

ASA 2011-1
(June 2011)

Explanatory Statement

ASA 2011-1 Amendments to Australian Auditing Standards

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



Australian Government

Auditing and Assurance Standards Board

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Reasons for Issuing Auditing Standard ASA 2011-1 Amendments to Australian Auditing Standards

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 2011-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is as 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 Act), the AUASB may make 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, *inter alia*, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Operative Date

ASA 2011-1 *Amendments to Australian Auditing Standards* is operative for financial reporting periods commencing on or after 1 July 2011. Early adoption is permitted.

Purpose of Auditing Standard ASA 2011-1 Amendments to Australian Auditing Standards

The purpose of the Auditing Standard is to make amendments to the following Australian Auditing Standards:

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|---------|---|
| ASQC 1 | <i>Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements</i> |
| ASA 101 | <i>Preamble to Australian Auditing Standards</i> |
| ASA 102 | <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> |
| ASA 210 | <i>Agreeing the Terms of Audit Engagements</i> |

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- ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*
- ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*
- ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*
- ASA 260 *Communication with Those Charged with Governance*
- ASA 300 *Planning an Audit of a Financial Report*
- ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*
- ASA 320 *Materiality in Planning and Performing an Audit*
- ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*
- ASA 500 *Audit Evidence*
- ASA 501 *Audit Evidence – Specific Considerations for Inventory and Segment Information*
- ASA 502 *Audit Evidence – Specific Considerations for Litigation and Claims*
- ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting estimates, and Related Disclosures*
- ASA 550 *Related Parties*
- ASA 560 *Subsequent Events*
- ASA 570 *Going Concern*
- ASA 580 *Written Representations*
- ASA 700 *Forming an Opinion and Reporting on a Financial Report*
- ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*

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- ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- ASA 710 *Comparative Information – Corresponding Figures and Comparative Financial Reports*
- ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*
- ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*

These amendments arise from:

1. Consequential changes necessary to acknowledge issuance, by the Accounting Professional and Ethical Standards Board, of APES 110 *Code of Ethics for Professional Accountants*, in December 2010; and
2. Editorial amendments made by the AUASB. The amendments seek to enhance the quality of the auditing standards through editorial changes to correct inadvertent grammatical errors; and improve consistency of expression and format.

The amendments do not have an impact on the requirements of the Auditing Standards.

Main Features

The Auditing Standard:

- (a) Applies to audits and reviews of financial reports, and complete sets of financial statements, in accordance with the *Corporations Act 2001* (the “Act”) and for other purposes.
- (b) Applies, as appropriate, to audits and reviews of other historical financial information.
- (c) Applies also to firms that perform audits and reviews.
- (d) Makes amendments to the Auditing Standards issued in October 2009 under section 336 of the Act by the Auditing and Assurance Standards Board (AUASB). Those auditing standards became

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operative for audits and reviews for financial reporting periods commencing on or after 1 January 2010.

- (e) Acknowledges the issuance of *APES 110 Code of Ethics for Professional Accountants*, issued in December 2010 by the Accounting Professional and Ethical Standards Board.
- (f) Comprises amendments that arise principally from editorial corrections, including improvements in consistency.
- (g) Permits early adoption of the amendments.
- (h) Does not introduce new requirements, new definitions or new application and other explanatory material.
- (i) Is a new pronouncement of the AUASB and accordingly does not supersede a pre-existing Auditing Standard.
- (j) Has been made for Australian legislative purposes 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).

Other Auditing Standards

ASA 2011-1 is to be read in conjunction with the Australian Auditing Standards to which it relates. [See note (d) above]

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- a. have a clear public interest focus and are of the highest quality;
- b. use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- c. conform with the Australian regulatory environment; and
- d. are capable of enforcement.

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The AUASB continually monitors changes in legislation and other relevant authoritative material that have an impact on the Australian Auditing Standards. In this context, the AUASB acknowledges the issuance of APES 110 *Code of Ethics for Professional Accountants*, issued in December 2010 by the Accounting Professional and Ethical Standards Board. The Australian Auditing Standards require an auditor to comply with relevant ethical requirements relating to audit engagements, and accordingly, the AUASB amends ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

In implementing the FRC's Strategic Direction and in accordance with its ongoing quality control policies, the AUASB has undertaken a thorough review of the Australian Auditing Standards. The review included wide consultation with, and detailed input from, constituents. The exercise was aimed at identifying inadvertent errors and instances of inconsistency that diminish the quality of the relevant auditing standard and consequently the Australian Auditing Standards as a whole.

The AUASB has determined that the two categories of amendments explained above improve the quality of the Australian Auditing Standards and therefore contribute to the AUASB's compliance with the Strategic Direction. The amendments to the Australian Auditing Standards are achieved through an amending standard, namely: *ASA 2011-1 Amendments to Australian Auditing Standards*.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 01/11 Proposed Auditing Standard *ASA 2011-1 Amendments to Australian Auditing Standards* was issued on 20 April 2011 with a 33 day comment period.

As an integral part of its consultation with the public, the AUASB sought opinions on whether the proposed Auditing Standard was supported as a whole. In addition, comments were sought on specific questions which included whether:

- there were additional amendments that should be included in the amending standard;
- applicable laws and regulations had been appropriately addressed in the amending standard;

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- any significant costs, if any, and benefits arise from compliance with the amending standard. If significant costs arise whether they outweigh the benefits to the users of audit services; and
- there exist any significant public interest matters affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the amending Auditing Standard.

Regulation Impact Assessment

A *Regulation Impact Assessment* (RIA) has been prepared in connection with the amendments to Australian Auditing Standards. The RIA has been approved by the Office of Best Practice Regulation (OPBR).

The RIA has considered both the expected benefits and expected costs of the amendments to Auditing Standards, including comments provided by stakeholders. It concluded that expected costs to providers of audit services would be insignificant and that, on balance, the improvement in quality to the Auditing Standards would likely outweigh expected costs.