and guidance material on substantive analytical procedures—previously included in the existing Auditing Standard as guidance only.
2. The Auditing Standard no longer deals with analytical procedures relating to risk assessment. This subject is covered in ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

Selected Aspects of the Requirements

1. When designing and performing substantive analytical procedures, the auditor is required to:
 - determine the suitability of substantive analytical procedures for given assertions;
 - evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed;
 - develop an expectation of recorded amounts or ratios; and
 - determine the amount of difference between the recorded amounts or ratios and the expectation that is acceptable, and will not result in further investigation. [Para. 5]



Auditing Standard

ASA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Differences in Scope

1. ASA 540 combines the requirements and guidance from two pre-existing Auditing Standards:
 - ASA 540 *Audit of Accounting Estimates*; and
 - ASA 545 *Auditing Fair Value Measurements and Disclosures*

Selected Aspects of the Requirements

Changes to requirements arise from new requirements and the elevation of guidance material contained in the existing Auditing Standards.

1. The Auditing Standard introduces risk assessment procedures that were not contained in the existing Auditing Standards. For example, the auditor needs to understand the requirements of the applicable financial reporting framework, how management identifies transactions and events that may give rise to accounting estimates, and how management makes accounting estimates (including assessing the effect of estimation uncertainty). [Para. 8]
2. As part of the risk assessment, the auditor has to review the outcome of accounting estimates made in the prior year. [Para. 9]
3. The auditor has to evaluate the degree of estimation uncertainty associated with accounting estimates and whether any high estimation uncertainty gives rise to significant risks and therefore require special audit consideration. [Para. 10-11]
4. Based on the assessed risk of material misstatement, the auditor needs to determine whether the accounting estimates have been made in accordance with the requirements of the financial reporting framework and whether the methods for making the accounting estimates have been applied consistently with prior periods. [Para. 12]
5. The Auditing Standard sets out procedures that the auditor can use to respond to assessed risk of material misstatement. Such procedures are predominantly substantive in nature; however, the auditor may choose to test the operating effectiveness of internal controls over how management made the accounting estimates, together with substantive procedures. The auditor may also develop a point estimate or a range to evaluate management's point estimate. [Para. 13]
6. The auditor must consider whether specialised skills or knowledge are required in order to obtain sufficient appropriate audit evidence.
7. For accounting estimates that give rise to significant risks, the auditor shall evaluate:
 - how management has considered alternative assumptions or outcomes;
 - whether management's assumptions are reasonable; and
 - where relevant to the reasonableness of management's assumptions, or the application of the financial reporting framework, management's intent to carry out courses of action and its ability to do so. [Para. 15]
8. The auditor has to obtain sufficient appropriate audit evidence that the measurement and disclosure of accounting estimates are in accordance with the financial reporting framework.

9. The auditor must review management's judgements and decisions for any indications of bias.

Documentation

1. Audit documentation requirements include:
 - the basis for the auditor's conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks;
 - indicators of possible management bias, if any; and
 - the auditor's evaluation of indicators of possible management bias, including whether the circumstances giving rise to such bias represent a risk of material misstatement due to fraud.

(Paragraph A125 contains examples of indicators of possible management bias.)

Auditor's Report

1. Reference is made to *ASA 705 Modifications to the Opinion in the Independent Auditor's Report* for the implications for the auditor's report when the auditor believes that management's disclosure in the financial report of estimation uncertainty is inadequate or misleading.



Auditing Standard

ASA 550 *Related Parties*

Selected Aspects of the Requirements

Changes to requirements arise from new requirements and the elevation of guidance material contained in the pre-existing Auditing Standard.

1. In assessing risk, the engagement team discussion must include the susceptibility of the financial report to misstatement due to fraud or error that may result from related party relationships and transactions. [Para. 12]
2. The auditor has to obtain an understanding of internal controls, if any, that management has established to:
 - identify, account for and disclose related party transactions; and
 - authorise and approve significant transactions and arrangements:
 - with related parties; and
 - outside the normal course of business. [Para. 14]
3. The auditor must be alert, when inspecting records or documents, for arrangements or information that may indicate related party relationships or transactions that management has not identified or disclosed to the auditor. The auditor must inspect bank and legal confirmations, minutes of meetings and other records and documents considered necessary in the circumstances of the engagement, for indications of related party relationships or transactions that management has not identified or disclosed to the auditor. [Para. 15]
4. If the auditor identifies significant transactions outside the normal course of business, the auditor shall discuss with management the nature of the transactions and whether related parties are involved. [Para. 16]
5. The auditor must share information about related parties with other members of the engagement team. [Para. 17]
6. The auditor shall treat significant related party transactions outside the normal course of business as significant risks. [Para. 18]
7. If the auditor identifies any fraud risk factors in relation to related parties, the auditor needs to consider such information in assessing the risks of misstatements in accordance with ASA 240. [Para. 19]
8. There are additional requirements regarding responses to risks.
 - (a) If the auditor identifies significant related parties or related party transactions not previously identified or disclosed by management they must:
 - promptly communicate information to other members of the engagement team;
 - request management to identify all transactions with the newly identified related party;
 - enquire why internal control failed to identify the related party relationships or transactions;
 - perform appropriate substantive procedures;
 - reconsider risks that other related party relationships or transactions may exist; and
 - evaluate the implications for the audit if the non-disclosure by management appears intentional. [Para. 22]

- (b) For identified significant related party transactions outside the normal course of business, the auditor needs to:
 - inspect underlying contracts and agreements and evaluate whether:
 - the business rationale suggests fraud;
 - the terms are consistent with management's explanations; and
 - the transactions were accounted for and disclosed in accordance with applicable financial reporting framework; and
 - obtain evidence the transactions are appropriately authorised and approved. [Para. 23]
- (c) When management has made an assertion in the financial report that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion. [Para. 24]
- (d) The auditor should evaluate whether the effects of related party relationships and transactions could prevent the financial report from achieving fair presentation, or be misleading. [Para. 25]

Other Matters

1. It is important to note that the Auditing Standard applies regardless of whether the entity is required to disclose related party transactions in the financial report.

Documentation

1. The auditor shall include in the audit documentation the names of the identified related parties and the nature of the related party relationships. [Para. 28]

Auditor's Report

1. The auditor shall modify the auditor's report if:
 - they are unable to obtain sufficient appropriate audit evidence;
 - they are unable to form a conclusion on the completeness of disclosure; or
 - conclude that the related party disclosures do not satisfy the requirements of the applicable financial reporting framework.

Auditing Standard

ASA 570 *Going Concern*

Differences in Scope

1. The Auditing Standard addresses material uncertainty in the context of both a fair presentation financial reporting framework and a compliance framework. [Para. 17]

New Concepts

1. References to “management” are to be read as “management and, where appropriate, those charged with governance” throughout the Auditing Standard.

Selected Aspects of the Requirements

Changes to requirements arise from the elevation of guidance material contained in the pre-existing Auditing Standard.

1. The auditor is required to determine whether management has performed a preliminary assessment of going concern and discuss any such assessment with them. [Para. 10]
2. Appropriate disclosure in the financial report of a material uncertainty is necessary for the financial report to be presented fairly (for a “fair presentation framework”), or not misleading (for a “compliance framework”). [Para. 17]
3. Auditors who identify events or conditions that may cast significant doubt on the entity’s going concern status are required to have more detailed communications with those charged with governance (when they are separate from management), including discussing the adequacy of financial report disclosures. [Para. 23-Aus 23.1]
4. There are additional procedures required to be performed where there is a significant delay in the approval of the financial report. [Para. 24]

Other Matters

1. The time frame in which the auditor is required to assess going concern (i.e. the “relevant period”), remains defined in the Auditing Standard as the period from the date of the auditor’s current report to the expected date of the next audit report. This remains a conforming difference with *ISA 570 Going Concern*.
2. The phrase “material uncertainty” replaces “significant uncertainty” used in the existing Auditing Standard in describing the magnitude of the potential impact and likelihood of occurrence of an event(s) or condition(s) on going concern. [Para. 17]
3. Appendix 1 contains an updated diagram linking going concern considerations and types of audit opinions.

Auditor’s Report

1. Appendices 2 and 3 contain updated examples of auditor’s reports that reflect the format and content of the auditors reports, as described in the reporting standards: ASAs 700, 705 and 706.

Auditing Standard

ASA 580 *Written Representations*

Differences in Scope

1. The scope of the Auditing Standard has been expanded to include representations obtained from those charged with governance, in addition to management.

Selected Aspects of the Requirements

1. Expands the information required to be requested in the written representation to include that management has provided all relevant information (agreed in the terms of the audit engagement) and provided access to information and personnel; and all transactions have been recorded and reflected in the financial report. [Para. 11]
2. Management's responsibilities described in the written representation are to be in the same terms as described in the terms of engagement. [Para. 12]
3. The Auditing Standard refers to other Auditing Standards that require written representations and directs the auditor to request additional written representations if the auditor determines it necessary to support other audit evidence. [Para. 13]
4. The date of the written representation cannot be after the date of the auditor's report. The written representation should cover all the financial reports and periods referred to in the auditor's report. [Para. 14]
5. The auditor is required to take further action/perform additional audit procedures if the written representations are assessed by the auditor to be inconsistent with other audit evidence, or are not reliable. [Para. 17 and 18]

Other Matters

1. Appendix 1 contains a listing of other Auditing Standards which require written representations about specific subject matters.
2. Appendix 2 includes an updated example representation letter.

Auditor's Report

1. The auditor is required to issue a disclaimer of opinion where the auditor concludes that the written representation provided by management/those charged with governance is not reliable, or when management/those charged with governance do not provide the required representations.

Auditing Standard

ASA 600 Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)

Differences in Scope

1. The focus of the Auditing Standard has changed from a general approach to using the work of another auditor, to one that deals primarily with the audit of group entities. However, it can still be applied in circumstances when the auditor involves other auditors in the audit of financial reports that are not group financial reports. Accordingly, the scope of the standard has not changed to any significant extent.

New Concepts

1. The Auditing Standard introduces a new definition of a “component” - an entity or a business activity for which financial information is prepared and included in the group financial report.

Selected Aspects of the Requirements

The Auditing Standard has been subject to a significant revision with a change of emphasis described above. Therefore, it is not meaningful to list specific differences in requirements between the Auditing Standard and the existing Auditing Standard. The following paragraphs describe only a selection of requirements:

1. The Auditing Standard defines and distinguishes the responsibilities of the “group engagement partner” and the “group engagement team”.
2. The group engagement partner shall not accept an engagement, or shall resign from one if the auditor concludes a restriction in scope imposed by group management will lead to a disclaimer of opinion.
3. The Auditing Standard requires the auditor to determine four levels of materiality:
 - overall group materiality;
 - if applicable, materiality for particular classes of transactions, account balances or disclosures;
 - component materiality; and
 - threshold above which misstatements cannot be regarded as trivial.
4. The Auditing Standard contains extensive and specific requirements regarding the nature, timing and extent of audit procedures for the group engagement team when:
 - establishing an overall group audit strategy and group audit plan;
 - obtaining an understanding of the group, its components and their environments; and
 - obtaining an understanding of the component auditor(s).
5. The Auditing Standard sets out different requirements depending on whether a component is significant or not and contains requirements regarding:
 - the consolidation process and subsequent events;
 - communications with component auditors and with group management and those charged with governance.

Documentation

1. The audit documentation is required to include:
 - an analysis of the group's components, indicating those that are significant, and the type of work performed on the financial information of the components.
 - The nature, timing and extent of the group engagement team's involvement in the work performed by the component auditors on significant components including, where applicable, the group engagement team's review of relevant parts of the component auditors' documentation and conclusions thereon.
 - Written communications between the group engagement team and the component auditors about the group engagement team's requirements.

Auditor's Report

1. The Auditing Standard does not permit the auditor's report on the group to refer to a component auditor, unless required by law or regulation. However, the Auditing Standard acknowledges there may be a need to refer to the component auditor's report when the group auditor's report is modified because the group engagement team is unable to obtain sufficient appropriate evidence in relation to the component.
2. When a component auditor issues, or intends to issue, a modified auditor's report, the group engagement partner is required to consider the nature and significance of the modification in relation to the group financial report and whether it consequently requires a modified auditor's report for the group.



Auditing Standard

ASA 620 *Using the Work of an Auditor's Expert*

Differences in Scope

1. Using the work of "management's expert" is now covered in ASA 500 *Audit Evidence*.

Selected Aspects of the Requirements

1. Changes to requirements arise from the elevation of guidance material contained in the pre-existing Auditing Standard.
2. The auditor must agree, in writing when appropriate, the following matters with the auditor's expert:
 - the nature, scope and objectives of the expert's work;
 - the respective roles of the auditor and the expert;
 - the nature, timing and extent of communication between the auditor and the expert, including the form of the report to be provided by the expert; and
 - the need for the expert to observe confidentiality. [Para. 11]

Other Matters

1. The Auditing Standard defines an auditor's expert and management's expert.
2. Areas of significant new guidance material include:
 - determining the nature, timing, and extent of audit procedures when using the work of an auditor's expert. [Para. A10-A13]
 - understanding the competence, capabilities, objectivity and field of expertise of the auditor's expert. [Para. A14-A22]
 - establishing agreement with the auditor's expert on the work to be performed. [Para. A23-A31]
 - evaluating the work of the auditor's expert. [Para. A32-A40]
 - considerations for agreement between the auditor and an auditor's external expert. [Appendix 1]

Auditor's Report

1. The auditor must not refer to the work of the auditor's expert in an auditor's report, containing an unmodified opinion, unless required to by the law or regulation. If such a reference is required by law or regulation, the auditor must indicate in the auditor's report that it does not reduce the auditor's responsibility for the auditor's opinion.
2. If the auditor refers to the work of an auditor's expert in the auditor's report because they believe such a reference is relevant to an understanding of a modification to the auditor's opinion, the auditor's report must indicate that such a reference does not reduce the auditor's responsibility for the auditor's modified opinion.

Auditing Standard

ASA 700 Forming an Opinion and Reporting on a Financial Report

New Concepts

- Under ASA 700, the auditor issues an auditor's report on a financial report prepared in accordance with a financial reporting framework that is a "fair presentation framework" or a "compliance framework". The existing Auditing Standard deals only with a fair presentation framework.
 - ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* sets out the definitions of the financial reporting frameworks (fair presentation or compliance):

The term "fair presentation framework" means a financial reporting framework that requires compliance with the requirements of the framework and:

 - acknowledges explicitly or implicitly that, to achieve fair presentation of the financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or*
 - acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report. Such departures are expected to be necessary only in extremely rare circumstances.*

The term "compliance framework" means a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above. [ASA 200, Para. 13(a)]
- ASA 700 is an overarching Auditing Standard on forming an opinion, and reporting. Accordingly, the requirements are to be applied by the auditor regardless of whether the financial report is a "general purpose financial report" or a "special purpose financial report". In situations requiring a modification to the auditor's opinion, see ASA 705, or where the auditor needs to draw users attention to matters disclosed in the financial report, see ASA 706.

Selected Aspects of the Requirements

Changes to requirements arise from new requirements and the elevation of guidance material contained in the pre-existing Auditing Standard.

- There are a number of elevations relating to the auditor's evaluation of the financial report:
 - whether it is prepared in accordance with the applicable financial reporting framework (including consideration of qualitative aspects of the entity's accounting practices and possible bias in management's judgements); and
 - whether it presents fairly (for a "fair presentation framework").
- There is a new requirement for the auditor to evaluate whether the financial report adequately refers to, or describes, the applicable financial reporting framework. [Para. 15]
- When the financial report is prepared in accordance with a "compliance framework", the auditor is not required to evaluate whether the financial report achieves fair presentation. However, in extremely rare circumstances the auditor concludes that such a financial report is misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. [Para. 19]



4. The form of the auditor's report includes some changes, for example:
 - the report need not refer specifically to "management," but shall use the appropriate term in the context of the reporting framework/jurisdiction;
 - the components of the financial report are described in terminology from Accounting Standard AASB 101 *Presentation of Financial Statements*;
 - the description of management's responsibilities in relation to internal control is worded: "...for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error"; and
 - the word "Auditor's" has been dropped from the opinion subheading.
5. When expressing an unmodified opinion on the financial report prepared in accordance with a "compliance framework", the auditor's opinion shall be that the financial report is prepared, in all material respects, in accordance with (the applicable financial reporting framework). [Para. 36]
6. If the auditor is required by law or regulation to use a specific layout or wording of the auditor's report, the auditor may refer to the Australian Auditing Standards only when the auditor's report contains certain elements. [Para. 43]

Auditor's Report

1. Appendix 1 contains examples of an auditor's reports that illustrate the format to be used when reporting:
 - on a financial report prepared under the *Corporations Act 2001* (the Act) (Illustrations 1A and 3A);
 - on a financial report not prepared under the Act (Illustrations 1 and 3); and
 - on a complete set of financial statements prepared under a compliance framework (Illustration 2).

Auditing Standard

ASA 705 Modifications to the Opinion in the Independent Auditor's Report

Selected Aspects of the Requirements

Changes to requirements arise mainly from new requirements, with some elevation of guidance material contained in the pre-existing Auditing Standard.

1. The Auditing Standard provides more detailed requirements than in the existing Auditing Standard, when:
 - *management imposes a limitation after the auditor has accepted the engagement;*
 - *the auditor is unable to obtain sufficient appropriate audit evidence;*
 - *the auditor withdraws from the engagement (where practical and possible); and*
 - *the auditor communicates with management and those charged with governance.*
2. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial report as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement, or one or more specific elements, accounts or items of a financial statement. [Para. 15]
3. If the auditor has expressed an adverse opinion or disclaimed an opinion on the financial report, the auditor shall describe, in the "Basis for Modification" paragraph, the matter that gave rise to the modification, the reasons for the modification to the opinion, and the effects thereof. [Para. 21]
4. Paragraphs 23 to 25 of the Auditing Standard provide the wording for a modified opinion (qualified, adverse, or disclaimer) when reporting in accordance with either a fair presentation framework or a compliance framework.
5. When the auditor expresses a qualified or adverse opinion, the auditor shall amend the description of the auditor's responsibility to state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's modified audit opinion. [Para. 26]
6. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the introductory paragraph of the auditor's report to state that the auditor was engaged to audit the financial report. The auditor shall also amend the description of the auditor's responsibility and the description of the scope of the audit. [Para. 27]
7. When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance, the circumstances that led to the expected modification and the proposed wording of the modification. [Para. 28]



Other Matters

1. The Auditing Standard focuses on the following drivers in determining the type of modification required to the auditor's opinion: evidence and lack thereof; materiality; and pervasiveness.
2. Paragraph A1 of the Auditing Standard provides a useful table illustrating how the auditor's judgement about the nature of the issue affects the type of opinion to be expressed.

Auditor's Report

1. The word "Auditor's" has been dropped from the subheadings in the modified auditor's report. For example:
 - the subheading *Basis for Qualified Auditor's Opinion* becomes *Basis for Qualified Opinion*; and
 - the subheading *Qualified Auditor's Opinion* becomes *Qualified Opinion*.
2. Examples of an auditor's reports, in Appendix 1, illustrate the format to be used when modifying the opinion in the auditor's report:
 - qualification on a financial report *not* prepared under the *Corporations Act 2001* (the Act) [Illustrations 1 and 3];
 - qualification on a financial report prepared under the Act [Illustration 3A];
 - adverse opinion on a financial report *not* prepared under the Act [Illustration 2]; and
 - disclaimer of opinion on a financial report *not* prepared under the Act [Illustrations 4 and 5].

Auditing Standard

ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

New Concepts

1. The Auditing Standard is overarching in nature and does not lay down the specific circumstances when an “Emphasis of Matter” paragraph or an “Other Matter” paragraph is to be used—only the general principles governing the use of these paragraphs in the auditor’s report.
2. Importantly, the Auditing Standard includes two appendices that list the other Auditing Standards containing specific requirements that prescribe when and how these paragraphs are to be included in the auditor’s report. [Appendix 1 and 2] Accordingly, the specific-circumstance requirements contained in the existing Auditing Standard are now included in other Auditing Standards covering the relevant subject matter.
3. The Auditing Standard introduces the use of an “Other Matter” paragraph. It is used when the auditor communicates information that is, in the auditor’s judgement, relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report. It does not relate to a matter presented or disclosed in the financial report. [Para. 8]

Selected Aspects of the Requirements

1. The Auditing Standard requires an “Emphasis of Matter” paragraph or an “Other Matter” paragraph in the auditor’s report, when required to do so by another Auditing Standard. [Para. Aus 6.1, Aus 8.1]
2. If the auditor expects to include an “Emphasis of Matter” or an “Other Matter” paragraph in the auditor’s report, the auditor shall communicate with those charged with governance regarding this expectation and the proposed wording of the paragraph(s). [Para. 9]

Other Matters

1. An “Other Matter” paragraph is not to be confused with a “Report on Other Legal and Regulatory Requirements” paragraph. [See ASA 700 Para. 38-39]

Auditor’s Report

1. A financial report prepared for a specific purpose may be prepared in accordance with a general purpose framework where the intended users have determined that such a general purpose financial report meets their financial information needs. In this case, the auditor’s report is intended for specific users, and the auditor may consider it necessary in the circumstances to include an “Other Matter” paragraph, stating that the auditor’s report is intended solely for the intended users, and should not be distributed to or used by other parties. [Para. A9]
2. The inclusion of an “Other Matter” paragraph in the auditor’s report does not affect the auditor’s opinion. The auditor needs to consider whether, in the circumstances, it is appropriate to indicate that the auditor’s opinion is not modified in respect of the “Other Matter” paragraph. [Para. Aus A10.1]

Auditing Standard

ASA 710 Comparative Information—Corresponding Figures and Comparative Financial Reports

Differences in Scope

1. The Auditing Standard recognises comparative information in the form of:
 - comparative financial reports; and
 - corresponding figures (within the current period financial report).

The pre-existing Auditing Standard covers only corresponding figures—the norm in Australia.

New Concepts

1. Comparative information in the form of “comparative financial reports” means the auditor’s opinion refers to each period for which a financial report is presented. [Appendix 1, Illustration 4]

Selected Aspects of the Requirements

1. Requirements include the expression of an audit opinion on comparative financial reports—not in the existing Auditing Standard. [Para. 15-16]
2. If the auditor’s opinion on a prior period financial report differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an “Other Matter” paragraph. [Para. 16]
3. Where the prior period financial report(s) in comparative financial reports were not audited, the auditor is not relieved of obtaining sufficient appropriate audit evidence that the opening balances do not contain material misstatements. [Para. 19]

Other Matters

1. Requirements relating to the audit of comparative information in the form of comparative financial reports continue not to apply to audits conducted under the *Corporations Act 2001*.

Auditor’s Report

1. For comparative information in the form of corresponding figures, further considerations are set out in respect of the “Basis for Modification” paragraph. [Para. 11]
2. The Auditing Standard incorporates the use of an “Other Matter” paragraph in the auditor’s report, where permitted by law and regulation, in the following circumstances:
 - to include references to a predecessor auditor’s report on corresponding figures or a comparative financial report; and
 - to include a statement where the corresponding figures or the prior period financial report was not audited.

Auditing Standard

ASA 800 Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks

Differences in Scope

1. The focus of the Auditing Standard is on the special considerations the auditor has when reporting on a financial report prepared in accordance with a special purpose financial framework. The existing Auditing Standard focuses on a special purpose audit engagement.
2. The Auditing Standard no longer includes requirements relating to the audit of single financial statements, or their elements, accounts or items; nor does it include summary financial statements. These requirements have been transferred into Auditing Standards ASA 805 and ASA 810.

New Concepts

1. A “special purpose framework” is an explicit concept—implicit in the existing Auditing Standard. However, it retains at its core the fact that the financial report has been prepared using a framework designed to meet the financial information needs of specific users.
2. The form of the auditor’s report has changed to include an “Emphasis of Matter” paragraph that alerts the reader that the financial report is prepared in accordance with a “special purpose framework” and consequently, may not be suitable for another purpose. [Para. 14]

Selected Aspects of the Requirements

1. In addition to the requirements of ASA 210 [Para. 6], in respect of determining the acceptability of the financial reporting framework, the auditor is required to obtain an understanding of:
 - the purpose of the financial report;
 - the intended users; and
 - the steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances. [Para. 8]
2. The Auditing Standard refers specifically to ASA 200 and ASA 315 when the auditor plans and performs the audit. [Para. 9-10]

Other Matters

1. ASA 800 is not intended to be read as a stand-alone Auditing Standard. It is to be read in conjunction with the other Auditing Standards: ASA 100 – ASA 700. Its purpose is to deal with special considerations in the application of the other Auditing Standards in the audit of a financial report prepared in accordance with a “special purpose financial framework”.

Auditor’s Report

1. The auditor’s report must now include an “Emphasis of Matter” paragraph (see above).
2. The form and content of the auditor’s report is consistent with ASA 700.
3. Appendix 1 includes examples of an auditor’s reports prepared for special purpose financial reports, including an example prepared under the *Corporations Act 2001*.



Auditing Standard

ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Differences in Scope

1. This is a new Auditing Standard, prepared from the requirements contained in the existing Auditing Standard—ASA 800. In this Auditing Standard, reference to a “financial report” means the financial report from which the single financial statement, or specific element(s), account(s) or item(s) of a financial statement has (have) been derived.

Selected Aspects of the Requirements

1. ASA 200 requires the auditor to comply with all Auditing Standards relevant to the audit. In the case of an audit of a single financial statement, or of a specific element of a financial statement, this requirement is applicable regardless of whether the auditor is also engaged to audit the financial report. Where the auditor is not also engaged to audit the financial report, the auditor has to determine if it is still practical to audit the single financial statement, or its elements, accounts or items. [Para. 7]
2. In accordance with ASA 200, the Auditing Standard requires the auditor to comply with all relevant Auditing Standards as necessary in the circumstances of the engagement when planning and performing an audit of a single financial statement, or of a specific element of a financial statement. [Para. 10]
3. The auditor is required to determine the acceptability of the financial reporting framework selected by management. In the case of an audit of a single financial statement or of a specific element of a financial statement, this requirement includes whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on such information. [Para. 8]
4. The auditor is required to determine the effect on the auditor’s report if there has been a modification, inclusion of an “Emphasis of Matter” and/or “Other Matter” paragraph(s) in the auditor’s report on the financial report from which the single financial statement or its element has been derived. [Para. 14-17]

Other Matters

1. ASA 805 is not made under the *Corporations Act 2001* (the Act), as it has no application to the types of audit engagements required under that Act.
2. ASA 805 is not intended to be read as a stand-alone Auditing Standard. It should be read in conjunction with the other Auditing Standards: ASA 100 – ASA 700, and ASA 800 (only if the financial statement is prepared in accordance with a special purpose framework).

Auditor’s Report

1. The form and content of the auditor’s report is consistent with ASA 700. [Para. 11]
2. The auditor must determine the effect any modification in the auditor’s report on the financial report has on the auditor’s report on a single financial statement or its elements.
3. Appendix 2 includes examples of an auditor’s reports prepared for a single financial statement, or on a specific element of a financial statement.

Auditing Standard

ASA 810 Engagements to Report on Summary Financial Statements

Differences in Scope

1. This is a new, stand-alone Auditing Standard, prepared from the requirements contained in the pre-existing Auditing Standard, ASA 800. It applies to audits of summary financial statements which have been derived from a financial report that has been audited by the same auditor.

Selected Aspects of the Requirements

1. Consistent with ASA 210, the Auditing Standard requires the auditor to determine the acceptability of the criteria applied by management in the preparation of the summary financial statements. [Para. 6(a)]
2. The Auditing Standard includes requirements relating to engagement acceptance. In particular, the auditor is required to obtain the agreement of management that it acknowledges and understands its responsibilities. [Para. 6(b)-7]
3. The form of the auditor's opinion has been tailored to summary financial statements. The Auditing Standard provides comprehensive requirements covering:
 - elements of the auditor's report;
 - modifications to the auditor's report on the summary financial statements;
 - restrictions on distribution and alerting users to the basis of accounting;
 - comparatives; and
 - supplementary and other information in documents containing the summary financial statements. [Para. 14-23]
4. The auditor is required to include further details in the auditor's report if there has been a modification, inclusion of an "Emphasis of Matter" paragraph, or an "Other Matter" paragraph in the auditor's report on the financial report. [Para. 17-18]

Other Matters

1. ASA 810 is not made under the *Corporations Act 2001* (the Act), as it has no direct application to the types of audit engagements under that Act. ASA 810 refers the auditor to AUASB Guidance Statement GS 001 *Concise Financial Reports*. [Para. Aus 1.1]
2. ASA 810 is intended to be read as a stand-alone Auditing Standard, covering all aspects of the audit engagement. The underlying concepts are consistent with those found in the other Australian Auditing Standards.

Auditor's Report

1. The form and content of the auditor's report is specified in the Auditing Standard—not ASA 700 or ASA 800.
2. The auditor is required to conclude on procedures contained only in the Auditing Standard—not those contained in other Auditing Standards.
3. Appendix 1 includes examples of an auditor's reports for summary financial statements derived from audited financial reports.

Auditing Standard

ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*

New Concepts

1. Consistent with ASA 210, the auditor must establish that the preconditions for a review exist prior to agreeing the terms of the engagement. Paragraph 11 of the Auditing Standard states:

The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from management and, where appropriate, those charged with governance, that it acknowledges and understands its responsibility:

- (a) *for the preparation and fair presentation of the financial report;*
- (b) *for such internal controls as management and, where appropriate, those charged with governance, deems necessary to enable the preparation of the financial report that is free from material misstatement; and*
- (c) *to provide the auditor with:*
 - *access to information relevant to the preparation of the financial report;*
 - *additional information that the auditor may request for the purposes of the review engagement; and*
 - *unrestricted access to persons from whom the auditor determines it necessary to obtain evidence.*

Selected Aspects of the Requirements

1. Consistent with ASA 706, the auditor is required to consider adding an “Emphasis of Matter” paragraph to highlight a significant uncertainty (other than in relation to a going concern problem) that is adequately disclosed in the financial report.
[Para. 42]
 - Guidance material at paragraph A54 indicates that ordinarily, a significant uncertainty (not related to going concern) that could materially affect the financial report would warrant an “Emphasis of Matter” paragraph.
 - The existing Auditing Standard mandates an “Emphasis of Matter” paragraph in the stated circumstances—the auditor is not at liberty to consider adding an “Emphasis of Matter” paragraph.
2. With the exception of the new requirements at paragraph 11 (noted above) and the change to paragraph 42, the Auditing Standard comprises the same requirements as the existing Auditing Standard.

Mapping the *Clarity* Versions of the Australian Auditing Standards to the Pre-existing Australian Auditing Standards

Clarity ASA Number	Clarity ASA Title	Pre-existing ASA Number	Pre-existing ASA Title
ASQC 1¹	<i>Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements</i>	—	No equivalent pre-existing ASA
—	No equivalent Clarity ASA	—	Preamble to AUASB Standards
ASA 101	<i>Preamble to Australian Auditing Standards</i>	—	No equivalent pre-existing ASA
ASA 102²	<i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>	—	No equivalent pre-existing ASA
ASA 200	<i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i>	ASA 200	<i>Objective and General Principles Governing an Audit of a Financial Report</i>
ASA 210	<i>Agreeing the Terms of Audit Engagements</i>	ASA 210	<i>Terms of Audit Engagements</i>
ASA 220	<i>Quality Control for an Audit of a Financial Report and Other Historical Financial Information</i>	ASA 220	<i>Quality Control for Audits of Historical Financial Information</i>
ASA 230	<i>Audit Documentation</i>	ASA 230	<i>Audit Documentation</i>
ASA 240	<i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i>	ASA 240	<i>The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report</i>

1 ASQC 1 is a new Australian Auditing Standard, and conforms with International Standard on Quality Control ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements*, issued by the IAASB.

2 The requirements and application and other explanatory material in ASA 102 have been drawn from ISQC 1, ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* and ISA 220 *Quality Control for an Audit of Financial Statements*, as issued by the IAASB.

Mapping the *Clarity* Versions of the Australian Auditing Standards to the Existing Australian Auditing Standards

Clarity ASA Number	Clarity ASA Title	Pre-existing ASA Number	Pre-existing ASA Title
ASA 250	<i>Consideration of Laws and Regulations in an Audit of a Financial Report</i>	ASA 250	<i>Consideration of Laws and Regulations in an Audit of a Financial Report</i>
ASA 260	<i>Communication with Those Charged with Governance</i>	ASA 260	<i>Communication of Audit Matters with Those Charged With Governance</i>
ASA 265³	<i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i>	—	No equivalent pre-existing ASA
ASA 300	<i>Planning an Audit of a Financial Report</i>	ASA 300	<i>Planning an Audit of a Financial Report</i>
ASA 315	<i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>	ASA 315	<i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>
ASA 320⁴	<i>Materiality in Planning and Performing an Audit</i>	ASA 320	<i>Materiality and Audit Adjustments</i>
ASA 330	<i>The Auditor's Responses to Assessed Risks</i>	ASA 330	<i>The Auditor's Procedures in Response to Assessed Risks</i>
ASA 402	<i>Audit Considerations Relating to an Entity Using a Service Organisation</i>	ASA 402	<i>Audit Considerations Relating to Entities Using Service Organisations</i>
ASA 450⁵	<i>Evaluation of Misstatements Identified during the Audit</i>	—	No equivalent pre-existing ASA
ASA 500	<i>Audit Evidence</i>	ASA 500	<i>Audit Evidence</i>

- 3 ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* is a new standard.
- 4 The requirements and other explanatory material in ASA 320 *Materiality and Audit Adjustments* (April 2006) are now contained in two standards: ASA 320 *Materiality in Planning and Performing an Audit* (October 2009) and ASA 450 *Evaluation of Misstatements Identified during the Audit* (October 2009).
- 5 The requirements and other explanatory material in ASA 450 (October 2009) were previously part of ASA 320 *Materiality and Audit Adjustments* (April 2006).

Mapping the *Clarity* Versions of the Australian Auditing Standards to the Existing Australian Auditing Standards

Clarity ASA Number	Clarity ASA Title	Pre-existing ASA Number	Pre-existing ASA Title
ASA 501	<i>Audit Evidence—Specific Considerations for Inventory and Segment Information</i>	ASA 501	<i>Existence and Valuation of Inventory</i>
ASA 502	<i>Audit Evidence—Specific Considerations for Litigation and Claims</i>	ASA 508	<i>Enquiry Regarding Litigation and Claims</i>
ASA 505	<i>External Confirmations</i>	ASA 505	<i>External Confirmations</i>
ASA 510	<i>Initial Audit Engagements—Opening Balances</i>	ASA 510	<i>Initial Engagements—Opening Balances</i>
ASA 520	<i>Analytical Procedures</i>	ASA 520	<i>Analytical Procedures</i>
ASA 530	<i>Audit Sampling</i>	ASA 530	<i>Audit Sampling and Other Means of Testing</i>
ASA 540	<i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>	ASA 540	<i>Audit of Accounting Estimates</i>
— ⁶	No equivalent <i>Clarity</i> ASA	ASA 545	<i>Auditing Fair Value Measurements and Disclosures</i>
ASA 550	<i>Related Parties</i>	ASA 550	<i>Related Parties</i>
ASA 560	<i>Subsequent Events</i>	ASA 560	<i>Subsequent Events</i>
ASA 570	<i>Going Concern</i>	ASA 570	<i>Going Concern</i>
ASA 580	<i>Written Representations</i>	ASA 580	<i>Management Representations</i>
ASA 600	<i>Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)</i>	ASA 600	<i>Using the Work of Another Auditor</i>

6 The requirements and application and other explanatory material in ASA 545 (April 2006) have been included in ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* (October 2009).

Mapping the *Clarity* Versions of the Australian Auditing Standards to the Existing Australian Auditing Standards

Clarity ASA Number	Clarity ASA Title	Pre-existing ASA Number	Pre-existing ASA Title
ASA 610	<i>Using the Work of Internal Auditors</i>	ASA 610	<i>Considering the Work of Internal Audit</i>
ASA 620	<i>Using the Work of an Auditor's Expert</i>	ASA 620	<i>Using the Work of an Expert</i>
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i>	ASA 700	<i>The Auditor's Report on a General Purpose Financial Report</i>
— ⁷	No equivalent new ASA.	ASA 701	<i>Modifications to the Auditor's Report</i>
ASA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i>	—	No equivalent pre-existing ASA
ASA 706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i>	—	No equivalent pre-existing ASA
ASA 710	<i>Comparative Information—Corresponding Figures and Comparative Financial Reports</i>	ASA 710	<i>Comparatives</i>
ASA 720	<i>The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report</i>	ASA 720	<i>Other Information in Documents Containing Audited Financial Reports</i>
ASA 800⁸	<i>Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i>	ASA 800	<i>The Auditor's Report on Special Purpose Audit Engagements</i>

7 The requirements and application and other explanatory material in ASA 701 *Modifications to the Auditor's Report* (Compiled June 2007) are now contained in two standards: ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* (October 2009) and ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (October 2009).

8 The requirements and application and other explanatory material in ASA 800 *The Auditor's Report on Special Purpose Audit Engagements* (April 2006) are now contained in three standards:

- ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* (October 2009)
- ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* (October 2009)
- ASA 810 *Engagements to Report on Summary Financial Statements* (October 2009).

Mapping the *Clarity* Versions of the Australian Auditing Standards to the Existing Australian Auditing Standards

Clarity ASA Number	Clarity ASA Title	Pre-existing ASA Number	Pre-existing ASA Title
ASA 805	<i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>	—	No equivalent pre-existing ASA
ASA 810	<i>Engagements to Report on Summary Financial Statements</i>	—	No equivalent pre-existing ASA
ASRE 2410⁹	<i>Review of a Financial Report Performed by the Independent Auditor of the Entity</i>	ASRE 2410	<i>Review of an Interim Financial Report Performed by the Independent Auditor of the Entity</i>

- 9 ASRE 2410 has been redrafted in *Clarity* format, without substantive revision to the content. The IAASB has not, at this time, updated ISRE 2410 *Review of Interim Financial Information Prepared by the Independent Auditor of the Entity*.



Australian Government

Auditing and Assurance Standards Board

Auditing and Assurance Standards Board

Level 7, 600 Bourke Street, Melbourne VIC 3000

Tel (03) 8080 7400 and Fax (03) 8080 7450

enquiries@auasb.gov.au | www.auasb.gov.au