

EXPOSURE DRAFT

ED 04/18

(August 2018)

Proposed Auditing Standard ASA 2018-2 *Amendments to Australian Auditing Standards*

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



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than 15 October 2018. Comments should be addressed to:

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PREFACE

Reasons for Issuing ED 04/18

The AUASB issues exposure draft ED 04/18 of proposed Auditing Standard ASA 2018-2 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government established 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 Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality. Under the Strategic Direction, the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

Main Proposals

This proposed Auditing Standard makes amendments to the requirements and/or application and other explanatory material and/or appendices of the following Auditing Standards:

- | | |
|---------|---|
| ASA 200 | <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i>
(Issued October 2009 and amended to December 2015) |
| ASA 230 | <i>Audit Documentation</i> (Issued October 2009 and amended to December 2015) |
| ASA 240 | <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i>
(Issued October 2009 and amended to May 2017) |
| ASA 260 | <i>Communication With Those Charged with Governance</i>
(Issued December 2015 and amended to May 2017) |
| ASA 500 | <i>Audit Evidence</i> (Issued October 2009 and amended to May 2017) |
| ASA 580 | <i>Written Representations</i> (Issued October 2009 and amended to December 2015) |
| ASA 700 | <i>Forming an Opinion and Reporting on a Financial Report</i>
(Issued December 2015 and amended to May 2017) |
| ASA 701 | <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>
(Issued December 2015 and amended to May 2017). |

The amendments arise from changes made by the International Auditing and Assurance Standards Board (IAASB) to ISA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*.

For background to, and explanation of, the conforming and consequential amendments proposed in ED 04/18, refer to Explanatory Memorandum *Exposure Draft 03/18: Proposed Auditing Standard ASA 540 Auditing Accounting Estimates and Related Disclosures*; and *Exposure Draft 04/18: Proposed Auditing Standard ASA 2018-2 Amendments to Australian Auditing Standards*.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 15 December 2019.

Request for Comments

Comments are invited on this Exposure Draft of the proposed issuance of ASA 2018-2 *Amendments to Australian Auditing Standards* by no later than 15 October 2018.

The AUASB is especially interested in stakeholders views on:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?
2. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
3. Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or does, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:
 - (a) Where those costs are likely to occur;
 - (b) The estimated extent of costs, in percentage terms (relative to audit fee); and
 - (c) Whether expected costs outweigh the benefits to the users of audit services?
5. Are there any other significant public interest matters that stakeholders wish to raise?

The AUASB prefers that respondents express a clear opinion on whether they support the proposed amendments and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2018-2 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes. It contains a series of proposed miscellaneous amendments to various Australian Auditing Standards (as shown) arising from the proposed revision of an existing Auditing Standard. The proposed amendments, in the main, reflect similar amendments made to the equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

AUDITING STANDARD ASA 2018-2

Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:
 - (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

3. This Auditing Standard is operative for financial reporting periods commencing on or after 15 December 2019.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to Australian Auditing Standards. The amendments arise from consequential and conforming changes arising from the issuance of *ASA 540 Auditing Accounting Estimates and Related Disclosures*.

Objective

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
 - (a) *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (Issued October 2009 and amended to December 2015)
 - (b) *ASA 230 Audit Documentation* (Issued October 2009 and amended to December 2015)
 - (c) *ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* (Issued October 2009 and amended to May 2017)
 - (d) *ASA 260 Communication With Those Charged with Governance* (Issued December 2015 and amended to May 2017)
 - (e) *ASA 500 Audit Evidence* (Issued October 2009 and amended to May 2017)
 - (f) *ASA 580 Written Representations* (Issued October 2009 and amended to December 2015)
 - (g) *ASA 700 Forming an Opinion and Reporting on a Financial Report* (Issued December 2015 and amended to May 2017)
 - (h) *ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report* (Issued December 2015 and amended to May 2017).

Definition

6. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*.

Amendments to Auditing Standards

Amendments to ASA 200

7. Existing paragraph A42 is amended (including the insertion of new footnotes, * and ^) to read follows:

The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made. The Australian Auditing Standards do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the “risks of material misstatement.” However, ASA 540* requires a separate assessment of inherent risk and control risk to provide a basis for designing and performing further audit procedures to respond to the assessed risks of material misstatement, including significant risks, for accounting estimates at the assertion level in accordance with ASA 330. In identifying and assessing risks of material misstatement for significant classes of transactions, account balances or disclosures other than accounting estimates, the auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations. The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.

* See ASA 540 *Auditing Accounting Estimates and Disclosures*, paragraph 15.

^ See ASA 330, paragraph 7(b).

Amendments to ASA 230

8. Existing paragraph A7 is amended to read as follows:

Audit documentation provides evidence that the audit complies with the Australian Auditing Standards. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
- The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management or, where appropriate, those charged with governance.
- An auditor’s report containing an appropriately qualified opinion on the financial report demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the Australian Auditing Standards.
- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:

- For example, there may be no single way in which the auditor’s professional scepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor’s exercise of professional scepticism in accordance with the Australian Auditing Standards. For example, in relation to accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management’s assertions, documenting how the auditor evaluated that evidence, including the professional judgements made in forming a conclusion as to the sufficiency and appropriateness of the audit evidence obtained. Such evidence may include specific procedures performed to corroborate management’s responses to the auditor’s enquiries.
- Similarly, that the engagement partner has taken responsibility for the direction, supervision and performance of the audit in compliance with the Australian Auditing Standards may be evidenced in a number of ways within the audit documentation. This may include documentation of the engagement partner’s timely involvement in aspects of the audit, such as participation in the team discussions required by ASA 315.⁵

9. Existing paragraph A10 is amended to read as follows:

Some examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare audit documentation relating to the use of professional judgement include, where the matters and judgements are significant:

- The rationale for the auditor’s conclusion when a requirement provides that the auditor ‘shall consider’ certain information or factors, and that consideration is significant in the context of the particular engagement.
- The basis for the auditor’s conclusion on the reasonableness of areas of subjective judgements made by management(~~for example, the reasonableness of significant accounting estimates~~).
- The basis for the auditor’s evaluation of whether an accounting estimate and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.
- The basis for the auditor’s conclusions about the authenticity of a document when further investigation (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.
- When ASA 701 applies,⁷ the auditor’s determination of the key audit matters or the determination that there are no key audit matters to be communicated.

Amendments to ASA 230 Appendix 1

10. The eleventh point is amended to read as follows:

- *ASA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* – paragraph ~~37~~23

Amendments to ASA 240

11. Existing paragraph A48 is amended to read as follows:

A retrospective review is also required by ASA 540.²⁰ That review is conducted as a risk assessment procedure to obtain information regarding the effectiveness of management's previous prior period estimation process accounting estimates, audit evidence about the outcome, or where applicable, their subsequent re-estimation of prior period accounting estimates that is pertinent to making to assist in identifying and assessing the risks of material misstatement in the current period accounting estimates, and audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial report. As a practical matter, the auditor's review of management judgements and assumptions for biases that could represent a risk of material misstatement due to fraud in accordance with this Auditing Standard may be carried out in conjunction with the review required by ASA 540.

12. Existing footnote 20 is amended to read as follows:

See ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 14.9.

Amendments to ASA 260

13. Existing paragraph A19 is amended to read as follows:

Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgements about accounting policies and financial report disclosures, for example, in relation to the use of key assumptions in the development of accounting estimates for which there is significant measurement uncertainty. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to "critical accounting estimates" or "critical accounting policies and practices" to identify and provide additional information to users about the most difficult, subjective or complex judgements made by management in preparing the financial report.

14. Existing paragraph A20 is amended to read as follows:

As a result, the auditor's views on the subjective aspects of the financial report may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph A19, those charged with governance may be interested in the auditor's evaluation of the adequacy of disclosures of the estimation uncertainty relating to accounting estimates that give rise to significant risks, views on the degree to which complexity, subjectivity or other inherent risk factors affect the selection or application of the methods, assumptions and data used in making a significant accounting estimate, as well as the auditor's evaluation of whether management's point estimate and related disclosures in the financial report are reasonable in the context of the applicable financial reporting framework. Open and constructive communication about significant qualitative aspects of the entity's accounting practices also may include comment on the acceptability of significant accounting practices and on the quality of the disclosures. When applicable, this may include whether a significant accounting practice of the entity relating to accounting estimates is considered by the auditor not to be most appropriate to the particular circumstances of the entity, for example, when an alternative acceptable method for making an accounting estimate would, in the auditor's judgement, be more appropriate. Appendix 2 identifies matters that may be included in this communication.

Amendments to ASA 260 Appendix 1

15. After the existing seventh point, the following point is inserted as follows:

- ASA 540 Auditing Accounting Estimates and Related Disclosures – paragraph 36

Amendments to ASA 260 Appendix 2

16. The heading *Accounting Estimates* is amended to read as follows:

Accounting Estimates and Related Disclosures

17. Under the existing heading *Accounting Estimates*, the following amendments are made:

- ~~For items for which estimates are significant, issues discussed in ASA 540,29 including, for example: Appendix 2 of ASA 540 includes matters that the auditor may consider communicating with respect to significant qualitative aspects of the entity's accounting practices related to accounting estimates and related disclosures.~~
- ~~How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial report.~~
- ~~Changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.~~
- ~~Whether management's decision to recognise, or to not recognise, the accounting estimates in the financial report is in accordance with the applicable financial reporting framework.~~
- ~~Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates and, if so, why, as well as the outcome of accounting estimates in prior periods.~~
- ~~Management's process for making accounting estimates (e.g., when management has used a model), including whether the selected measurement basis for the accounting estimate is in accordance with the applicable financial reporting framework.~~
- ~~Whether the significant assumptions used by management in developing the accounting estimate are reasonable.~~
- ~~Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.~~
- ~~Risks of material misstatement.~~
- ~~Indicators of possible management bias.~~
- ~~How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.~~
- ~~The adequacy of disclosure of estimation uncertainty in the financial report.~~

18. Existing footnote 29 to Appendix 2 is deleted.

Amendments to ASA 500

19. The following sub-paragraph (including footnotes, * and ^) is inserted following existing sub-paragraph 5(c):

External information source means an external individual or organisation that provides information that has been used by the entity in preparing the financial report, or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organisation acting in the capacity of a management's expert, service organisation*, or auditor's expert^ the individual or organisation is not considered an external information source with respect to that particular information. (Ref: Para. A1A-A1C)

* See ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*, paragraph 8.

^ See ASA 620 *Using the Work of an Auditor's Expert*, paragraph 6.

20. Existing paragraph 7 is amended to read as follows:

When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence-, including information obtained from an external information source. (Ref: Para. A26-A34)

21. Following the heading *Application and Other Explanatory Material*, and before the sub-heading *Sufficient Appropriate Audit Evidence* the following sub-heading is inserted:

External Information Source (Ref: Para. 5(cA))

22. Following the sub-heading inserted above, the following paragraph is inserted:

External information sources may include pricing services, governmental organisations, central banks or recognised stock exchanges. Examples of information that may be obtained from external information sources include:

- Prices and pricing related data;
- Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data;
- Credit history data;
- Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry; and
- Mortality tables used to determine liabilities in the life insurance and superannuation sectors.

23. Following the paragraph inserted above, the following paragraph is inserted:

A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organisation provides it to the public for free, or makes it available to a wide range of users in return for payment of a fee. Judgement may be required in determining whether the information is suitable for use by a broad range of users, taking into account the ability of the entity to influence the external information source.

24. The following paragraph is inserted following the above insertions:

An external individual or organisation cannot, in respect of any particular set of information, be both an external information source and a management's expert, or service organisation or auditor's expert.

25. The following paragraph (including a footnote *) is inserted following the above insertions:

However, an external individual or organisation may, for example, be acting as a management's expert when providing a particular set of information, but may be acting as an external information source when providing a different set of information. In some circumstances, professional judgement may be needed to determine whether an external individual or organisation is acting as an external information source or as a management's expert with respect to a particular set of information. In other circumstances, the distinction may be clear. For example:

- An external individual or organisation may be providing information about real estate prices that is suitable for use by a broad range of users, for example, information made generally available pertaining to a geographical region, and be determined to be an external information source with respect to that set of information. The same external organisation may also be acting as a management's or auditor's expert in providing commissioned valuations, with respect to the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.
- Some actuarial organisations publish mortality tables for general use which, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organisation may also be a management's expert with respect to different information tailored to the specific circumstances of the entity to help management determine the superannuation liability for several of the entity's superannuation plans.
- An external individual or organisation may possess expertise in the application of models to estimate the fair value of securities for which there is no observable market. If the external individual or organisation applies that expertise in making an estimate specifically for the entity and that work is used by management in preparing its financial report, the external individual or organisation is likely to be a management's expert with respect to that information. If, on the other hand, that external individual or organisation merely provides, to the public, prices or pricing-related data regarding private transactions, and the entity uses that information in its own estimation methods, the external individual or organisation is likely to be an external information source with respect to such information.
- An external individual or organisation may publish information, suitable for a broad range of users, about risks or conditions in an industry. If used by an entity in preparing its risk disclosures (for example in compliance with AASB 7*), such information would ordinarily be considered to be information from an external information source. However, if the same type of information has been specifically commissioned by the entity to use its expertise to develop information about those risks, tailored to the entity's circumstances, the external individual or organisation is likely to be acting as a management's expert.

- An external individual or organisation may apply its expertise in providing information about current and future market trends, which it makes available to, and is suitable for use by, a broad range of users. If used by the entity to help make decisions about assumptions to be used in making accounting estimates, such information is likely to be considered to be information from an external information source. If the same type of information has been commissioned by the entity to address current and future trends relevant to the entity's specific facts and circumstances, the external individual or organisation is likely to be acting as a management's expert.

* Accounting Standard AASB 7 *Financial Instruments: Disclosures*

26. Existing paragraph A1 is amended to read as follows:

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit)⁶ or a firm's quality control procedures for client acceptance and continuance. ~~In addition to other sources inside and outside the entity,~~ the entity's accounting records and other sources internal to the entity are an important source of audit evidence. ~~Also, information that may be used as audit evidence may have been prepared using the work of a management's expert, or be obtained from an external information source.~~ Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

27. Existing paragraph A9 is amended to read as follows:

Information from sources independent of the entity that the auditor may use as audit evidence may include confirmations from third parties, and information from an external information source, including analysts' reports, and comparable data about competitors (benchmarking data).

28. Existing paragraph A31 is amended to read as follows:

The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. Therefore, generalisations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, ~~information obtained from an source independent external source of the entity~~ may not be reliable if the source is not knowledgeable, or a management's expert may lack objectivity. While recognising that exceptions may exist, the following generalisations about the reliability of audit evidence may be useful:

- ...
- ...

29. Following existing paragraph A34 the following sub-heading is inserted:

External Information Sources

30. The following paragraph (including a footnote *) is inserted following the above sub-heading:

The auditor is required by paragraph 7 to consider the relevance and reliability of information obtained from an external information source that is to be used as audit evidence, regardless of whether that information has been used by the entity in preparing the financial report or obtained by the auditor. For information obtained from an external information source, that consideration may, in certain cases, include audit evidence about the external information source or the preparation of the information by the external information source, obtained through designing and performing further audit procedures in accordance with ASA 330 or, where applicable, ASA 540.*

* See ASA 540 *Auditing Accounting Estimates and Disclosures*

31. The following paragraph is inserted following the above insertion:

Obtaining an understanding of why management or, when applicable, a management's expert uses an external information source, and how the relevance and reliability of the information was considered (including its accuracy and completeness), may help to inform the auditor's consideration of the relevance and reliability of that information.

32. The following paragraph is inserted following the above insertions:

The following factors may be important when considering the relevance and reliability of information obtained from an external information source, including its accuracy and completeness, taking into account that some of these factors may only be relevant when the information has been used by management in preparing the financial report or has been obtained by the auditor:

- The nature and authority of the external information source. For example, a central bank or government statistics office with a legislative mandate to provide industry information to the public is likely to be an authority for certain types of information;
- The ability to influence the information obtained, through relationships between the entity and the information source;
- The competence and reputation of the external information source with respect to the information, including whether, in the auditor's professional judgement, the information is routinely provided by a source with a track record of providing reliable information;
- Past experience of the auditor with the reliability of the information provided by the external information source;
- Evidence of general market acceptance by users of the relevance and/or reliability of information from an external information source for a similar purpose to that for which the information has been used by management or the auditor;
- Whether the entity has in place controls to address the relevance and reliability of the information obtained and used;
- Whether the external information source accumulates overall market information or engages directly in "setting" market transactions;
- Whether the information is suitable for use in the manner in which it is being used and, if applicable, was developed taking into account the applicable financial reporting framework;
- Alternative information that may contradict the information used;

- The nature and extent of disclaimers or other restrictive language relating to the information obtained;
- Information about the methods used in preparing the information, how the methods are being applied including, where applicable, how models have been used in such application, and the controls over the methods; and
- When available, information relevant to considering the appropriateness of assumptions and other data applied by the external information sources in developing the information obtained.

33. The following paragraph (including a footnotes, * and ^) is inserted following the above insertions:

The nature and extent of the auditor's consideration takes into account the assessed risks of material misstatement at the assertion level to which the use of the external information is relevant, the degree to which the use of that information is relevant to the reasons for the assessed risks of material misstatement and the possibility that the information from the external information source may not be reliable (for example, whether it is from a credible source). Based on the auditor's consideration of the matters described in paragraph A33B, the auditor may determine that further understanding of the entity and its environment, including its internal control, is needed, in accordance with ASA 315, or that further audit procedures, in accordance with ASA 330*, and ASA 540^ when applicable, are appropriate in the circumstances, to respond to the assessed risks of material misstatement related to the use of information from an external information source. Such procedures may include:

- Performing a comparison of information obtained from the external information source with information obtained from an alternative independent information source.
- When relevant to considering management's use of an external information source, obtaining an understanding of controls management has in place to consider the reliability of the information from external information sources, and potentially testing the operating effectiveness of such controls.
- Performing procedures to obtain information from the external information source to understand its processes, techniques, and assumptions, for the purposes of identifying, understanding and, when relevant, testing the operating effectiveness of its controls.

* See ASA 330, paragraph 6.

^ See ASA 540, paragraph 29.

34. The following paragraph is inserted following the above insertions:

In some situations, there may be only one provider of certain information, for example, information from a central bank or government, such as an inflation rate, or a single recognised industry body. In such cases, the auditor's determination of the nature and extent of audit procedures that may be appropriate in the circumstances is influenced by the nature and credibility of the source of the information, the assessed risks of material misstatement to which that external information is relevant, and the degree to which the use of that information is relevant to the reasons for the assessed risk of material misstatement. For example, when the information is from a credible authoritative source, the extent of the auditor's further audit procedures may be less extensive, such as corroborating the information to the source's website or published information. In other cases, if a source is not assessed as credible, the auditor may determine that more extensive procedures are appropriate and, in the absence of any alternative independent information source against which to compare, may consider whether performing procedures to obtain information from the external information source, when practical, is appropriate in order to obtain sufficient appropriate audit evidence.

35. The following paragraph (including a footnote *) is inserted following the above insertions:

When the auditor does not have a sufficient basis with which to consider the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. Any imposed limitation on scope is evaluated in accordance with the requirements of ASA 705.

* See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 13.

36. Existing paragraph A36 is amended to read as follows:

When information to be used as audit evidence has been prepared using the work of a management's expert, the requirement in paragraph 8 applies. For example, an individual or organisation may possess expertise in the application of models to estimate the fair value of securities for which there is no observable market. If the individual or organisation applies that expertise in making an estimate which the entity uses in preparing its financial report, the individual or organisation is a management's expert and paragraph 8 applies. If, on the other hand, that individual or organisation merely provides price data regarding private transactions not otherwise available to the entity which the entity uses in its own estimation methods, such information, if used as audit evidence, is subject to paragraph 7 of this Auditing Standard, but is being information from an external information source and not the use of a management's expert by the entity.

37. Existing footnote 16 to paragraph A45 is amended to read as follows:

See ASA 620 ~~*Using the Work of an Auditor's Expert*~~, paragraph 7.

38. Existing paragraph A49 is amended to read as follows:

Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include:

- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial report;
- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; ~~and~~
- If that expert's work involves significant use of source data, the relevance, completeness, and accuracy of that source data; ~~and~~
- If that expert's work involves the use of information from an external information source, the relevance and reliability of that information.

Amendments to ASA 580

Amendments to ASA 580 Appendix 1

39. The fifth point is amended to read as follows:

- ~~ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* – paragraph 2235~~

Amendments to ASA 580 Appendix 2

40. The second point following the heading *Financial Report of the Illustrative Representation Letter* is amended to read as follows:

- ~~Significant~~ The methods, the data, and the significant assumptions used by us in making accounting estimates, including those measured at fair value, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework. (ASA 540)

Amendments to ASA 700

41. Existing paragraph 13 is amended to read as follows:

In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

- (a) ...
- (b) ...
- (c) The accounting estimates and related disclosures made by management are reasonable;
- (d) ...

Amendments to ASA 701

42. Existing paragraph 9 is amended to read as follows:

The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9- A18)

- (a) ...
- (b) Significant auditor judgements relating to areas in the financial report that involved significant management judgement, including accounting estimates that ~~have been identified as having~~ are subject to a high degree of estimation uncertainty. (Ref: Para. A23-A24)
- (c) ...

43. The existing sub-heading following paragraph A22 is amended to read as follows:

~~Significant Auditor Judgements Relating to Areas in the Financial Report that Involved Significant Management Judgement, Including Accounting Estimates that Have Been Identified as Having~~ Are Subject to a High Degree of Estimation Uncertainty (Ref: Para. 9(b))

44. Existing paragraph A24 is amended to read as follows:

However, users of the financial report have highlighted their interest in accounting estimates that ~~have been identified as having~~ are subject to a high degree of estimation uncertainty in accordance with (see ASA 540²⁸) that may have not been determined to be significant risks. Among other things, such estimates are highly dependent on management judgement and are often the most complex areas of the financial report, and may require the involvement of both a management's expert and an auditor's expert. Users have also highlighted that accounting policies that have a significant effect on the financial report (and significant changes to those policies) are relevant to their understanding of the financial report, especially in circumstances where an entity's practices are not consistent with others in its industry.

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45. Existing footnote 28 to paragraph A24 is amended to read as follows:

See ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraphs ~~1510-11~~.