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Marked Up Version

**ASA 200**  
(February 2009)

**Auditing Standard ASA 200**  
*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)*

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

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**Auditing and Assurance Standards Board**

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Alternatively, printed copies of this Auditing Standard are available by contacting:

The Auditing and Assurance Standards Board  
Level 7  
600 Bourke Street  
Melbourne Victoria 3000  
AUSTRALIA

Phone: (03) 8080 7400  
Fax: (03) 8080 7450  
E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

**Postal Address:**  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007  
AUSTRALIA

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**Auditing Standard ASA 200**  
***Overall Objectives of the Independent Auditor and the Conduct of an Audit***  
***in Accordance with Australian Auditing Standards (Revised and***  
***Redrafted)***

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**CONTENTS**

PREFACE

AUTHORITY STATEMENT

	<i>Paragraphs</i>
<b>Application</b> .....	Aus 0.1 – Aus 0.2
<b>Operative Date</b> .....	Aus 0.3
<b>Introduction</b>	
Scope of this ASA.....	1-9
Effective Date .....	10
<b>Objectives</b> .....	11 - 12
<b>Definitions</b> .....	13
<b>Requirements</b>	
Ethical Requirements Relating to an Audit of a Financial Report...	14
Professional Scepticism .....	15
Professional Judgement.....	16
Sufficient Appropriate Audit Evidence and Audit Risk .....	17
Conduct of an Audit in Accordance with Auditing Standards.....	18-24
<b>Application and Other Explanatory Material</b>	
An Audit of a Financial Report .....	A1-A13
Ethical Requirements Relating to an Audit of a Financial Report...	A14-A17
Professional Scepticism .....	A18-A22
Professional Judgement.....	A23-A27
Sufficient Appropriate Audit Evidence and Audit Risk .....	A28-A52
Conduct of an Audit in Accordance with Australian Auditing Standards.....	A53-A76
<b>Conformity with International Standards on Auditing</b>	

**Auditing Standard ASA 200**  
***Overall Objectives of the Independent Auditor and the Conduct of an Audit***  
***in Accordance with Australian Auditing Standards (Revised and***  
***Redrafted)***

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PREFACE

**Reasons for Issuing Auditing Standard ASA 200**  
***Overall Objectives of the Independent Auditor and***  
***the Conduct of an Audit in Accordance with***  
***Australian Auditing Standards (Revised and***  
***Redrafted)***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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 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*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the ISAs and to make appropriate consequential amendments to the Australian Auditing Standards. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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**Main Features**

This Auditing Standard establishes mandatory Requirements and provides Application and Other Explanatory Material regarding the independent auditor's overall responsibilities when conducting an audit of a financial report in accordance with Australian Auditing Standards.

This Auditing Standard:

- (a) sets out the overall objectives of the auditor;
- (b) explains the nature and scope of an audit designed to assist the auditor in meeting those objectives;
- (c) explains the scope, authority and structure of Australian Auditing Standards;
- (d) establishes the general responsibilities of the auditor, applicable in all audits, including the obligation to comply with the Australian Auditing Standards.

**Auditing Standard ASA 200**  
***Overall Objectives of the Independent Auditor and the Conduct of an Audit***  
***in Accordance with Australian Auditing Standards (Revised and***  
***Redrafted)***

**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA [101 \*Preamble to Australian Auditing Standards\*](#), which sets out the intentions of the AUASB on how the Australian Auditing Standards are to be understood, interpreted and applied.

**Auditing Standard ASA 200**  
***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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**AUDITING STANDARD ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

**Application**

- Aus 0.1 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, or a single financial statement, in accordance with Part 2M.3 of the Corporations Act 2001; and
  - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

**Operative Date**

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010.

**Introduction**

**Scope of this ASA**

1. This Auditing Standard establishes the independent auditor's overall responsibilities when conducting an audit of a financial report ~~statements~~ in accordance with Australian Auditing Standards ~~ISAs~~. Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the ISAs ~~Australian Auditing Standards~~, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the ISAs ~~Australian Auditing Standards~~. The independent auditor is referred to as "the auditor" hereafter.

## Auditing Standard ASA 200

### *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)*

2. ~~ISAs-Australian Auditing Standards~~ are written in the context of an audit of ~~a financial report~~~~statements~~ by an auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.

Aus 2.1 ~~For the purposes of the Australian Auditing Standards, a reference to a 'financial report' is also taken to include a 'complete set of financial statements'.~~

#### An Audit of ~~a Financial Report~~~~Statements~~

3. The purpose of an audit is to enhance the degree of confidence of intended users in the financial ~~report~~~~statements~~. This is achieved by the expression of an opinion by the auditor on whether the financial ~~report is statements are~~ prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial ~~report is statements are~~ presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with ~~ISAs-Australian Auditing Standards~~ and relevant ethical requirements enables the auditor to form that opinion. (Ref: Para. A1)
4. The financial ~~report~~~~statements~~ subject to audit ~~is are~~ ~~that~~~~ose~~ of the entity, prepared and presented by management of the entity with oversight from those charged with governance. ~~ISAs-Australian Auditing Standards~~ do not impose responsibilities on management or those charged with governance and do not override laws and regulations that govern their responsibilities. However, an audit in accordance with ~~Australian Auditing Standards~~~~ISAs~~ is conducted on the premise that management and, where appropriate, those charged with governance have responsibilities that are fundamental to the conduct of the audit. The audit of the financial ~~report~~~~statements~~ does not relieve management or those charged with governance of those responsibilities. (Ref: Para. A2-A11)
5. As the basis for the auditor's opinion, ~~Australian Auditing Standards~~~~ISAs~~ require the auditor to obtain reasonable assurance about whether the financial ~~report statements~~ as a whole ~~is are~~ free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial ~~report is statements are~~ materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because

## Auditing Standard ASA 200

### *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)*

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there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. (Ref: Para. A28-A52)

6. The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial ~~report statements~~.<sup>1</sup> In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial ~~report statements~~. Judgements ~~s~~ about materiality are made in the light of surrounding circumstances, and are affected by the auditor's perception of the financial information needs of users of the financial ~~report statements~~, and by the size or nature of a misstatement, or a combination of both. The auditor's opinion deals with the financial ~~report statements~~ as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial ~~report statements~~ as a whole.
7. The ~~ISAs Australian Auditing Standards~~ contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The ~~ISAs Australian Auditing Standards~~ require that the auditor exercise professional ~~judgment judgement~~ and maintain professional ~~skepticismscepticism~~ throughout the planning and performance of the audit and, among other things:
- Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control.
  - Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
  - Form an opinion on the financial ~~report statements~~ based on conclusions drawn from the audit evidence obtained.

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<sup>1</sup> See ~~A~~SA 320 (Revised and Redrafted), *Materiality in Planning and Performing an Audit* and ~~A~~SA 450 (Revised and Redrafted), *Evaluation of Misstatements Identified during the Audit*.

## Auditing Standard ASA 200

### *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)*

8. The form of opinion expressed by the auditor will depend upon the applicable financial reporting framework and any applicable laws or regulations. (Ref: Para. A12-A13)
9. The auditor may also have certain other communication and reporting responsibilities to users, management, those charged with governance, or parties outside the entity, in relation to matters arising from the audit. These may be established by the [ISAs Australian Auditing Standards](#) or by applicable laws or regulations.<sup>2</sup>

#### Effective Date

10. [Deleted by the AUASB. Refer Aus 0.3]

#### Objectives

11. The objectives of the auditor are:
- (a) To obtain reasonable assurance about whether the financial ~~report statements~~ as a whole ~~is are~~ free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial ~~report is~~ ~~statements are~~ prepared, in all material respects, in accordance with an applicable financial reporting framework; and
  - (b) To report on the financial ~~report statements~~, and communicate as required by the ~~ISAs~~ [Australian Auditing Standards](#), in accordance with the auditor's findings.
12. In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial ~~report statements~~, the ~~ISAs~~ [Australian Auditing Standards](#) require that the auditor disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted.\*

#### Definitions

<sup>2</sup> See, for example, [ASA 260 \(Revised and Redrafted\)](#), *Communication with Those Charged with Governance*; and paragraph 43 of [ASA 240 \(Revised and Redrafted\)](#) ([Revised and Redrafted](#)), *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Statements Report*.

\* For example, the auditor may require the Australian Securities and Investments Commission's (ASIC) consent prior to resign from certain audits. Refer ASIC Regulatory Guide 26 *Resignation of Auditors* for more information.

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

13. For the purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:

- (a) Applicable financial reporting framework ~~—means~~ ~~the~~ financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial ~~report statements~~ that is acceptable in view of the nature of the entity and the objective of the financial ~~report statements~~, or that is required by law or regulation.

The term “fair presentation framework” ~~is used to refer to~~ ~~means~~ a financial reporting framework that requires compliance with the requirements of the framework and:

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

The term “compliance framework” ~~is used to refer to~~ ~~means~~ a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

- (b) Audit evidence ~~—means~~ ~~the~~ information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial ~~report statements~~ and other information. For purposes of the Australian Auditing Standards ~~ISAs~~:

- (i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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- (ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.
- (c) Audit risk ~~—means T~~the risk that the auditor expresses an inappropriate audit opinion when the financial ~~report is~~statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.
- (d) Auditor ~~—“Auditor” means is used to refer to~~ the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ~~Auditing Standard~~ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.
- (e) Detection risk ~~—means T~~the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.
- (f) Financial statements ~~—means A~~a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.
- Aus 13.1 Financial Report means a complete set of financial statements for the year ending and the half-year respectively, and the director's declaration about the

**Auditing Standard ASA 200**

**Overall Objectives of the Independent Auditor and the Conduct of an Audit  
in Accordance with Australian Auditing Standards (Revised and  
Redrafted)**

statements and notes, as defined in the *Corporations Act 2001*<sup>†</sup>.

- (g) Historical financial information ~~—means F~~ information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
- (h) Management ~~—means F~~ the person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.
- (i) Misstatement ~~—means A~~ difference between the amount, classification, presentation, or disclosure of a reported financial ~~report statement~~ item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

When the auditor expresses an opinion on whether the financial ~~report is statements are~~ presented fairly, in all material respects, or gives a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's ~~judgement judgement~~, are necessary for the financial ~~report statements~~ to be presented fairly, in all material respects, or to give a true and fair view.

- (j) Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted ~~—means F~~ that management and, where appropriate, those charged with governance have the following responsibilities that are fundamental to the conduct of an audit in accordance with Australian Auditing Standards ISAs. That is, responsibility:

<sup>\*</sup> See sections 295 and sections 303 of the *Corporations Act 2001*.

<sup>†</sup> Australian Accounting Standards (e.g. See AASB 101 *Presentation of Financial Statements*)-) use the term 'financial statements', which ordinarily refer to a complete set of financial statements, consistent with 13(j).

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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- (i) For the preparation and presentation of the financial ~~report statements~~ in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of a financial report statements that ~~is are~~ free from material misstatement, whether due to fraud or error; and
  - (ii) To provide the auditor with:
    - (a) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial ~~report statements~~;
    - (b) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
    - (c) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

In the case of a fair presentation framework, the responsibility is for the preparation and fair presentation of the financial ~~report statements~~ in accordance with the financial reporting framework; or the preparation of a financial report statements that gives a true and fair view in accordance with the financial reporting framework. This applies to all references to “preparation and presentation of the financial ~~report statements~~” in the Australian Auditing Standards ISAs.

The “premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted” may also be referred to as the “premise.”

- (k) Professional ~~judgement~~ judgement — means ~~the~~ the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

- (l) Professional ~~epiticism~~scepticism —means An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
- (m) Reasonable assurance —means In the context of an audit of a financial ~~report~~statements, a high, but not absolute, level of assurance.
- (n) Risk of material misstatement means— The risk that the financial ~~statements-report is are~~ materially misstated prior to audit. This consists of two components, described as follows at the assertion level:
- (i) Inherent risk means— The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
- (ii) Control risk —means The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.
- (o) Those charged with governance —means The person(s) or organization(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

## Requirements

### Ethical Requirements Relating to an Audit of a Financial StatementsReport

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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14. The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to a-financial ~~report statement~~ audit engagements. (Ref: Para. A14-A17)

**Professional ~~Scepticism~~**

15. The auditor shall plan and perform an audit with professional ~~scepticism~~ recognising that circumstances may exist that cause the financial ~~report statements~~ to be materially misstated. (Ref: Para. A18-A22)

**Professional ~~Judgment~~Judgement**

16. The auditor shall exercise professional ~~judgment~~judgement in planning and performing an audit of a financial ~~report statements~~. (Ref: Para. A23-A27)

**Auditing Standard ASA 200**

**Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)**

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**Sufficient Appropriate Audit Evidence and Audit Risk**

17. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. (Ref: Para. A28-A52)

**Conduct of an Audit in Accordance with Australian Auditing Standards ISAs**

*Complying with Australian Auditing Standards ISAs Relevant to the Audit*

18. The auditor shall comply with all Australian Auditing Standards ISAs relevant to the audit. An ISA Auditing Standard is relevant to the audit when the Auditing Standard ISA is in effect and the circumstances addressed by the Auditing Standard ISA exist. (Ref: Para. A53-A57)
19. The auditor shall have an understanding of the entire text of an Auditing Standard ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A58-A66)
20. The auditor shall not represent compliance with Australian Auditing Standards ISAs in the auditor's report unless the auditor has complied with the requirements of this Auditing Standard ISA and all other Auditing Standards ISAs relevant to the audit. (Ref: Para. Aus A66.1)

*Objectives Stated in Individual Auditing Standard ISAs*

21. To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant Australian Auditing Standards ISAs in planning and performing the audit, having regard to the interrelationships among the Australian Auditing Standards ISAs, to:
- (a) Determine whether any audit procedures in addition to those required by the Australian Auditing Standards ISAs are necessary in pursuance of the objectives stated in the Auditing Standards ISAs; and (Ref: Para. A70)
- (b) Evaluate whether sufficient appropriate audit evidence has been obtained. (Ref: Para. A71)

**Auditing Standard ASA 200**  
**Overall Objectives of the Independent Auditor and the Conduct of an Audit**  
**in Accordance with Australian Auditing Standards (Revised and**  
**Redrafted)**

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*Complying with Relevant Requirements*

22. Subject to paragraph [Aus 23.1](#), the auditor shall comply with each requirement of an ~~Australian Auditing Standard~~ISA unless, in the circumstances of the audit:

- (a) The entire ~~Auditing Standard~~ISA is not relevant; or
- (b) The requirement is not relevant because it is conditional and the condition does not exist; ~~or~~ (Ref: Para. A72-A73)

~~Aus 22.1~~ (c) Application of the Requirement(s) would relate to classes of transactions, account balances or disclosures that are immaterial.

23. ~~[Deleted by AUASB. Refer Aus. 23.1] In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement. (Ref: Para. A74)~~

~~Aus 23.1~~ Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant ~~mandatory~~ requirement, the auditor shall:

~~(a) If possible, perform appropriate alternative audit procedures; and~~

~~(b) In accordance with ASA 230 *Audit Documentation (Revised and Redrafted)*, document in the working papers:~~

~~(i) The circumstances surrounding the inability to comply;~~

~~(ii) The reasons for the inability to comply; and~~

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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(iii) ~~Justification of how alternative audit procedures achieve the objectives of the mandatory requirement.~~

~~When the auditor is unable to perform appropriate alternative audit procedures, the auditor shall consider the implications for the auditor's report. When the auditor is unable to perform the appropriate alternative audit procedures, the auditor shall consider the requirement in paragraph 24 of this Auditing Standard. (Ref: Para Aus A74.1 and A74)~~

**Auditing Standard ASA 200**  
***Overall Objectives of the Independent Auditor and the Conduct of an Audit***  
***in Accordance with Australian Auditing Standards (Revised and***  
***Redrafted)***

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*Failure to Achieve an Objective*

24. If an objective in a relevant ~~Auditing Standard~~ISA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with ~~the Australian Auditing Standards~~ISAs, to modify the auditor's opinion or withdraw from the engagement. Failure to achieve an objective represents a significant matter requiring documentation in accordance with ~~ASA~~ISA 230 (Revised and Redrafted)(Revised and Redrafted).<sup>3</sup>  
(Ref: Para. A75-A76)

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<sup>3</sup> See ~~ISA~~ISA 230 (Revised and Redrafted) (Revised and Redrafted), *Audit Documentation*, paragraph 8(c).

## Auditing Standard ASA 200

### *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)*

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## Application and Other Explanatory Material

### An Audit of a Financial Report Statements

#### *Scope of the Audit* (Ref: Para. 3)

- A1. The auditor's opinion on the financial ~~statements report~~ deals with whether the financial ~~report statements are~~ prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of a financial report statements. The auditor's opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. In some jurisdictions, however, applicable laws and regulations may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial ~~report statements~~. While the ~~ISAs Australian Auditing Standards~~ include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial ~~report statements~~, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.

#### *Preparation of the Financial Report* Statements (Ref: Para. 4)

- A2. An audit in accordance with ~~ISAs Australian Auditing Standards~~ is conducted on the premise that management and, where appropriate, those charged with governance have responsibility:
- (a) For the preparation and presentation of the financial ~~report statements~~ in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of a financial report statements that ~~is are~~ free from material misstatement, whether due to fraud or error; and
  - (b) To provide the auditor with:
    - (i) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial ~~report statements~~;

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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- (ii) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
- (iii) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.
- A3. As part of their responsibility for the preparation and presentation of the financial ~~report~~statements, management and, where appropriate, those charged with governance are responsible for:
- The identification of the applicable financial reporting framework, in the context of any relevant laws or regulations.
  - The preparation and presentation of the financial ~~report~~statements in accordance with that framework.
  - An adequate description of that framework in the financial ~~report~~statements.
- The preparation of the financial ~~report~~ statements requires management to exercise ~~judgement~~judgement in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These ~~judgement~~judgements are made in the context of the applicable financial reporting framework.
- A4. The financial ~~report~~ statements may be prepared in accordance with a financial reporting framework designed to meet:
- The common financial information needs of a wide range of users (i.e., a “general purpose financial ~~report~~statements”); or
  - The financial information needs of specific users (i.e., a “special purpose financial ~~report~~statements”).
- A5. The applicable financial reporting framework often encompasses financial reporting standards established by an authori~~z~~ed or recogni~~z~~ed standards setting organiz~~s~~ation, or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial reporting standards established by an authori~~z~~ed or recogni~~z~~ed standards setting organiz~~s~~ation and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable

## Auditing Standard ASA 200

### *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)*

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financial reporting framework. In some cases, the applicable financial reporting framework may encompass such other sources, or may even consist only of such sources. Such other sources may include:

- The legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters;
- Published accounting interpretations of varying authority issued by standards setting, professional or regulatory organizations;
- Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organizations;
- General and industry practices widely recognized and prevalent; and
- Accounting literature.

Where conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained, or among the sources that encompass the financial reporting framework, the source with the highest authority prevails.

Aus A5.1 An applicable financial reporting framework that may be used in preparing a financial report is represented by the Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB), and relevant legislation, such as the *Corporations Act 2001*, for entities covered by that Act, or other relevant legislation that may be applicable to other entities.

- A6. The requirements of the applicable financial reporting framework determine the form and content of the financial report statements. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.
- A7. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. Financial reporting frameworks that encompass primarily the financial

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

reporting standards established by an organization that is authorized or recognized to promulgate standards to be used by entities for preparing and presenting an general purpose financial report statements are often designed to achieve fair presentation, for example, Australian Accounting Standards~~International Financial Reporting Standards (IFRSs)~~ issued by the Australian Accounting Standards Board~~International Accounting Standards Board (IASB)~~.

A8. The requirements of the applicable financial reporting framework also determine what constitutes a complete financial report~~set of financial statements~~. In the case of many frameworks, a financial report statements are is intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a complete financial report ~~complete set of financial statements~~ would include a balance sheet; an income statement; a statement of changes in equity; a statement of cash flow~~flows statement~~; and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial ~~report statements~~.

- For example, the International Public Sector Accounting Standard (IPSAS), “*Financial Reporting Under the Cash Basis of Accounting*” issued by the International Public Sector Accounting Standards Board states that the primary financial statement is a statement of cash receipts and payments when a public sector entity prepares and presents its financial statements in accordance with that IPSAS.
- Other examples of a single financial statement, each of which would include related notes, are a:
  - Balance sheet.
  - Statement of income or statement of operations.
  - Statement of retained earnings.
  - Statement of cash flows.
  - Statement of assets and liabilities that does not include owner’s equity.
  - Statement of changes in owners’ equity.
  - Statement of revenue and expenses.

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

○ Statement of operations by product lines.

○

#### Aus A8.1 Statement of financial position

○ Statement of comprehensive income

○ Statement of recognised income and expense

Aus A8.2 Under the financial reporting framework defined in the *Corporations Act 2001*<sup>\*</sup> and Australian Accounting Standards,<sup>\*\*</sup> a financial report consists of financial statements for the year end and the half-year respectively, notes to the financial statements and the director's declaration about the statements and notes.

A9. ~~Proposed~~ ISA 210 (Revised and Redrafted) (Revised and Redrafted) establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.<sup>4</sup> AISA 800 (Revised and Redrafted) deals with special considerations when the financial report is statements are prepared in accordance with a special purpose framework.<sup>5</sup>

A10. Because of the significance of the premise to the conduct of an audit, the auditor is required to obtain agreement from management and, where appropriate, those charged with governance that they acknowledge and understand their responsibilities set out in paragraph A2 as a precondition for accepting the audit engagement.<sup>6</sup> The auditor is also required to obtain written representations about whether management and, where appropriate, those charged with governance have fulfilled those responsibilities.<sup>7</sup>

#### Considerations Specific to Audits in the Public Sector

A11. The mandates for audits of the financial ~~report statements~~ of public sector entities may be broader than those of other entities. As a

<sup>\*</sup> See, sections 295 and 303 of the *Corporations Act 2001*.

<sup>\*\*</sup> See AASB 101, *Presentation of Financial Statements*

<sup>4</sup> See ~~Proposed~~ ISA-ASA 210 (Revised and Redrafted) (Revised and Redrafted), *Agreeing the Terms of Audit Engagements*, paragraph 4(a).

<sup>5</sup> See ~~AISA 800~~ (Revised and Redrafted), *Special Considerations—Audits of a Financial Report/Statements Prepared in Accordance with Special Purpose Frameworks*, paragraphs ~~to be inserted~~.

<sup>6</sup> See Requirement in ~~Proposed~~ ISA 210 (Revised and Redrafted), paragraph 4(b).

<sup>7</sup> See AISA 580 (Revised and Redrafted), *Written Representations*,<sup>22</sup> paragraphs 10-11.

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

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result, the premise, relating to management's responsibilities, on which an audit of the financial ~~report statements~~ of a public sector entity is conducted may include additional responsibilities, such as the responsibility for the execution of transactions and events in accordance with legislation or proper authority.

#### *Form of the Auditor's Opinion* (Ref: Para. 8)

A12. The opinion expressed by the auditor is on whether the financial ~~report is statements are~~ prepared, in all material respects, in accordance with the applicable financial reporting framework. The form of the auditor's opinion, however, will depend upon the applicable financial reporting framework and any applicable laws or regulations. Most financial reporting frameworks include requirements relating to the presentation of the financial ~~statements report~~; for such frameworks, preparation of the financial ~~statements report~~ in accordance with the applicable financial reporting framework includes presentation.

A13. Where the financial reporting framework is a fair presentation framework, as is generally the case for a general purpose financial ~~statements report~~, the opinion required by the ~~ISAs Australian Auditing Standards~~ is on whether the financial ~~statements are report is~~ presented fairly, in all material respects, or gives a true and fair view. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial ~~report is statements are~~ prepared, in all material respects, in accordance with the framework. Unless specifically stated otherwise, references in the ~~ISAs Australian Auditing Standards~~ to the auditor's opinion cover both forms of opinion.

#### **Ethical Requirements Relating to an Audit of a Financial Report Statements** (Ref: Para. 14)

A14. The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to a financial ~~report statement~~ audit engagements. ~~Relevant ethical requirements ordinarily comprise Parts A and B of the International Federation of Accountants' Code of Ethics for Professional Accountants (the IFAC Code) related to an audit of financial statements together with national requirements that are more restrictive.~~

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\* Relevant ethical requirements related to an audit of a financial report ordinarily comprise APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.

**Auditing Standard ASA 200**

**Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)**

- A15. ~~Part A of Part A of the IFAC Code~~ ~~e~~ APES 110 establishes the fundamental principles of professional ethics relevant to the auditor when conducting an audit of a financial report statements and provides a conceptual framework for applying those principles. The fundamental principles with which the auditor is required to comply by ~~the IFAC Code~~ APES 110 are:
- (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional ~~behavior~~ behaviour.
- Part B of the APES 110 IFAC Code illustrates how the conceptual framework is to be applied in specific situations.
- A16. In the case of an audit ~~engagement~~ engagement, it is in the public interest and, therefore, required by ~~the APES 110 IFAC Code~~, that the auditor be independent of the entity subject to the audit. ~~The APES 110 IFAC Code~~ describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional ~~septicism~~ scepticism.
- A17. ~~International Standard on Quality Control (ISQC) 1~~ APES 320 issued by the Accounting Professional and Ethical Standards Board sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence.<sup>8</sup> ~~IASA 220 (Revised and Redrafted)~~ (Revised and Redrafted) sets out the engagement partner's responsibilities with respect to relevant ethical requirements. These include evaluating whether members of the engagement team have complied with relevant ethical requirements,

<sup>8</sup> See APES 320 Quality Control for Firms, ~~International Standard on Quality Control (ISQC) 1 (Revised and Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements," paragraphs [to be inserted].~~

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.<sup>9</sup> ISA 220 (Revised and Redrafted) (Revised and Redrafted) recognizes that the engagement team is entitled to rely on a firm's systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise.

#### Professional ~~septicism~~ Scepticism (Ref: Para. 15)

- A18. Professional ~~septicism~~ scepticism includes being alert to, for example:
- Audit evidence that contradicts other audit evidence obtained.
  - Information that brings into question the reliability of documents and responses to ~~inquiries~~ enquiries to be used as audit evidence.
  - Conditions that may indicate possible fraud.
  - Circumstances that suggest the need for audit procedures in addition to those required by the ~~ISAs~~ Australian Auditing Standards.
- A19. Maintaining professional ~~septicism~~ scepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of:
- Overlooking unusual circumstances.
  - Over ~~generaliz~~ generalizing when drawing conclusions from audit observations.
  - Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.
- A20. Professional ~~septicism~~ scepticism is necessary to the critical assessment of audit evidence. This includes questioning

<sup>9</sup> See ~~A~~ ISA 220 (Revised and Redrafted), "Quality Control for an Audit of a Financial Report (Statements," paragraphs [to be inserted].

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

contradictory audit evidence and the reliability of documents and responses to ~~inquiries~~enquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial ~~statement~~report amount.

A21. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.<sup>10</sup> In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the ~~ISAs~~Australian Auditing Standards require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.<sup>11</sup>

A22. The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional ~~skepticism~~skepticism or allow the auditor to be satisfied with less-than-persuasive audit evidence when obtaining reasonable assurance.

#### Professional ~~Judgement~~Judgement (Ref: Para. 16)

A23. Professional ~~judgement~~judgement is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and the ~~ISAs~~Australian Auditing Standards and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional ~~judgement~~judgement is necessary in particular regarding decisions about:

- Materiality and audit risk.

<sup>10</sup> See ~~ISA~~ISA 500 (Revised and Redrafted), "Audit Evidence," paragraph [to be inserted].

<sup>11</sup> See ~~ISA~~ISA 240 (Revised and Redrafted), paragraph 13; ~~ISA~~ISA 500 (Revised and Redrafted), paragraph [to be inserted]; and ~~ISA~~ISA 505 (Revised and Redrafted), "External Confirmations," paragraphs [to be inserted].

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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- The nature, timing, and extent of audit procedures used to meet the requirements of the Australian Auditing Standards ISAs and gather audit evidence.
  - Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the Australian Auditing Standards ISAs and thereby, the overall objectives of the auditor.
  - The evaluation of management's judgementjudgements in applying the entity's applicable financial reporting framework.
  - The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial reportstatements.
- A24. The distinguishing feature of the professional judgementjudgement expected of an auditor is that it is exercised by an auditor whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgementjudgements.
- A25. The exercise of professional judgementjudgement in any particular case is based on the facts and circumstances that are known by the auditor. Consultation on difficult or contentious matters during the course of the audit, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, such as that required by ISA-ASA 220 (Revised and Redrafted)(Revised and Redrafted),<sup>12</sup> assist the auditor in making informed and reasonable judgementjudgements.
- A26. Professional judgementjudgement can be evaluated based on whether the judgementjudgement reached reflects a competent application of auditing and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report.
- A27. Professional judgementjudgement needs to be exercised throughout the audit. It also needs to be appropriately documented. In this regard, the auditor is required to prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the significant professional

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<sup>12</sup> See AISA 220 (Revised and Redrafted), paragraph [to be inserted].

## Auditing Standard ASA 200

### **Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)**

~~judgement~~judgements made in reaching conclusions on significant matters arising during the audit.<sup>13</sup> Professional ~~judgement~~judgement is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate audit evidence.

#### **Sufficient Appropriate Audit Evidence and Audit Risk** (Ref: Para. 5 and 17)

##### *Sufficiency and Appropriateness of Audit Evidence*

- A28. 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<sup>14</sup>) 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 are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. 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. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.
- A29. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.
- A30. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability

<sup>13</sup> See A+SA 230 (Revised and Redrafted), paragraph 8.

<sup>14</sup> See A+SA 315 (Revised and Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment," paragraph 9.

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

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of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.

- A31. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional ~~judgement~~judgement. ~~ISA-ASA 500 (Revised and Redrafted)~~ISA-ASA 500 (Revised and Redrafted) and other relevant ~~Australian Auditing Standards~~ISAs establish additional requirements and provide further guidance applicable throughout the audit regarding the auditor's considerations in obtaining sufficient appropriate audit evidence.

#### Audit Risk

- A32. Audit risk is a function of the risks of material misstatement and detection risk. The assessment of risks is based on audit procedures to obtain information necessary for that purpose and evidence obtained throughout the audit. The assessment of risks is a matter of professional ~~judgement~~judgement, rather than a matter capable of precise measurement.
- A33. For purposes of the ~~Australian Auditing Standards~~ISAs, audit risk does not include the risk that the auditor might express an opinion that the financial ~~report is statements are~~ materially misstated when they are not. This risk is ordinarily insignificant. Further, audit risk is a technical term related to the process of auditing; it does not refer to the auditor's business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of a financial ~~report~~statements.

#### Risks of Material Misstatement

- A34. The risks of material misstatement may exist at two levels:
- The overall financial statement level; and
  - The assertion level for classes of transactions, account balances, and disclosures.
- A35. Risks of material misstatement at the overall financial ~~report~~statement level refer to risks of material misstatement that relate pervasively to the financial ~~report~~statements as a whole and potentially affect many assertions.

## Auditing Standard ASA 200

### *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)*

- A36. Risks of material misstatement at the assertion level are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial ~~statements-report~~ at an acceptably low level of audit risk. Auditors use various approaches to accomplish the objective of assessing the risks of material misstatement. For example, the auditor may make use of a model that expresses the general relationship of the components of audit risk in mathematical terms to arrive at an acceptable level of detection risk. Some auditors find such a model to be useful when planning audit procedures.
- A37. The risks of material misstatement at the assertion level consist of two components: inherent risk and control risk. Inherent risk and control risk are the entity's risks; they exist independently of the audit of the financial ~~reportstatements~~.
- A38. ~~A~~-Inherent risk is higher for some assertions and related classes of transactions, account balances, and disclosures than for others. For example, it may be higher for complex calculations or for accounts consisting of amounts derived from accounting estimates that are subject to significant estimation uncertainty. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement. Factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may also influence the inherent risk related to a specific assertion. Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterized by a large number of business failures.
- A39. Control risk is a function of the effectiveness of the design, implementation and maintenance of internal control by management, ~~or where applicable, those charged with governance~~, to address identified risks that threaten the achievement of the entity's objectives relevant to preparation of the entity's financial ~~sreportstatements~~. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial ~~reportstatements~~, because of the inherent limitations of internal control. These include, for example, the possibility of human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override. Accordingly, some control risk will always exist. The ~~Australian Auditing StandardsISAs~~ provide the conditions under which the auditor is required to, or may choose to, test the operating

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

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effectiveness of controls in determining the nature, timing and extent of substantive procedures to be performed.<sup>15</sup>

- A40. The ~~Australian Auditing Standards~~ ISAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the “risks of material misstatement.” However, 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.
- A41. ~~ISA-ASA 315 (Revised and Redrafted)~~ (Revised and Redrafted) establishes requirements and provides guidance on identifying and assessing the risks of material misstatement at the financial ~~report~~ statement and assertion levels.

#### Detection Risk

- A42. For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level. For example, the greater the risks of material misstatement the auditor believes exists, the less the detection risk that can be accepted and, accordingly, the more persuasive the audit evidence required by the auditor.
- A43. Detection risk relates to the nature, timing, and extent of the auditor’s procedures that are determined by the auditor to reduce audit risk to an acceptably low level. It is therefore a function of the effectiveness of an audit procedure and of its application by the auditor. Matters such as:

- ~~a~~Adequate planning;
- ~~p~~Proper assignment of personnel to the engagement team;
- ~~T~~he application of professional scepticism; and
- ~~s~~Supervision and review of the audit work performed,

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<sup>15</sup> See ~~A~~SA 330 (Revised and Redrafted), “The Auditor’s Responses to Assessed Risks,” paragraphs 7-17.

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

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assist to enhance the effectiveness of an audit procedure and of its application and reduce the possibility that an auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results.

- A44. ~~ISA-ASA 300 (Revised and Redrafted)~~~~(Revised and Redrafted)~~<sup>16</sup> and ~~ISA-ASA 330 (Revised and Redrafted)~~~~(Revised and Redrafted)~~ establish requirements and provide guidance on planning an audit of a financial ~~report statements~~ and the auditor's responses to assessed risks. Detection risk, however, can only be reduced, not eliminated, because of the inherent limitations of an audit. Accordingly, some detection risk will always exist.

#### *Inherent Limitations of an Audit*

- A45. The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial ~~report is statements are~~ free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from:

- The nature of financial reporting;
- The nature of audit procedures; and
- The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

#### The Nature of Financial Reporting

- A46. The preparation of a financial ~~report statements~~ involves ~~judgement judgement~~ by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial ~~report statement~~ items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or ~~judgement judgements~~ that may be made. Consequently, some financial ~~report statement~~ items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures. For example, this is

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<sup>16</sup> See ~~A~~ASA 300 (Revised and Redrafted), "Planning an Audit of a Financial ~~Report~~Statements."

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

often the case with respect to certain accounting estimates. Nevertheless, the Australian Auditing Standards require the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and related disclosures, and to the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgement.<sup>17</sup>

#### The Nature of Audit Procedures

A47. There are practical and legal limitations on the auditor's ability to obtain audit evidence. For example:

- There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant to the preparation and presentation of the financial report statements or that has been requested by the auditor. Accordingly, the auditor cannot be certain of the completeness of information, even though the auditor has performed audit procedures to obtain assurance that all relevant information has been obtained.
- Fraud may involve sophisticated and carefully organized schemes designed to conceal it. Therefore, audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify documentation which may cause the auditor to believe that audit evidence is valid when it is not. The auditor is neither trained as nor expected to be an expert in the authentication of documents.
- An audit is not an official investigation into alleged wrongdoing. Accordingly, the auditor is not given specific legal powers, such as the power of search, which may be necessary for such an investigation.

#### Timeliness of Financial Reporting and the Balance between Benefit and Cost

A48. The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than

<sup>17</sup> See ASA 540 (Revised and Redrafted), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures," and ASA 700 (Revised and Redrafted), "Forming an Opinion and Reporting on a Financial Report Statements," paragraph [to be inserted].

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

persuasive. Appropriate planning assists in making sufficient time and resources available for the conduct of the audit. Notwithstanding this, the relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost. This is recognised in certain financial reporting frameworks (see, for example, the IASB's SAASB's "*Framework for the Preparation and Presentation of Financial Statements*"). Therefore, there is an expectation by users of a financial report statements that the auditor will form an opinion on the financial report statements within a reasonable period of time and at a reasonable cost, recognising that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.

A49. Consequently, it is necessary for the auditor to:

- Plan the audit so that it will be performed in an effective manner;
- Direct audit effort to areas most expected to contain risks of material misstatement, whether due to fraud or error, with correspondingly less effort directed at other areas; and
- Use testing and other means of examining populations for misstatements.

A50. In light of the approaches described in paragraph A49, the Australian Auditing Standards<sup>18</sup> contain requirements for the planning and performance of the audit and require the auditor, among other things, to:

- Have a basis for the identification and assessment of risks of material misstatement at the financial report statement and assertion levels by performing risk assessment procedures and related activities;<sup>18</sup> and
- Use testing and other means of examining populations in a manner that provides a reasonable basis for the auditor to draw conclusions about the population.<sup>19</sup>

<sup>18</sup> See A+SA 315 (Revised and Redrafted), paragraphs 5-10.

<sup>19</sup> See A+SA 330 (Revised and Redrafted); ~~SA 500~~ SA 500 (Revised and Redrafted); ~~Proposed SA 520~~ SA 520 (Revised and Redrafted), "*Analytical Procedures*"; and ~~SA 530~~ SA 530 (Revised and Redrafted), "*Audit Sampling*".<sup>22</sup>

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

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#### Other Matters that Affect the Inherent Limitations of an Audit

- A51. In the case of certain assertions or subject matters, the potential effects of the inherent limitations on the auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include:
- Fraud, particularly fraud involving senior management or collusion. See [ISA-ASA 240 \(Revised and Redrafted\)\(Revised and Redrafted\)](#) for further discussion.
  - The existence and completeness of related party relationships and transactions. See [ISA-ASA 550 \(Revised and Redrafted\)](#)<sup>20</sup> for further discussion.
  - The occurrence of non-compliance with laws and regulations. See [ISA-ASA 250 \(Revised and Redrafted\)\(Revised and Redrafted\)](#)<sup>21</sup> for further discussion.
  - Future events or conditions that may cause an entity to cease to continue as a going concern. See [ISA-ASA 570 \(Revised and Redrafted\)\(Revised and Redrafted\)](#)<sup>22</sup> for further discussion.
- Relevant [Australian Auditing StandardsISAs](#) identify specific audit procedures to assist in mitigating the effect of the inherent limitations.
- A52. Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial [reportstatements](#) may not be detected, even though the audit is properly planned and performed in accordance with [Australian Auditing StandardsISAs](#). Accordingly, the subsequent discovery of a material misstatement of the financial [report statements](#) resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with [Australian Auditing StandardsISAs](#). However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than-persuasive audit evidence. Whether the auditor has performed an audit in accordance with [Australian Auditing StandardsISAs](#) is determined by the audit

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<sup>20</sup> See [ISA 550 \(Revised and Redrafted\)](#), "Related Parties."

<sup>21</sup> See [ISA 250 \(Revised and Redrafted\)](#), "Consideration of Laws and Regulations in an Audit of a Financial ReportStatements."

<sup>22</sup> See [ISA 570 \(Revised and Redrafted\)](#), "Going Concern."

## Auditing Standard ASA 200

### *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)*

procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor's report based on an evaluation of that evidence in light of the overall objectives of the auditor.

#### **Conduct of an Audit in Accordance with Australian Auditing Standards ISAs**

*Nature of the Australian Auditing Standards ISAs (Ref: Para. 18)*

- A53. The Australian Auditing Standards ISAs, taken together, provide the standards for the auditor's work in fulfilling the overall objectives of the auditor. The Australian Auditing Standards ISAs deal with the general responsibilities of the auditor, as well as the auditor's further considerations relevant to the application of those responsibilities to specific topics.
- A54. The scope, effective date and any specific limitation of the applicability of a specific ISA Auditing Standard is made clear in the ISA Auditing Standard. Unless otherwise stated in the ISA Auditing Standard, the auditor is not permitted to apply an ISA Auditing Standard before the effective date specified therein.
- A55. In performing an audit, the auditor may be required to comply with legal or regulatory requirements in addition to the ISAs Australian Auditing Standards. ~~The ISAs do not override laws and regulations that govern an audit of financial statements.~~ In the event that those laws and regulations differ from the Australian Auditing Standards ISAs, an audit conducted only in accordance with laws and regulations will not automatically comply with Australian Auditing Standards ISAs.
- A56. The auditor may also conduct the audit in accordance with both Australian Auditing Standards ISAs and Auditing Standards of a specific jurisdiction or country. In such cases, in addition to complying with each of the ISAs Auditing Standards relevant to the audit, it may be necessary for the auditor to perform additional audit procedures in order to comply with the relevant standards of that jurisdiction or country.

#### Considerations Specific to Audits in the Public Sector

- A57. The Australian Auditing Standards ISAs are relevant to engagements in the public sector. The public sector auditor's responsibilities, however, may be affected by the audit mandate, or by obligations on public sector entities arising from legislation, regulation, ministerial

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

directives, government policy requirements, or resolutions of the legislature, which may encompass a broader scope than an audit of a financial statements report in accordance with the Australian Auditing Standards ISAs. These additional responsibilities are not dealt with in the Australian Auditing Standards ISAs. They may be dealt with in the pronouncements of the International Organization of Supreme Audit Institutions or national standard setters, or in guidance developed by government audit agencies.

Contents of the ISAs Australian Auditing Standards (Ref: Para. 19)

A58. In addition to objectives and requirements (requirements are predominately expressed in the ISAs Australian Auditing Standards using “shall”), an ISA Auditing Standard contains related guidance in the form of application and other explanatory material. It may also contain introductory material that provides context relevant to a proper understanding of the ISA Auditing Standard, and definitions. The entire text of an ISA Auditing Standard, therefore, is relevant to an understanding of the objectives stated in an Auditing Standard ISA and the proper application of the requirements of an Auditing Standard ISA.

A59. Where necessary, the application and other explanatory material provides further explanation of the requirements of an Auditing Standard ISA and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover.
- Include examples of procedures that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an Auditing Standard ISA. The application and other explanatory material may also provide background information on matters addressed in an Auditing Standard ISA.

A60. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related Auditing Standard ISA or within the title and introduction of the appendix itself.

A61. Introductory material may include, as needed, such matters as explanation of:

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

- The purpose and scope of the Auditing Standard ISA, including how the Auditing Standard ISA relates to other Auditing Standard ISAs.
- The subject matter of the Auditing Standard ISA.
- The respective responsibilities of the auditor and others in relation to the subject matter of the Auditing Standard ISA.
- The context in which the Auditing Standard ISA is set.

A62. An Auditing Standard ISA may include, in a separate section under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of ~~the the~~ Australian Auditing Standards ISAs. These are provided to assist in the consistent application and interpretation of the Australian Auditing Standards ISAs, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout the Australian Auditing Standards ISAs. The AUASB Glossary of Terms relating to International Standards issued by the International Auditing and Assurance Standards Board in the Handbook of International Auditing, Assurance, and Ethics Pronouncements published by IFAC contains a complete listing of terms defined in the Australian Auditing Standards ISAs. It also includes descriptions of other terms found in Australian Auditing Standards ISAs to assist in common and consistent interpretation and translation.

A63. When appropriate, additional considerations specific to audits of smaller entities and public sector entities are included within the application and other explanatory material of an Auditing Standard ISA. These additional considerations assist in the application of the requirements of the Auditing Standard ISA in the audit of such entities. They do not, however, limit or reduce the responsibility of the auditor to apply and comply with the requirements of the Australian Auditing Standards ISAs.

#### Considerations Specific to Smaller Entities

- A64. For purposes of specifying additional considerations to audits of smaller entities, a “smaller entity” refers to an entity which typically possesses qualitative characteristics such as:
- (a) Concentration of ownership and management in a small number of individuals (often a single individual – either a

**Auditing Standard ASA 200**  
***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and

- (b) One or more of the following:
- (i) Straightforward or uncomplicated transactions;
  - (ii) Simple record-keeping;
  - (iii) Few lines of business and few products within business lines;
  - (iv) Few internal controls;
  - (v) Few levels of management with responsibility for a broad range of controls; or
  - (vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

A65. The considerations specific to smaller entities included in the Australian Auditing Standards ~~ISAs~~ have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities.

A66. The Australian Auditing Standards ISAs refer to the proprietor of a smaller entity who is involved in running the entity on a day-to-day basis as the “owner-manager.”

Aus A66.1 \_\_\_\_\_ When the auditor conducts the audit in accordance with Australian Auditing Standards and International Standards on Auditing (“ISAs”), in accordance with ASA 700<sup>\*</sup> (Revised and Redrafted), the auditor’s report is required to refer to the audit having been conducted in accordance with the Australian Auditing Standards and ISAs only when the auditor has complied fully with all of the Australian Auditing Standards and ISAs relevant to the audit. (Ref: Para 20)

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<sup>\*</sup> See ASA 700 (Revised and Redrafted) *Forming an Opinion and Reporting on a Financial Report*.

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

*Objectives Stated in Individual ~~ISAs~~ Auditing Standards* (Ref: Para. 21)

- A67. Each ~~Auditing Standard~~ISA contains one or more objectives which provide a link between the requirements and the overall objectives of the auditor. The objectives in individual ~~Auditing Standards~~ISAs serve to focus the auditor on the desired outcome of the ~~Auditing Standard~~ISA, while being specific enough to assist the auditor in:
- Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and
  - Deciding whether more needs to be done to achieve them in the particular circumstances of the audit.
- A68. Objectives are to be understood in the context of the overall objectives of the auditor stated in paragraph 11 of this ~~Auditing Standards~~ISA. As with the overall objectives of the auditor, the ability to achieve an individual objective is equally subject to the inherent limitations of an audit.
- A69. In using the objectives, the auditor is required to have regard to the interrelationships among the ~~Australian Auditing Standards~~ISAs. This is because, as indicated in paragraph A53, the ~~Australian Auditing Standards~~ISAs deal in some cases with general responsibilities and in others with the application of those responsibilities to specific topics. For example, this ~~Auditing Standards~~ISA requires the auditor to adopt an attitude of professional ~~seepticism~~scepticism; this is necessary in all aspects of planning and performing an audit but is not repeated as a requirement of each ~~Auditing Standard~~ISA. At a more detailed level, ~~ISA-ASA 315 (Revised and Redrafted)~~(Revised and Redrafted) and ~~ISA 330 (Revised and Redrafted)~~(Revised and Redrafted) contain, among other things, objectives and requirements that deal with the auditor's responsibilities to identify and assess the risks of material misstatement and to design and perform further audit procedures to respond to those assessed risks, respectively; these objectives and requirements apply throughout the audit. An ~~ISA-Auditing Standard~~ dealing with specific aspects of the audit (for example, ~~ISAASA 540 (Revised and Redrafted)~~) may expand on how the objectives and requirements of such ~~Australian Auditing Standards~~ISAs as ~~ISAASA 315 (Revised and Redrafted)~~(Revised and Redrafted) and ~~ISAASA 330 (Revised and Redrafted)~~(Revised and Redrafted) are to be applied in relation to the subject of the ~~ISA-Auditing Standard~~ but does not repeat them. Thus, in achieving the objective stated in ~~ISAASA 540 (Revised and Redrafted)~~, the auditor has regard to the

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

objectives and requirements of other relevant [Australian Auditing Standards](#).

Use of Objectives to Determine Need for Additional Audit Procedures (Ref: Para. 21(a))

A70. The requirements of the [Australian Auditing Standards](#) are designed to enable the auditor to achieve the objectives specified in the [Australian Auditing Standards](#), and thereby the overall objectives of the auditor. The proper application of the requirements of the [Australian Auditing Standards](#) by the auditor is therefore expected to provide a sufficient basis for the auditor's achievement of the objectives. However, because the circumstances of audit engagements vary widely and all such circumstances cannot be anticipated in the [Australian Auditing Standards](#), the auditor is responsible for determining the audit procedures necessary to ~~fulfil~~ fulfil the requirements of the [Australian Auditing Standards](#) and to achieve the objectives. In the circumstances of an engagement, there may be particular matters that require the auditor to perform audit procedures in addition to those required by the [Australian Auditing Standards](#) to meet the objectives specified in the [Australian Auditing Standards](#).

Use of Objectives to Evaluate Whether Sufficient Appropriate Audit Evidence Has Been Obtained (Ref: Para. 21(b))

A71. The auditor is required [under paragraph 21\(b\) of this Auditing Standard](#) to use the objectives to evaluate whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. If as a result the auditor concludes that the audit evidence is not sufficient and appropriate, then the auditor may follow one or more of the following approaches to meeting the requirement of paragraph 21(b):

- Evaluate whether further relevant audit evidence has been, or will be, obtained as a result of complying with other [Australian Auditing Standards](#);
- Extend the work performed in applying one or more requirements; or
- Perform other procedures judged by the auditor to be necessary in the circumstances.

Where none of the above is expected to be practical or possible in the circumstances, the auditor will not be able to obtain sufficient

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

appropriate audit evidence and is required under paragraph 24 of this Auditing Standard by the ISAs to determine the effect on the auditor's report or on the auditor's ability to complete the engagement.

*Complying with Relevant Requirements*

Relevant Requirements (Ref: Para. 22)

A72. In some cases, an ISA Auditing Standard (and therefore all of its requirements) may not be relevant in the circumstances. For example, if an entity does not have an internal audit function, nothing in ISA-ASA 610 (Revised and Redrafted)(Revised and Redrafted)<sup>23</sup> is relevant.

A73. Within a relevant Auditing StandardISA, there may be conditional requirements. Such a requirement is relevant when the circumstances envisioned in the requirement apply and the condition exists. In general, the conditionality of a requirement will either be explicit or implicit, for example:

<sup>23</sup> See ISA 610 (Revised and Redrafted), <sup>42</sup>*Using the Work of Internal Auditors.*<sup>22</sup>

## Auditing Standard ASA 200

### Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)

- ~~The requirement to modify the auditor's opinion if there is a limitation of scope<sup>24</sup> represents an explicit conditional requirement.~~
- The requirement to modify the auditor's opinion if there is limitation of scope<sup>24</sup> represents an explicit conditional requirement.
- The requirement to communicate significant deficiencies in internal control identified during the audit to those charged with governance,<sup>26</sup> which depends on the existence of such identified significant deficiencies; and the requirement to obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework,<sup>27</sup> which depends on that framework requiring or permitting such disclosure, represent implicit conditional requirements.

#### Inability to Comply with a Requirement (Ref: Para. Aus 23.1)

A73. ~~ISA ASA 230 (Revised and Redrafted)~~ISA ASA 230 (Revised and Redrafted) establishes documentation requirements in those rare and exceptional circumstances where the auditor is unable to comply with ~~departs from~~ a relevant requirement.<sup>28</sup> The Australian Auditing Standards ISAs do not call for compliance with a requirement that is not relevant in the circumstances of the audit.

Aus 23.1 ~~Where~~ in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant ~~mandatory requirement, requirement,~~ compliance with ~~the Australian~~ Auditing Standards can still be represented provided the auditor has complied with the requirements of paragraph ~~45~~ Aus 23.1 of this Auditing Standard.

<sup>24</sup> See ~~ISA~~ ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report," paragraph 13.

<sup>2425</sup> See ~~ISA~~ ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report," paragraph 13.

<sup>26</sup> See ~~ISA~~ ISA 265, "Communicating Deficiencies in Internal Control," paragraph ~~10~~.

<sup>27</sup> See ~~ISA~~ ISA 501 (Revised and Redrafted), "Audit Evidence Regarding Specific Financial ~~Statement~~ Report Account Balances and Disclosures," paragraph ~~14~~.

<sup>28</sup> See ~~ISA~~ ISA 230 (Revised and Redrafted), paragraph 12.

**Auditing Standard ASA 200**

***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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*Failure to Achieve an Objective* (Ref: Para. 24)

A74. Whether an objective has been achieved is a matter for the auditor's professional judgement. That judgement takes account of the results of audit procedures performed in complying with the requirements of the [Australian Auditing Standards ISAs](#), and the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained and whether more needs to be done in the particular circumstances of the audit to achieve the objectives stated in the [Australian Auditing Standards ISAs](#). Accordingly, circumstances that may give rise to a failure to achieve an objective include those that:

- Prevent the auditor from complying with the relevant requirements of an [ISA Auditing Standard](#).
- Result in its not being practicable or possible for the auditor to carry out the additional audit procedures or obtain further audit evidence as determined necessary from the use of the objectives in accordance with paragraph 21 [of this Auditing Standard](#), for example due to a limitation in the available audit evidence.

A75. Audit documentation that meets the requirements of [ISA ASA 230 \(Revised and Redrafted\)](#) and the specific documentation requirements of other relevant [Australian Auditing Standards ISAs](#) provides evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor. While it is unnecessary for the auditor to document separately (as in a checklist, for example) that individual objectives have been achieved, the documentation of a failure to achieve an objective assists the auditor's evaluation of whether such a failure has prevented the auditor from achieving the overall objectives of the auditor.

## **Auditing Standard ASA 200**

### ***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)***

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#### **Conformity with International Standards on Auditing**

Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* (Revised and Redrafted), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

The main difference between this Auditing Standard and ISA 200 is:

- This Auditing Standard includes the following Requirements that are not included as Requirements in ISA 200:
  - Subject to paragraph Aus 23.1, the auditor shall comply with each requirement of an Australian Auditing Standard unless, in the circumstances of the audit...:
    - (c) Application of the Requirement(s) would relate to classes of transactions, account balances or disclosures that are immaterial. (Ref: Para Aus 22.1)
  - Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant mandatory requirement, the auditor shall:
    - (a) If possible, perform appropriate alternative audit procedures; and
    - (b) In accordance with ASA 230 *Audit Documentation* (Revised and Redrafted), document in the working papers:
      - (i) The circumstances surrounding the inability to comply;
      - (ii) The reasons for the inability to comply; and
      - (iii) Justification of how alternative audit procedures achieve the objectives of the mandatory requirement. (Ref: Para Aus 23.1)

Compliance with this Auditing Standard enables compliance with ISA 200.