



Attachment to Board Meeting Summary Paper

Subject: ASA Redrafting Project – *ASA 501 Audit Evidence – Specific Considerations for Selected Items*
 (Revised and Redrafted)

Prepared by: AUASB Technical Group

Date: 6 February 2009

Issues

The AUASB is requested to consider and resolve the following issues:

Item #	Issues	Approve? Y/N
1	Issue: Is the proposed treatment of each difference, listed in the <i>Tables of Differences</i> , appropriate? Recommendation: Yes, the treatment is appropriate.	

Information

The following matters are brought to the Board’s attention for information purposes only:

Item #	Information only Matters	Para. #		
1	Requirements and/or Guidance paragraphs in Extant ASA which contained references to Australian ethical body, which have not been retained are listed	NA		
2	Paragraphs that contain “management” or “those charged with governance” references, which have been amended	NA		
3	<p><u>Composite Standard</u></p> <p>ASA 501 (Revised and Redrafted) is a composite standard, bringing together Requirements and Guidance relating to selected audit areas — inventory, litigation and claims, and segment information.</p> <p>There are significant differences between the extant ISA and extant ASAs, as follows:</p> <table border="0"> <tr> <td style="vertical-align: top;"> <p><u>Extant ISA 501</u></p> <p>(a) One standard:</p> <ul style="list-style-type: none"> • Extant ISA 501 <i>Audit Evidence – Additional Considerations for Specific Items</i> </td> <td style="vertical-align: top;"> <p><u>Extant ASAs</u></p> <p>(a) Two standards:</p> <ul style="list-style-type: none"> • Extant ASA 501 <i>Existence and Valuation of Inventory</i>; and • Extant ASA 508 <i>Enquiry Regarding Litigation and Claims</i> </td> </tr> </table>	<p><u>Extant ISA 501</u></p> <p>(a) One standard:</p> <ul style="list-style-type: none"> • Extant ISA 501 <i>Audit Evidence – Additional Considerations for Specific Items</i> 	<p><u>Extant ASAs</u></p> <p>(a) Two standards:</p> <ul style="list-style-type: none"> • Extant ASA 501 <i>Existence and Valuation of Inventory</i>; and • Extant ASA 508 <i>Enquiry Regarding Litigation and Claims</i> 	
<p><u>Extant ISA 501</u></p> <p>(a) One standard:</p> <ul style="list-style-type: none"> • Extant ISA 501 <i>Audit Evidence – Additional Considerations for Specific Items</i> 	<p><u>Extant ASAs</u></p> <p>(a) Two standards:</p> <ul style="list-style-type: none"> • Extant ASA 501 <i>Existence and Valuation of Inventory</i>; and • Extant ASA 508 <i>Enquiry Regarding Litigation and Claims</i> 			

Item #	Information only Matters	Para. #		
3	<p>Continued ...</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <p><u>Extant ISA 501</u></p> <p>(b) Includes sections on:</p> <ul style="list-style-type: none"> • Attendance at physical inventory counting. (Does not include valuation of inventory) • Litigation and Claims • Valuation and Disclosure of Long-term Investments (Not included in ISA 501 (Redrafted)) • Segment Information </td> <td style="width: 50%; vertical-align: top;"> <p><u>Extant ASAs</u></p> <p>(b)</p> <ul style="list-style-type: none"> • Extant ASA 501 covers attendance at physical inventory counting, as well as valuation of inventory • Covered in extant ASA 508 • Not included in the extant ASAs • Not included in the extant ASAs </td> </tr> </table> <p>As part of the Clarity re-drafting project, it is proposed that these differences are eliminated, i.e. that ASA 501 (Revised and Redrafted) is consistent with ISA 501 (Redrafted) – see points 4–7 below.</p>	<p><u>Extant ISA 501</u></p> <p>(b) Includes sections on:</p> <ul style="list-style-type: none"> • Attendance at physical inventory counting. (Does not include valuation of inventory) • Litigation and Claims • Valuation and Disclosure of Long-term Investments (Not included in ISA 501 (Redrafted)) • Segment Information 	<p><u>Extant ASAs</u></p> <p>(b)</p> <ul style="list-style-type: none"> • Extant ASA 501 covers attendance at physical inventory counting, as well as valuation of inventory • Covered in extant ASA 508 • Not included in the extant ASAs • Not included in the extant ASAs 	
<p><u>Extant ISA 501</u></p> <p>(b) Includes sections on:</p> <ul style="list-style-type: none"> • Attendance at physical inventory counting. (Does not include valuation of inventory) • Litigation and Claims • Valuation and Disclosure of Long-term Investments (Not included in ISA 501 (Redrafted)) • Segment Information 	<p><u>Extant ASAs</u></p> <p>(b)</p> <ul style="list-style-type: none"> • Extant ASA 501 covers attendance at physical inventory counting, as well as valuation of inventory • Covered in extant ASA 508 • Not included in the extant ASAs • Not included in the extant ASAs 			
4	<p><u>Long-term Investments</u></p> <p>The extant ISA contained Requirements and Guidance relating to long-term investments, which have been removed from ISA 501 (Redrafted).</p> <p>As part of the Clarity project, the IAASB recognised that since the issue of the extant ISA in 1994, financial reporting frameworks have undergone significant change, including IFRS changes relating to the impairment of assets. The IAASB considered that leaving the material on long-term investments in ISA 501 (Redrafted) could be unhelpful or potentially misleading. Also, the IAASB considers that other ISAs contain Requirements and Guidance that address the audit issues related to the valuation and disclosure of investments (i.e. ISA 540 <i>Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i> (Revised and Redrafted) and ISA 580 <i>Management Representations</i> (Revised and Redrafted)). Accordingly, the IAASB has removed the material on long-term investments from ISA 501 (Redrafted).</p> <p>The extant ASA 501 does not contain material on long-term investments, as the AUASB decided not to include this in 2006 (in recognition of the changes that had already occurred to the financial reporting framework at that time).</p> <p>The IAASB’s decision to remove these Requirements and Guidance from ISA 501 (Redrafted) bring the ISA and the ASA into alignment in respect of long-term investments.</p>			
5	<p><u>Inventory</u></p> <p>Extant ASA 501 contains Requirements and Guidance relating to the valuation of inventory, which was unique to the Australian standard, i.e. they were not part of the extant ISA and they are not included in ISA 501 (Redrafted).</p> <p>It is proposed that, as part of the Clarity project, these Requirements and Guidance be removed from ASA 501 (Revised and Redrafted) for the following reasons:</p> <p>(a) To maintain consistency with the ISAs, in line with the:</p> <ul style="list-style-type: none"> • AUASB’s legislative function to participate in and contribute to the development of a single set of auditing standards for world-wise use; and • FRC directive to the AUASB to use the ISAs as the underlying standards for the ASAs. <p>(b) It does not diminish the auditor’s responsibilities, as other ASAs adequately cover the Requirements to obtain sufficient appropriate audit evidence and to evaluate the methods used by management relating to accounting policies. For example, ASA 200 (Revised and Redrafted) para 17 contains a fundamental audit requirement to obtain sufficient appropriate audit evidence; ASA 315 and ASA 330 contain Requirements around identifying and assessing the risks of material misstatement at the assertion level for classes of transactions, account balances and disclosures;</p>			

Item #	Information only Matters	Para. #										
	<p>and ASA 500 contains procedures about designing and performing procedures to obtain sufficient appropriate audit evidence; and</p> <p>(c) It preserves the principles-based nature of the ASAs, whereas specific Requirements and Guidance relating to the valuation of inventory may be viewed as procedural and account-specific in nature.</p>											
6	<p><u>Litigation and Claims</u></p> <p>Terminology has been updated to align with that used in ISA, as the meaning and intent are equivalent. Significant changes to terminology include:</p> <table border="0" data-bbox="245 551 1209 819"> <thead> <tr> <th data-bbox="245 551 730 582"><u>Extant ASA</u></th> <th data-bbox="743 551 1209 582"><u>ASA (Revised and Redrafted)</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="245 609 730 640">Lawyer</td> <td data-bbox="743 609 1209 640">External legal counsel</td> </tr> <tr> <td data-bbox="245 654 730 685">Employee lawyer</td> <td data-bbox="743 654 1209 685">In-house legal counsel</td> </tr> <tr> <td data-bbox="245 698 730 730">Legal matters</td> <td data-bbox="743 698 1209 730">Litigation and claims</td> </tr> <tr> <td data-bbox="245 743 730 775">Representation letter</td> <td data-bbox="743 743 1209 819">Letter of enquiry - the guidance discusses two types: i.e. letter of general enquiry and letter of specific enquiry</td> </tr> </tbody> </table>	<u>Extant ASA</u>	<u>ASA (Revised and Redrafted)</u>	Lawyer	External legal counsel	Employee lawyer	In-house legal counsel	Legal matters	Litigation and claims	Representation letter	Letter of enquiry - the guidance discusses two types: i.e. letter of general enquiry and letter of specific enquiry	
<u>Extant ASA</u>	<u>ASA (Revised and Redrafted)</u>											
Lawyer	External legal counsel											
Employee lawyer	In-house legal counsel											
Legal matters	Litigation and claims											
Representation letter	Letter of enquiry - the guidance discusses two types: i.e. letter of general enquiry and letter of specific enquiry											
7	<p><u>Segment Information</u></p> <p>Extant ASA 501 does not contain Requirements and Guidance relating to segment information, even though these existed in the extant ISA, i.e. in 2006, the AUASB decided not to include these in the Australian standard (because the Requirement was effectively addressed in ASA 500 <i>Audit Evidence</i>).</p> <p>The Requirement and Guidance on segment information have been retained and expanded in ISA 501 (Redrafted) as part of the Clarity project, and it is proposed that they now be included in ASA 501 (Revised and Redrafted).</p> <p>The main reason for this proposal is the over-arching aim of maintaining consistency with the ISAs, in line with the AUASB's legislative function and FRC directive regarding consistency with international auditing standards.</p> <p>In suggesting this, the AUASB Technical Group is cognisant of IAASB discussions about retaining the segment information material (based on ED responses). The IAASB considered that it could only be deleted if the Requirement and Guidance were no longer relevant or potentially misleading and concluded that this was not the case. The IAASB therefore decided to retain and redraft the material for reasons of clarity only.</p> <p>The Requirement regarding segment information in proposed ASA 501 (Revised and Redrafted) does not add to the auditor's responsibilities, as it was effectively covered by other ASAs, albeit in more general terms.</p>											

Conforming Amendments

Item #	ASA (Revised & Redrafted)	Proposed Amendment	Approve? Y/N
1	<i>ASA 100 Preamble</i>	None noted at this point. However, a number of generic changes will have to be made to the <i>Preamble</i> , in due course, that will cover all standards including ASA 501.	
2	<i>Assurance Framework</i>	None noted at this point.	
3	<i>Glossary</i>	None.	
4	<i>Foreword</i>	None noted at this point. However, a number of generic changes will have to be made to the <i>Foreword</i> , in due course, that will cover all standards including ASA 501 (Revised and Redrafted).	
5	<i>Other</i>	There are no conforming amendments required to other standards as a result of ASA 501 (Revised and Redrafted).	

Draft