

EXPOSURE DRAFT

ED 18/09

(June 2009)

Proposed Auditing Standard ASA 101 *Preamble to Australian Auditing Standards (Revised and Redrafted)*

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

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Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 15 July 2009. Comments should be addressed to:

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Copies of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au.

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PREFACE

Reasons for Issuing ED 18/09

The Auditing and Assurance Standards Board (AUASB) is proposing to issue Auditing Standard ASA 101 *Preamble to Australian Auditing Standards (Revised and Redrafted)* 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*.

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC), has undertaken a programme to redraft, in “clarity” format, the entire suite of International Standards on Auditing (ISAs). In some cases, and in accordance with normal practice, the ISAs have been revised in addition to being redrafted. The redrafted ISAs are effective for audits of financial statements for periods beginning on or after 15 December 2009.

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. The revised Australian Auditing Standards are operative on or after 1 January 2010.

ASA 101 Preamble to Australian Auditing Standards

As the (revised) Australian Auditing Standards are legislative instruments, the AUASB continues to consider it necessary for an interpretive document to form part of the suite of standards. The purpose of ASA 101 is to deal with specific interpretive matters not dealt with elsewhere in the Australian Auditing Standards operative on or after 1 January 2010.

ASA 101 does not replace or amend ASA 100 *Preamble to AUASB Standards* which continues to be applicable to all AUASB standards other

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than the (revised) Australian Auditing Standards operative on or after
1 January 2010.

Draft

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Main Proposals

This proposed Auditing Standard establishes mandatory Requirements and provides Application and Other Explanatory Material regarding the AUASB's intentions on how the Australian Auditing Standards, operative on or after 1 January 2010, are to be understood, interpreted and applied.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative on or after 1 January 2010.

New Auditing Standard

This proposed Auditing Standard is a new pronouncement of the AUASB and accordingly does not supersede a pre-existing Auditing Standard.

Request for Comments

Comments are invited on this Exposure Draft of the proposed issuance of Auditing Standard ASA 101, *Preamble to Australian Auditing Standards* by no later than 15 July 2009. The AUASB is seeking comments from respondents on the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the significant costs to/benefits for auditors and the business community arising from compliance with the Requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?
5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the

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above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Auditing Standard.

AUASB Information Note

The AUASB has not yet completed the project to revise and redraft the Australian Auditing Standards (in “clarity” format). While all currently known matters relating to the revised standards are incorporated into this Exposure Draft, readers are advised that the AUASB may decide to make conforming amendments and other editorial changes.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 101 *Preamble to 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 the Australian Auditing Standards, operative on or after 1 January 2010.

AUDITING STANDARD ASA 101

Preamble to 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 or a review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose;
 - (a) a review, by the independent auditor of the entity, of an interim or other financial report for any other purpose; and
 - (d) a firm¹ required to comply with ASQC 1 (Revised and Redrafted) *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information and Other Assurance Engagements*.
- 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 engagements with financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality control in compliance with ASQC 1 by 1 January 2010.
- Aus 0.4 This Auditing Standard supersedes interpretive information contained in ASA 100 *Preamble to AUASB Standards*

¹ See ASQC 1 paragraphs 12 (g) and Aus 12.1: A firm means a sole practitioner, partnership or corporation or other entity of professional accountants. For purposes of the *Corporations Act 2001*, a firm means an individual auditor, audit firm and audit company.

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(04/06) to the extent that ASA 100 applies to the Australian Auditing Standards.

Introduction

Scope of this ASA

- Aus 1.1 The purpose of this Auditing Standard is to set out mandatory components not otherwise included in the Australian Auditing Standards operative on or after 1 January 2010.
- Aus 1.2 ASA 100 *Preamble to AUASB Standards (04/06)* applies to all AUASB Standards other than the Australian Auditing Standards operative on or after 1 January 2010.

Objective

- Aus 2.1 The objective of the auditor and the firm is to use this Auditing Standard in order to understand, interpret and apply the Australian Auditing Standards operative on or after 1 January 2010:

Definitions

- Aus 3.1 For the purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:
- (a) Australian Auditing Standards means the entire suite of Auditing Standards issued by the AUASB, including:
- ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*; and
 - ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information and Other Assurance Engagements*.
- (b) Auditing Standard means a single auditing standard within the suite of Australian Auditing Standards.

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The title of each Auditing Standard contains the prefix “ASA” with the exception of ASRE 2410 and ASQC 1.

- (c) Auditing Standards means Australian Auditing Standards made under section 336 of the Corporations Act 2001 (the Act).

Requirements

Authority of the Paragraphs in Australian Auditing Standards

Aus 4.1 The auditor shall apply the mandatory components of the Australian Auditing Standards when conducting an audit or review in accordance with those standards. The mandatory components are included in each Auditing Standard under the headings listed below:

- (i) Application (paragraph Aus 0.1).
- (ii) Operative Date.
- (iii) Objective(s).
- (iv) Definition(s).
- (v) Requirements.

Aus 5.1 The auditor shall consider the whole text of an Auditing Standard to understand, interpret and apply the mandatory components. The explanatory material is included in each Auditing Standard under the headings listed below:

- (i) Application (paragraph Aus 0.2).
- (ii) Introduction.
- (iii) Application and Other Explanatory Material.
- (iv) Conformity with International Standards on Auditing.
- (v) Appendices.

Explanatory material does not create or extend mandatory requirements.

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Engagements under the *Corporations Act 2001*

Aus 6.1 The Application paragraph, identified as “Aus 0.1”, in each Auditing Standard, with the exception of this Auditing Standard, refers to audits or reviews conducted in accordance with the *Corporations Act 2001* (the “Act”). Accordingly, the Auditing Standards made under section 336 of the Act apply specifically to:

- (a) an audit or a review conducted under Part 2M.3 of the Act; and
- (a) an audit of a profit and loss statement and balance sheet conducted under Part 7.8 of the Act.

Compliance with Requirements

Aus 7.1 When, in the circumstances of the audit, a Requirement is not relevant due to the conditions described in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)*, the auditor need not document the reason(s) why the Requirement is not relevant. (Ref: Aus A1.1)

* * *

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Application and Other Explanatory Material

Compliance with Requirements (Ref: Aus 7.1)

Aus A1.1 Under paragraph Aus 7.1, an auditor need not document the reasons why a Requirement is not relevant. However, 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 is required under ASA 230² to document:

- (a) The circumstances surrounding the inability to comply;
- (b) The reasons for the inability to comply; and
- (c) Justification of how alternative audit procedures achieve the objectives of the mandatory Requirement.

² See ASA 230 *Audit Documentation* (Revised and Redrafted), paragraph Aus 12.1

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Conformity with International Standards on Auditing

This Auditing Standard relates to the Australian legislative environment and accordingly there is no equivalent International Standard on Auditing ISA, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs in this Auditing Standard do not appear in the text of the ISAs and accordingly are identified with the prefix “Aus”.

Compliance with this Auditing Standard does not affect compliance with the ISAs .

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