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Foreword to AUASB Pronouncements

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

CONTENTS

PREFACE

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Introduction.....	1
The Auditing and Assurance Standards Board (AUASB)	2-19
Pronouncements issued by the AUASB.....	20-31
Due Process.....	32-42
Communications	43-44
Appendix 1: Structure of Pronouncements issued by the Auditing and Assurance Standards Board	
Appendix 2: Standards issued by the Auditing and Assurance Standards Board	

PREFACE

Reasons for Issuing the *Foreword to AUASB Pronouncements*

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act).

Under section 227B of the ASIC Act, the AUASB may formulate guidance on auditing and assurance matters. Accordingly, the AUASB issues the *Foreword to AUASB Pronouncements* under its powers described in section 227B of the ASIC Act. The *Foreword to AUASB Pronouncements* is not issued under the *Corporations Act 2001*.

Main Features

The *Foreword to AUASB Pronouncements* sets out:

- (a) the functions, composition and operating procedures of the AUASB;
and
- (b) the range of pronouncements issued by the AUASB.

The *Foreword to AUASB Pronouncements* does not itself establish mandatory requirements for the performance of audit, review, assurance or related service engagements. Accordingly, the AUASB has not issued the *Foreword to AUASB Pronouncements* as an Auditing Standard for the purposes of the *Corporations Act 2001*.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates the *Foreword to AUASB Pronouncements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

Dated: 7 December 2009

M H Kelsall
Chairman – AUASB

Draft

Foreword to AUASB Pronouncements

Introduction

- 1 The purpose of this *Foreword to AUASB Pronouncements* (“the Foreword”) is to set out:
 - (a) the functions, composition and operating procedures of the Auditing and Assurance Standards Board (“AUASB”); and
 - (b) the range of pronouncements issued by the AUASB.

The Auditing and Assurance Standards Board

Overview

- 2 The AUASB is an independent statutory board of the Australian Government established in 2004 under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Australian Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*. The AUASB may also formulate other assurance standards and guidance on audit and assurance matters.

Functions of the AUASB

- 3 More specifically, the primary functions of the AUASB under section 227B of the ASIC Act are:
 - (a) to make auditing standards under section 336 of the *Corporations Act 2001* for the purposes of the corporations legislation;
 - (b) to formulate auditing and assurance standards for other purposes;
 - (c) to formulate guidance on auditing and assurance matters;
 - (d) to participate in and contribute to the development of a single set of auditing standards for world-wide use; and
 - (e) to advance and promote the main objects of Part 12 of the ASIC Act.

The Financial Reporting Council and the AUASB Strategic Direction

- 4 The Financial Reporting Council (“FRC”) is a statutory oversight body established under the ASIC Act. The FRC, in its role of providing broad oversight of the auditing standard-setting arrangements in Australia, is responsible for overseeing the AUASB.
- 5 Specific oversight responsibilities with respect to the AUASB include appointing AUASB members,¹ providing advice or feedback on the AUASB business plan and determining the AUASB’s broad strategic direction, which assists the AUASB in achieving its primary functions set out in the ASIC Act.

The AUASB Strategic Direction

- 6 The FRC on 6 April 2005 issued the following Strategic Direction to the AUASB:
- (a) The AUASB should develop Australian Auditing Standards that have a clear public interest focus and are of the highest quality.
 - (b) The AUASB should use, as appropriate, International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop Australian Auditing Standards.
 - (c) The AUASB should make such amendments to ISAs as necessary to accommodate and ensure that Auditing Standards both exhibit and conform with the Australian regulatory environment and statutory requirements, including amendments as necessary for Australian Auditing Standards to have the force of law and be capable of enforcement under the requirements of the *Corporations Act 2001* by 30 June 2006.
 - (d) The process of developing Australian Auditing Standards should include monitoring and reviewing auditing and assurance standards issued by other standard setting bodies in other national jurisdictions and considering other matters relevant to achieving the objectives of Part 12 of the ASIC Act. Consequently, where appropriate and considered to be in the public interest and necessary to producing standards

¹ The FRC appoints all AUASB members with the exception of the Chairman, who is appointed by the Minister.

Foreword to AUASB Pronouncements

of the highest quality, the AUASB should incorporate additional requirements in its Australian Auditing Standards.

- (e) The AUASB should continue to develop auditing and assurance standards other than for historical financial information as well as developing and issuing other guidance on auditing and assurance matters, and may participate in audit research that is conducive to, and which significantly benefits, the standard-setting activities of the AUASB.

The Public Interest

- 7 Auditing is a public interest activity and the work of the AUASB in setting auditing and assurance standards forms part of the broad corporate governance framework in Australia. The AUASB maintains a broad public interest perspective in performing its key functions.
- 8 In this context, the public interest is interpreted as meaning acting for the good of stakeholders¹ by facilitating confidence and reliability in the Australian financial system. The AUASB aims to do this by developing high quality auditing and assurance standards and related guidance as a means to enhance the relevance, reliability and timeliness of information provided to users of audit and assurance services. The AUASB consults with stakeholders on various matters including the development of auditing and assurance standards and related guidance.²

Membership of the AUASB

Appointment to the AUASB

- 9 The Minister³ appoints the Chair of the AUASB.
- 10 The FRC appoints the other members of the AUASB.
- 11 Appointments to the AUASB are aimed at achieving balance between private sector auditors, public sector auditors and representatives from industry, academia and other stakeholders. The FRC has developed a framework for appointment to the AUASB,

¹ Stakeholders include shareholders, other users of financial reports, regulators, the auditing profession and other capital market participants.

² Examples of such consultation include: invitations to comment on exposure drafts, formal consultative meetings and meetings with representatives of stakeholder organisations

³ Currently the Minister for Financial Services, Superannuation and Corporate Law.

Foreword to AUASB Pronouncements

which includes the criteria for appointment, appointment process, performance assessment and succession planning. The framework is available on the FRC website at www.frc.gov.au.

AUASB Meeting and Voting Procedures

- 12 Subject to certain provisions, the AUASB has the power to determine its own procedural rules including meeting and voting procedures under the ASIC Act. The AUASB publishes a schedule of meetings at the start of each year. Further meetings may be scheduled if necessary.
- 13 An AUASB member who has a material personal interest in a matter being considered, or which is about to be considered at an AUASB meeting, must disclose the nature and extent of the interest and the relation of the interest to the affairs of the AUASB.⁴
- 14 The approval of AUASB pronouncements requires the affirmative vote of a prescribed majority of AUASB members. This requirement ensures that a high level of consensus must be attained to approve standards or guidance issued by the AUASB. All other decisions require a simple majority of those members (including the Chairman) who are present and voting. In the event of a tied vote, the Chairman's vote will constitute a casting vote.⁵
- 15 The ASIC Act provides that any meeting of the AUASB, or a part of the meeting, that concerns the contents of Auditing Standards, or International Standards on Auditing, must be held in public. Scheduled meetings are shown on the AUASB website and in AUASB publications such as the *AUASB Highlights*. The meeting agenda, location and selected meeting papers are available on the AUASB website one week in advance of the meeting for the benefit of members of the public wishing to attend.

Relationship with the International Auditing and Assurance Standards Board

- 16 The International Auditing and Assurance Standards Board ("IAASB"), an independent standard-setting board of the

⁴ The disclosure must be made as soon as possible after the relevant facts have come to the member's knowledge, and must be recorded in the minutes of the meeting. Unless the AUASB otherwise determines, the member: (a) must not be present during any deliberation by the AUASB on the matter; and (b) must not take part in any decision of the AUASB on the matter.

⁵ Precise details of the AUASB meeting and voting procedures are contained in the AUASB Governance Guidelines. The AUASB Governance Guidelines are published on the AUASB website.

Foreword to AUASB Pronouncements

- International Federation of Accountants (“IFAC”) issues, on an international basis, exposure drafts, standards and other pronouncements on auditing and assurance matters.
- 17 Participation in the work of the IAASB is considered integral to the ability of the AUASB to continue as an effective national standard-setter and is important to the AUASB maintaining and further developing the auditing and assurance standards and related guidance which are used in Australia. Australia has been regarded as an influential international contributor, through participation and input on matters on which the IAASB deliberates.
- 18 The AUASB participates in global standard setting by communicating the Board’s views on exposure drafts issued by the IAASB and through meeting and liaising with the IAASB and other National Standard Setters. In Australia, the AUASB seeks comments on IAASB exposure drafts from interested parties. This serves two purposes: firstly, comments received are considered by the AUASB in preparing its own submission to the IAASB; secondly, the AUASB considers such comments when developing its own standard where it uses the IAASB standards as the underlying standard.
- 19 Where appropriate, the AUASB uses pronouncements issued by the IAASB as underlying pronouncements for preparing Australian pronouncements. The rationale for this policy is the existence of the IAASB as the major global principles-based auditing and assurance standards setting body and the significant strengthening of its public interest focus in recent years, reinforced through oversight of its activities by IFAC’s Public Interest Oversight Board. Furthermore, the strategic direction set by the FRC requires that, where appropriate, equivalent ISAs be used (as the basis) for re-drafting Australian Auditing Standards.

Pronouncements issued by the Auditing and Assurance Standards Board

- 20 The AUASB issues both standards and guidance. A diagrammatic presentation of the pronouncements issued by the AUASB is contained in the Appendices to this document.

Standards

- 21 The AUASB issues the following types of standards:
- (a) Australian Auditing Standards (“ASAs”);

Foreword to AUASB Pronouncements

- (b) Standards on Review Engagements (“ASREs”); and
- (c) Standards on Assurance Engagements (“ASAEs”).

ASAs, ASREs and ASAEs are collectively referred to in this document as the “AUASB Standards”.

- 22 The AUASB has issued ASA 101 *Preamble to AUASB Standards*, which sets out the AUASB’s intentions on how the AUASB Standards are to be understood, interpreted and applied, for engagements with financial reporting periods commencing on or after 1 January 2010, and for firms required to establish systems of quality control by this date. ASA 100 *Preamble to AUASB Standards*, continues to be applicable to all other AUASB Standards. ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*, establishes a requirement for the auditor, assurance practitioner and firm to comply with relevant ethical requirements.
- 23 Australian Auditing Standards (ASAs), whilst developed in the context of financial report audits, are to be applied also, as appropriate, to all audits of other historical financial information. ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* also forms part of the ASAs.
- 24 Standards on Review Engagements (ASREs) are to be applied to the review of a financial report and are to be applied also, as appropriate, to the review of other historical financial information.
- 25 Standards on Assurance Engagements (ASAEs) are to be applied to assurance engagements dealing with subject matters other than historical financial information.⁷

Guidance

- 26 The AUASB issues the following types of guidance:
- (a) Guidance Statements;
 - (b) Bulletins; and
 - (c) Other guidance publications.

⁷ Examples of such subject matters include the efficiency and/or effectiveness of an entity’s activities, prospective financial information and the effectiveness of internal controls.

Foreword to AUASB Pronouncements

Guidance Statements

- 27 The AUASB issues Guidance Statements on matters relating to audit, assurance and review engagements.
- 28 Guidance Statements, whilst approved and issued by the AUASB, do not establish new principles or amend existing Standards and do not have the force of law for the purposes of the *Corporations Act 2001*. Issuance of Guidance Statements will normally be appropriate where the AUASB wishes to provide guidance on procedural matters or on entity or industry specific issues. For example a Guidance Statement may address and provide guidance on audit and assurance considerations of policy statements and regulatory guides issued by Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC).
- 29 Guidance Statements contain a specific clause indicating their operative date. The Guidance Statement remains in force until the operative date of any amendment to the Guidance Statement or until the Statement is withdrawn by the AUASB.

AUASB Bulletins

- 30 The AUASB Bulletins are issued to raise a general awareness of matters that are of interest to auditors and assurance practitioners. They do not provide authoritative guidance and do not amend existing Auditing Standards and Guidance Statements.

Other Guidance Publications

- 31 The AUASB may also issue guidance either in its own right or jointly with other bodies on the auditing and assurance implications of emerging issues.

Due Process

- 32 An AUASB Standard, Guidance Statement and other guidance publication can be developed in one of two ways:
- (a) the use of an IAASB pronouncement as a basis for the preparation of an Australian pronouncement; or
 - (b) the development of a pronouncement that relates to a specific Australian auditing and assurance matter.

Foreword to AUASB Pronouncements

- 33 The AUASB employs an extensive due process in the development of Standards, related guidance and other publications. These processes are considered essential to ensure that all interested parties are given ample opportunity to express their views and to ensure that pronouncements developed are relevant, consistent and logically derived.

AUASB Due Process

- 34 For pronouncements that relate to a specific Australian auditing and assurance matter, project plans are developed and approved by the AUASB. After approval, the AUASB assigns responsibility for the project to the AUASB technical group.
- 35 When the project plan is approved, the AUASB considers whether a project advisory group needs to be formed. A project advisory group would be appointed for topics requiring specialist input. In addition to reviewing the progress at key points in the development of the project, this project working group serves as a resource base available at all stages of the project. Project advisory groups are normally chaired by a member of the AUASB.
- 36 The AUASB technical group prepares a detailed issues paper, which identifies the principal issues to be resolved in the preparation of the proposed pronouncement. The AUASB considers the issues paper and makes tentative decisions. These decisions form the basis upon which a draft exposure draft of a proposed AUASB Standard or draft Guidance Statement or other guidance publication is prepared. An exposure draft is a document that contains a proposed AUASB Standard and is released for public comment to gauge the appropriateness and level of acceptance of those proposals.

Due Process for Standards

- 37 Following review of the draft exposure draft, and processing of any amendments, the AUASB votes on the issuance of the exposure draft for public comment. Once approved, the exposure draft is placed on the AUASB's website. Each exposure draft contains a preface, which outlines the background to the development of the exposure draft, its purpose, main features and any issues on which specific comment is sought. The exposure period is generally not less than 30 days.
- 38 After considering the views expressed in submissions received on the exposure draft, the draft AUASB Standard is prepared for consideration by the AUASB. Once considered the draft document may be further amended prior to its final approval by the AUASB.

Foreword to AUASB Pronouncements

Approval of the draft AUASB Standard is subject to the AUASB voting protocols described above. Consequential changes to AUASB Standards are subject to the same public exposure draft process.

- 39 In accordance with the Australian Government's best practice regulation requirements, the AUASB is required to undertake a preliminary regulation impact assessment (RIS) for all new business regulation or changes to existing regulation that it proposes to make. Where the impact of new or amended business regulation on business, individuals or the economy is assessed as higher than nil or low, the AUASB is required to consult with the Office of Best Practice Regulation (OPBR) to determine whether further analysis is required. In some instances a published regulation impact statement may be required.
- 40 A regulation impact statement considers the various options available to address a problem, including non-regulatory options, together with the likely benefits and costs of each option that will be experienced by different stakeholder groups. This statement also documents the consultation processes undertaken with relevant stakeholders and a plan for implementation and review.

Due Process for Legislative Instruments

- 41 Auditing Standards made by the AUASB under section 336 of the *Corporations Act 2001* are legislative instruments under the *Legislative Instruments Act 2003* ("LIA"). As soon as practicable after a Standard is approved by the AUASB, the Auditing Standard is registered on the Federal Register of Legislative Instruments. Auditing Standards are then tabled in both Houses of Parliament and are subject to the parliamentary scrutiny and disallowance provisions of the LIA. The date of commencement of an Auditing Standard is the date specified by the AUASB.

Due Process for Guidance Statements and other Guidance Publications

- 42 Guidance Statements and other guidance publications are generally not subject to the same public exposure draft process as an AUASB Standard. Following AUASB consideration of the draft Guidance Statement or guidance publication prepared, the draft is amended, as appropriate, and presented to the AUASB for final approval. Approval of the draft Guidance Statement or guidance publication by the AUASB is subject to the AUASB voting protocols described above.

Communications

Web Site

- 43 The AUASB website (www.auasb.gov.au) is designed to meet stakeholder information needs. The website is used to provide information about the AUASB, its governance guidelines, activities and work programme to its stakeholders and interested parties. Pronouncements issued by the AUASB are published on the website and are available for download free of charge. The AUASB publishes, on its website, meeting agendas and meeting papers prior to meetings and meeting highlights after meetings. Members of the public are able to register for the AUASB *Update Notification Service* which provides registrants with a notification, in the form of an email, alerting of important updates to the website.

Newsletter

- 44 The AUASB publishes its electronic newsletter, *Independence*, on a quarterly basis to disseminate information about its work in progress (beyond the Board meetings), significant accomplishments, events and meetings.

Foreword to AUASB Pronouncements

Contacting the AUASB

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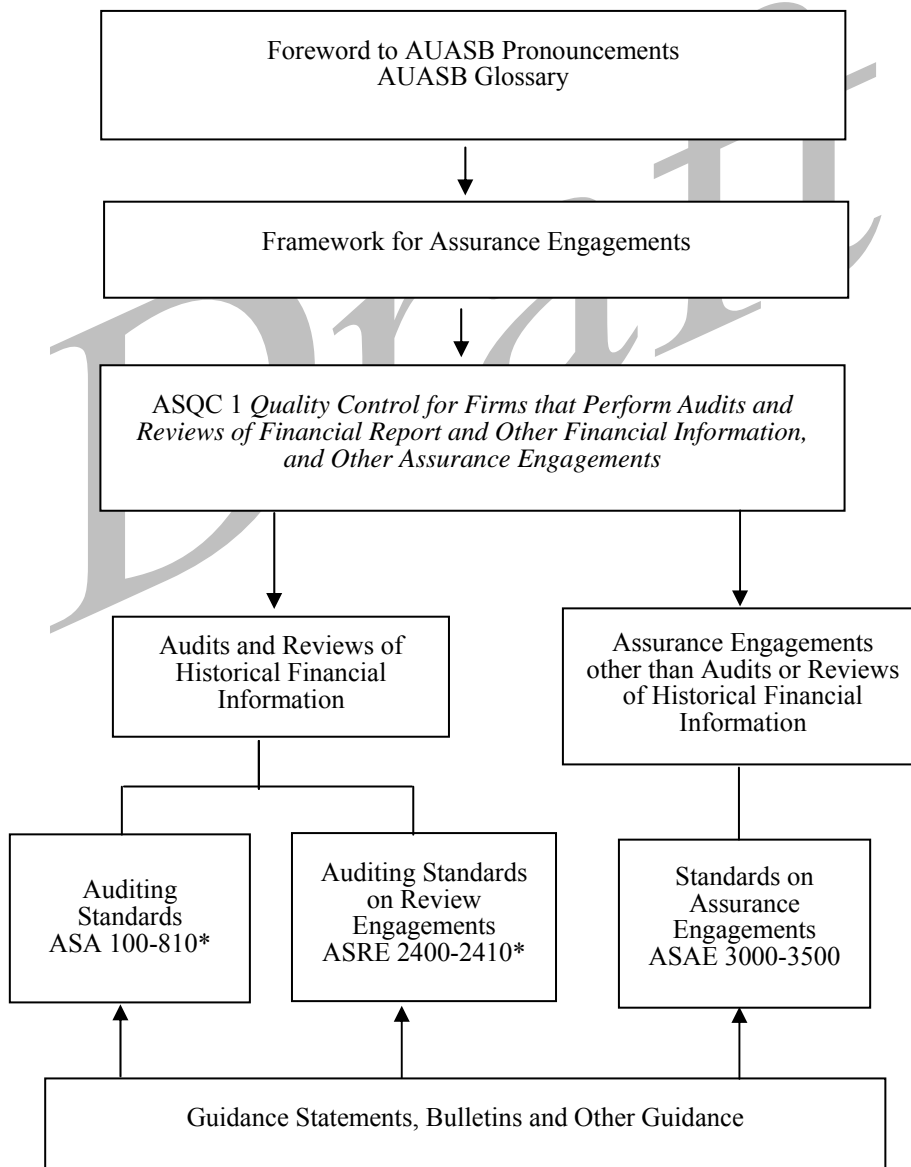
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APPENDIX 1

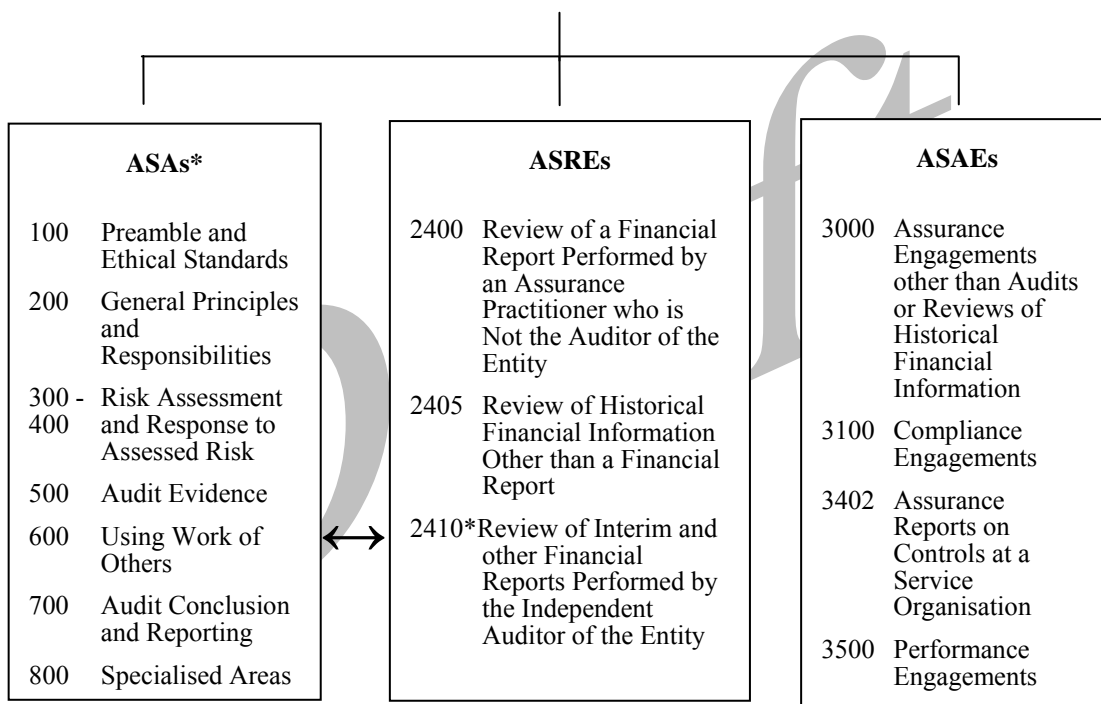
**STRUCTURE OF PRONOUNCEMENTS ISSUED BY THE
AUDITING AND ASSURANCE STANDARDS BOARD**



* Made pursuant to section 336 of the *Corporations Act*

APPENDIX 2

STANDARDS ISSUED BY THE
AUDITING AND ASSURANCE STANDARDS BOARD



* Made pursuant to section 336 of the *Corporations Act*

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