

## TABLES OF DIFFERENCES

### ASA 508 [Revised and Redrafted]

#### LITIGATION AND CLAIMS

**Extant ASA:**            ASA 508 *Enquiry Regarding Litigation and Claims*

**ISA**                        ISA 501 (Redrafted)

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<i>Key Statistics</i>		
Exhibit		No.
1	New Requirements [Elevation of Guidance]	2
1	New Requirements [no previous Equivalent in extant ASA]	0
N/A	Total number of New Requirements	2
2	Extant ASA Requirements covered in another standard[s]	1

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**Changes to this Table from the Last Board meeting**

Item #	Para. #	Change Description	ATG Commentary	Accept in ASA Y/N?
<b>ASA 508 (Revised and Redrafted) is presented to the Board for the first time.</b>				
		NA		

Draft

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**Requirements in ISA not in Extant ASA**

- *Exhibit 1 identifies Requirements in the redrafted ISA that are not present in the equivalent extant ASA*
- *Exhibit 1 does not identify Requirements that are identical; or similar but for differences in expression/wording*

Item #	ISA Para. #	ISA Requirements	Commentary	Accept in ASA Y/N?	Rule No.
<b>Objective</b>					
1	3	The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the: (a) Existence and condition of inventory; (b) Completeness of litigation and claims involving the entity; and (c) Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.	Shaded text - New Objective included in ASA 508 (Revised and Redrafted)	Y	A24
<b>Litigation and Claims</b>					
2	9	The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including: (Ref: Para. A17-A19) (a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel; (b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and (c) Reviewing legal expense accounts. (Ref: Para. A20)	Elevation of extant ASA Explanatory Guidance  [Extant ASA 508 para 8 and para 9—equivalent Explanatory Guidance].	Y	A2

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Item #	ISA Para. #	ISA Requirements	Commentary	Accept in ASA Y/N?	Rule No.
3	10	<p>If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall endeavour to, in addition to the procedures required by other ASAs, seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of enquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.</p> <p>If law, regulation or the respective legal professional body prohibits the entity's external legal counsel from communicating directly with the auditor, the auditor shall perform alternative audit procedures.</p> <p>(Ref: Para. A21-A25)</p>	<p>Shaded text has no extant ASA equivalent. Introduced by IAASB to address issues faced by auditors in some jurisdictions where there may be a blanket prohibition on legal counsels on responding to enquiries letter from auditors. Not expected to impact Australian auditors.</p> <p>Unshaded text – extant ASA 508 para 11 and para 13 – equivalent Requirements.</p>	Y	A2
4	11	<p>If:</p> <p>(a) management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and</p> <p>(b) the auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures,</p> <p>the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised and Redrafted).</p>	<p>Elevation of extant ASA Explanatory Guidance</p> <p>[Extant ASA 508 para 31-32 —equivalent Explanatory Guidance].</p>	Y	A2

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Item #	ISA Para. #	ISA Requirements	Commentary	Accept in ASA Y/N?	Rule No.
<i>Written Representations</i>					
5	12	The auditor shall request management and, where appropriate, those charged with governance to provide written representations that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.	Equivalent Requirement contained in extant ASA 580 <i>Management Representations</i>  [ASA 580 paragraph 9 and guidance in Appendix 1]	Y	A6

Draft

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**Requirements in Extant ASA not in ISA**

- *Exhibit 2 identifies Requirements in the extant ASA that are not present in the equivalent redrafted ISA*
- *Exhibit 2 does not identify Requirements that are identical; or similar but for differences in expression [wording]*

Item #	Extant ASA Para. #	Extant ASA Requirement	Commentary	Accept in ASA Y/N?	Rule No.
<b>Not Retained in ASA [Revised &amp; Redrafted]</b>					
<b>ASA 508 Enquiry Regarding Litigation and Claims</b>					
1	5	The auditor shall obtain sufficient appropriate audit evidence regarding: (a) whether all material legal matters have been identified; (b) the probability of any material revenue or expense arising from such matters and the estimated amount thereof; and (c) the adequacy of the accounting treatment of such matters including their disclosure in the financial report.	Shaded text – no equivalent Requirement in ISA 501 (Redrafted).  However, the Requirements are covered by other ISAs: (a) ISA 200 general requirement to obtain sufficient appropriate audit evidence; and (b) ISA 540 requirements regarding the reasonableness and disclosure of accounting estimates.  The auditor’s responsibilities are not diminished.	N	A5
<b>Retained in ASA [Revised &amp; Redrafted]</b>					
<b>Reason 1: [Only when requirement necessary for Australian legislation or regulation reasons]</b>					
NA					
<b>Retained in ASA [Revised &amp; Redrafted]</b>					
<b>Reason 2: [Only when requirement necessary for legislative instrument reasons]</b>					
NA					

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Item #	Extant ASA Para. #	Extant ASA Requirement	Commentary	Accept in ASA Y/N?	Rule No.
<b>Retained in ASA [Revised &amp; Redrafted]</b>					
<b>Reason 3: [Only when requirement necessary for public interest reasons and no inconsistency with the ISA]</b>					
<i>In-house Legal Counsel</i>					
2	18	Where in-house legal counsel has the primary responsibility for litigation and claims and is in the best position to corroborate management's representations, the auditor shall endeavour to obtain a representation letter, seeking information similar to that sought from the entity's external legal counsel, from the in-house legal counsel.	Suggest extant ASA Requirement be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter (i.e. this Requirement is in the public interest).  Not inconsistent with the ISA.	Y	D1
<i>Lawyer's Response</i>					
3	22	If a response from the entity's legal counsel contains a material disagreement with management's original evaluation of a particular matter, the auditor shall seek discussions with management and the entity's legal counsel, unless management subsequently agrees with the legal counsel's evaluation.	Suggest extant ASA Requirement be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter (i.e. this Requirement is in the public interest).  Not inconsistent with the ISA	Y	D1
<b>Related Procedures</b>					
4	33	The auditor shall enquire of management about new litigation and claims referred to the entity's legal counsel subsequent to the date of the request for a letter of enquiry to the entity's legal counsel and prior to signing the auditor's report.	Suggest extant ASA Requirement be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter (i.e. this Requirement is in the public interest).  Not inconsistent with the ISA	Y	D1
5	35	If audit procedures lead to the discovery of matters of a legal nature not previously identified by management, the auditor shall consider the impact of each of the matters on the financial report.	Suggest extant ASA Requirement be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter (i.e. this Requirement is in the public interest).  Not inconsistent with the ISA	Y	D1

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**Significant Differences in Guidance — ISA and Extant ASA**

- *Exhibit 3 identifies significant differences between the Application and Other Explanatory Material (guidance) in the redrafted ISA and the Explanatory Guidance in the equivalent extant ASA. These differences are exceptional in nature.*
- *Exhibit 3 does not identify guidance that is identical; or similar but for differences in expression/wording*

Item #	ISA/ASA Para. #	Guidance	Commentary	Accept in ASA Y/N?	Rule No.
<b>PART A – ISA</b>					
NA					
<b>PART B – ASA</b>					
<b>Retained in ASA [Revised &amp; Redrafted] Reason 1: [Only when requirement necessary for Australian legislation or regulation reasons]</b>					
NA					
<b>Retained in ASA [Revised &amp; Redrafted] Reason 2: [Only when requirement necessary for legislative instrument reasons]</b>					
NA					

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Item #	ISA/ASA Para. #	Guidance	Commentary	Accept in ASA Y/N?	Rule No.
<b>Retained in ASA [Revised &amp; Redrafted]</b> <b>Reason 3: [Only when Requirement is deemed necessary for public interest reasons and is not inconsistent with the ISA]</b>					
<b>Completeness of Litigation and Claims</b>					
1	Aus A1.1	It is the responsibility of those charged with governance of an entity to adopt policies and procedures to identify, evaluate, record and report on the outcome of any material litigation and claims. However, since the factors that would be considered in the accounting for and reporting of litigation and claims are within the direct knowledge and control of the management of an entity, management is the primary source of information. Ordinarily, the auditor would seek audit evidence from different sources to corroborate management's assertions.	Suggest extant ASA Explanatory Guidance be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter and/or potential obligations under Australian legislation. (i.e. this guidance is in the public interest).  Not inconsistent with the ISA.	Y	D3
2	Aus A2.1	To identify litigation and claims involving the entity, in addition to the procedures identified in paragraphs 4 and A2, the auditor ordinarily performs the following procedures: <ul style="list-style-type: none"> <li>• reviews and discusses with management the procedures within the entity's internal control structure for identifying and recording litigation and claims and bringing them to the attention of management;</li> <li>• reviews and discusses with management the procedures within the entity's internal control structure for the identification, control and recording of litigation and claims and associated revenues and expenses in appropriate accounts; and</li> </ul>	Suggest extant ASA Explanatory Guidance be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter and/or potential obligations under Australian legislation. (i.e. this guidance is in the public interest).  Not inconsistent with the ISA.	Y	D3

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Item #	ISA/ASA Para. #	Guidance	Commentary	Accept in ASA Y/N?	Rule No.
		<ul style="list-style-type: none"> <li>• obtains and discusses with management:                             <ul style="list-style-type: none"> <li>(i) a list of litigation and claims, including a description of the matters and an estimate of their likely financial consequences; and</li> <li>(ii) an analysis identifying litigation and claims.</li> </ul> </li> </ul>			
3	Aus A2.2	<p>Audit procedures that are undertaken for different purposes might also disclose litigation and claims. Such procedures include:</p> <ul style="list-style-type: none"> <li>• examining contracts, loan agreements, leases, insurance policies and claims, and other correspondence;</li> <li>• reading minutes of meetings of the audit committee, shareholders and appropriate committees;</li> <li>• obtaining information concerning guarantees from bank confirmations; and</li> </ul> <p>enquiries of management and other employees of the entity.</p>	<p>Suggest extant ASA Explanatory Guidance be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter and/or potential obligations under Australian legislation. (i.e. this guidance is in the public interest).</p> <p>Not inconsistent with the ISA.</p>	Y	D3
<b>Communication with the Entity's Legal Counsel</b>					
4	Aus A7.1	<p>An example of a letter of specific enquiry is included in Aus Appendix 1.</p>	<p>Suggest extant ASA Explanatory Guidance be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter. (i.e. this guidance is in the public interest).</p>	Y	D3

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Item #	ISA/ASA Para. #	Guidance	Commentary	Accept in ASA Y/N?	Rule No.
5	Aus A7.2	An auditor may in some cases request that management send a request for a letter of enquiry to the entity’s legal counsel who are not identified as currently handling the entity’s litigation and claims. For example when the entity has changed legal counsel on a particular matter, or when legal counsel engaged by the entity has resigned, the auditor would consider the need for enquiries concerning the reasons for the change or resignation.	Suggest extant ASA Explanatory Guidance be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter. (i.e. this guidance is in the public interest).	Y	D3
<i>In-house Legal Counsel</i>					
6	Aus A8.1 - Aus A8.2	Before relying on the opinion of either in-house legal counsel or a third party legal counsel, care must be exercised to ensure that conditions prevail which would make such reliance reasonable  ...  ... the procedures outlined in paragraphs Aus 6.2 and Aus A8.3-Aus A8.10 would ordinarily be followed.	Suggest extant ASA Explanatory Guidance be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter. (i.e. this guidance is in the public interest).	Y	D3
<i>Legal Counsel’s Response</i>					
7	Aus A8.3 - Aus A8.5	If the disagreement is resolved after discussions, the auditor would ordinarily request that the entity’s legal counsel confirm in writing to the auditor the reasonableness of the details as resolved.  ...  ... and request clarification in writing.	Suggest extant ASA Explanatory Guidance be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter. (i.e. this guidance is in the public interest).	Y	D3

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Item #	ISA/ASA Para. #	Guidance	Commentary	Accept in ASA Y/N?	Rule No.
<b>Legal Counsel's Inability to Respond Comprehensively or Limitations in a Response</b>					
8	Aus A8.6 - Aus A8.10	<p>If a response is not received from the entity's legal counsel, or the response received is incomplete, the auditor would ordinarily consider:</p> <p>...</p> <p>Under ASA 230 <i>Audit documentation</i>, the auditor needs to prepare sufficient appropriate audit documentation regarding the alternative audit procedures performed.</p>	Suggest extant ASA Explanatory Guidance be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter. (i.e. this guidance is in the public interest).	Y	D3
<b>Audit Reporting Considerations</b>					
9	Aus A8.11	<p>In those circumstances, due to uncertainties, the entity's legal counsel is unable to form a conclusion to corroborate management's representation .....</p> <p>... ASA 705 <i>Modifications to the Opinion in the Independent Auditor's Report</i>.</p>	Suggest extant ASA Explanatory Guidance be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter. (i.e. this guidance is in the public interest).	Y	D3
<b>Related Procedures</b>					
10	Aus A9.1 - Aus A9.3	<p>Under paragraphs Aus 7.1 and Aus 7.2 of this auditing standard, when new litigation or claims have been referred to the entity's legal counsel, subsequent to sending the letter of enquiry to the entity's legal counsel and prior to signing the auditor's report, ...</p> <p>...</p> <p>Depending on the circumstances, refusal by management to seek advice may be considered to be a limitation in the scope of the auditor's work.</p>	Suggest extant ASA Explanatory Guidance be retained as it contributes to the quality of the standard by alerting the auditor to a relevant matter. (i.e. this guidance is in the public interest).	Y	D3

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**Significant Differences in Appendices — ISA and Extant ASA**

- *Exhibit 4 identifies significant differences between the Appendices in the redrafted ISA and the Appendices in the equivalent extant ASA. These differences are exceptional in nature.*
- *Exhibit 4 does not identify Appendices that are identical; or similar but for differences in expression/wording*

Item #	ISA/ASA Para. #	Appendix	Commentary	Accept in ASA? Y/N	Rule No.
<b>Part A – ISA</b>					
NA					
<b>Part B – ASA</b>					
<b>Example of a Letter of Specific Enquiry to an External Legal Counsel</b>					
1	Appendix 1	See Appendix 1 extant ASA 508 – example of a Letter of Specific Enquiry to External Legal Counsel.	Retained in ASA [Revised and Redrafted], with minor changes to terminology for consistency with the terminology in the new standard.  The example letter provides helpful guidance to practitioners.	Y	A34

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