

EXPOSURE DRAFT

ED 15/08
(October 2008)

**Proposed 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)*
(Re-issuance of ASA 200)

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 December 2008. Comments should be addressed to:

The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA
E-mail: edcomments@auasb.gov.au

A copy 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. Alternatively, any individual or organisation may obtain one printed copy of this Exposure Draft without charge until no later than 15 December 2008 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

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

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prior to issuance.

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PREFACE

Reasons for Issuing ED 15/08

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard ASA 200 *Objective and General Principles Governing an Audit of a Financial Report* 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.

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Main Proposals

This proposed 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.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 January 2010.

Main changes from existing ASA 200 *Objective and General Principles Governing an Audit of a Financial Report* (April 2006, as amended)

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 200 *Objective and General Principles Governing an Audit of a Financial Report* (April 2006, as amended), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard ASA 200, *Objective and General Principles Governing an Audit of a Financial Report* by no later than 15 December 2008. The AUASB is seeking comments on the main changes from the existing ASA 200. In addition, respondents are asked to consider and respond to 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?

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4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of 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 main changes to the Requirements of this proposed Auditing Standard are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Auditing Standard.

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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 100 *Preamble to AUASB 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)

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, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report 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 in accordance with Australian Auditing Standards. 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 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 Australian Auditing Standards. The independent auditor is referred to as "the auditor" hereafter.

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

An Audit of a Financial Report

3. The purpose of an audit is to enhance the degree of confidence of intended users in the financial report. This is achieved by the expression of an opinion by the auditor on whether the financial report is 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 presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with Australian Auditing Standards and relevant ethical requirements enables the auditor to form that opinion. (Ref: Para. A1)
4. The financial report subject to audit is that of the entity, prepared and presented by management of the entity with oversight from those charged with governance. 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 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 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 require the auditor to obtain reasonable assurance about whether the financial report as a whole is 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 materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, 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. (Ref: Para. A28-A52)

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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.¹ 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. Judgements 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, and by the size or nature of a misstatement, or a combination of both. The auditor's opinion deals with the financial report as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial report as a whole.
7. The Australian Auditing Standards contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The Australian Auditing Standards require that the auditor exercise professional judgement and maintain professional scepticism 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 based on conclusions drawn from the audit evidence obtained.
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)

¹ See ASA 320 (Revised and Redrafted), "*Materiality in Planning and Performing an Audit*" and ASA 450 (Revised and Redrafted), "*Evaluation of Misstatements Identified during the Audit.*"

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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 Australian Auditing Standards or by applicable laws or regulations.²

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 as a whole is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework; and
 - (b) To report on the financial report, and communicate as required by the 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, the Australian Auditing Standards require that the auditor disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted.

Definitions

13. For the purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:
- (a) Applicable financial reporting framework – The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial report that is

² See, for example, ASA 260 (Revised and Redrafted), "*Communication with Those Charged with Governance*;" and paragraph 43 of ASA 240 (Revised and Redrafted), "*The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*."

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acceptable in view of the nature of the entity and the objective of the financial report, or that is required by law or regulation.

The term “fair presentation framework” is used to refer to 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, 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. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to 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 – 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 and other information. For purposes of the Australian Auditing Standards s:

- (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.
- (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.

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- (c) Audit risk – The risk that the auditor expresses an inappropriate audit opinion when the financial report is materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.
- (d) Auditor – “Auditor” 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 Australian Auditing Standard 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 – 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 report – 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 report” ordinarily refers to a complete set of financial statements, and supporting notes, as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.
- (g) Historical financial information – 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 – 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

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those charged with governance, for example, executive members of a governance board, or an owner-manager.

- (i) Misstatement – A difference between the amount, classification, presentation, or disclosure of a reported financial report 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 presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgement, are necessary for the financial report 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 – 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. That is, responsibility:

- (i) For the preparation and presentation of the financial report 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 that is 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;
- (b) Any additional information that the auditor may request from management

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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 in accordance with the financial reporting framework; or the preparation of a financial report that give 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” in the Australian Auditing Standards.

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 – 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.
- (l) Professional scepticism – 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 – In the context of an audit of a financial report, a high, but not absolute, level of assurance.
- (n) Risk of material misstatement – The risk that the financial report is materially misstated prior to audit. This consists of two components, described as follows at the assertion level:
 - (i) Inherent risk – 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

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misstatements, before consideration of any related controls.

(ii) Control risk – 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 – The person(s) or organisation(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 Report

14. The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to a financial report 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 to be materially misstated. (Ref: Para. A18-A22)

Professional Judgement

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

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

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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

Complying with Australian Auditing Standards Relevant to the Audit

18. The auditor shall comply with all Australian Auditing Standards relevant to the audit. An Auditing Standard is relevant to the audit when the Auditing Standard is in effect and the circumstances addressed by the Auditing Standard exist. (Ref: Para. A53-A57)
19. The auditor shall have an understanding of the entire text of an Auditing Standard, 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 Standard in the auditor's report unless the auditor has complied with the requirements of this Auditing Standard and all other Auditing Standards relevant to the audit. (Ref: Para. Aus A66.1)

Objectives Stated in Individual Auditing Standards

21. To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant Australian Auditing Standards in planning and performing the audit, having regard to the interrelationships among the Australian Auditing Standards, to: (Ref: Para. A67-A69)
 - (a) Determine whether any audit procedures in addition to those required by the Australian Auditing Standards are necessary in pursuance of the objectives stated in the Auditing Standards; and (Ref: Para. A70)
 - (b) Evaluate whether sufficient appropriate audit evidence has been obtained. (Ref: Para. A71)

Complying with Relevant Requirements

22. Subject to paragraph 23, the auditor shall comply with each requirement of an Australian Auditing Standard unless, in the circumstances of the audit:
 - (a) The entire Auditing Standard is not relevant; or

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- (b) The requirement is not relevant because it is conditional and the condition does not exist. (Ref: Para. A72-A73)

23. [Deleted by AUASB]. Refer Aus. 23.1

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
 - (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. (Ref: Para A74)

Failure to Achieve an Objective

24. If an objective in a relevant Auditing Standard 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 Australian Auditing Standards, to modify the auditor's opinion or withdraw from the engagement.

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Failure to achieve an objective represents a significant matter requiring documentation in accordance with ASA 230 (Revised and Redrafted).³ (Ref. Para. A75-A76)

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³ See ASA 230 (Revised and Redrafted), “*Audit Documentation*,” paragraph 8(c).

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Application and Other Explanatory Material

An Audit of a Financial Report

Scope of the Audit (Ref: Para. 3)

- A1. The auditor's opinion on the financial report deals with whether the financial report is 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. 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. While the 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, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.

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

- A2. An audit in accordance with 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 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 that is 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;

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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, 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 in accordance with that framework.
 - An adequate description of that framework in the financial report.
- The preparation of the financial report requires management to exercise judgement in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgements are made in the context of the applicable financial reporting framework.
- A4. The financial report 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”); or
 - The financial information needs of specific users (i.e., a “special purpose financial report”).
- A5. The applicable financial reporting framework often encompasses financial reporting standards established by an authorised or recognised standards setting organisation, or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial reporting standards established by an authorised or recognised standards setting organisation and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting

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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 organisations;
- Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organisations;
- General and industry practices widely recognised 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 In Australia, an applicable financial reporting framework that may be used in preparing a financial report is represented by the Australian Accounting Standards issued by the Australia 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. 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

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reporting standards established by an organisation that is authorised or recognised to promulgate standards to be used by entities for preparing and presenting an general purpose financial report are often designed to achieve fair presentation, for example, Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB).

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

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- Aus A8.1 A financial report as defined under sections 295 and 303 of the *Corporations Act 2001* and AASB 101 *Presentation of Financial Statements*, consists of the financial statements for the year end and the half-year respectively, notes to the financial statements and the directors' declaration about the statements and notes.
- A9. ASA 210 (Revised and Redrafted) establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.⁴ ASA 800 (Revised and Redrafted) deals with special considerations when the financial report is prepared in accordance with a special purpose framework.⁵
- 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.⁶ The auditor is also required to obtain written representations about whether management and, where appropriate, those charged with governance have fulfilled those responsibilities.⁷

Considerations Specific to Audits in the Public Sector

- A11. The mandates for audits of the financial report of public sector entities may be broader than those of other entities. As a result, the premise, relating to management's responsibilities, on which an audit of the financial report 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 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

⁴ See ASA 210 (Revised and Redrafted), "Agreeing the Terms of Audit Engagements," paragraph [4(a)].

⁵ See ASA 800 (Revised and Redrafted), "Special Considerations—Audits of a Financial Report Prepared in Accordance with Special Purpose Frameworks"

⁶ See ASA 210 (Revised and Redrafted), paragraph [4(b)].

⁷ See ASA 580 (Revised and Redrafted), "Written Representations," paragraphs 10-11.

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financial reporting frameworks include requirements relating to the presentation of the financial report; for such frameworks, preparation of the financial 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 report, the opinion required by the Australian Auditing Standards is on whether the financial report is presented fairly, in all material respects, or give a true and fair view. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial report is prepared, in all material respects, in accordance with the framework. Unless specifically stated otherwise, references in the Australian Auditing Standards to the auditor's opinion cover both forms of opinion.

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

- A14. The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to a financial report audit engagements. Relevant ethical requirements ordinarily comprise APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board related to an audit of a financial report.
- A15. Part A of APES 110 establishes the fundamental principles of professional ethics relevant to the auditor when conducting an audit of a financial report and provides a conceptual framework for applying those principles. The fundamental principles with which the auditor is required to comply by APES 110 are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behaviour.

Part B of the APES 110 illustrates how the conceptual framework is to be applied in specific situations.

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- A16. In the case of an audit engagement it is in the public interest and, therefore, required by the APES 110, that the auditor be independent of the entity subject to the audit. APES 110 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 scepticism.
- A17. (Revised and Redrafted) APES 320 *Quality Control for Firms* 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.⁸ ASA 220 (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, 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.⁹ ASA 220 (Revised and Redrafted) recognises 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 Scepticism (Ref: Para. 15)

- A18. Professional 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 enquiries to be used as audit evidence.

⁸ See APES 320 "*Quality Control for Firms*". (Revised and Redrafted)

⁹ See ASA 220 (Revised and Redrafted) (Revised and Redrafted), "*Quality Control for an Audit of a Financial Report*"

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- Conditions that may indicate possible fraud.
 - Circumstances that suggest the need for audit procedures in addition to those required by the Australian Auditing Standards.
- A19. Maintaining professional scepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of:
- Overlooking unusual circumstances.
 - Over generalising 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 scepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to 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 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.¹⁰ 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 Australian Auditing Standards require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.¹¹
- A22. The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged

¹⁰ See ASA 500 (Revised and Redrafted)(Revised and Redrafted), "Audit Evidence"

¹¹ See ASA 240 (Revised and Redrafted), paragraph 13; ASA 500 (Revised and Redrafted), and ASA 505 (Revised and Redrafted), "External Confirmations".

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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 scepticism or allow the auditor to be satisfied with less-than-persuasive audit evidence when obtaining reasonable assurance.

Professional Judgement (Ref: Para. 16)

A23. Professional judgement is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and the 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 is necessary in particular regarding decisions about:

- Materiality and audit risk.
- The nature, timing, and extent of audit procedures used to meet the requirements of the Australian Auditing Standards 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 and thereby, the overall objectives of the auditor.
- The evaluation of management's judgements 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 report.

A24. The distinguishing feature of the professional judgement 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 judgements.

A25. The exercise of professional judgement 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

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outside the firm, such as that required by ASA 220 (Revised and Redrafted),¹² assist the auditor in making informed and reasonable judgements.

- A26. Professional judgement can be evaluated based on whether the judgement 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 judgement 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 judgements made in reaching conclusions on significant matters arising during the audit.¹³ Professional 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 audit¹⁴) 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

¹² See ASA 220 (Revised and Redrafted)(Revised and Redrafted)

¹³ See ASA 230 (Revised and Redrafted), paragraph 8.

¹⁴ See ASA 315 (Revised and Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment," paragraph 9.

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(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 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. ASA 500 (Revised and Redrafted) and other relevant Australian Auditing Standards 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, rather than a matter capable of precise measurement.
- A33. For purposes of the Australian Auditing Standards, audit risk does not include the risk that the auditor might express an opinion that the financial report is 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

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business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of a financial report.

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 level refer to risks of material misstatement that relate pervasively to the financial report as a whole and potentially affect many assertions.
- 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 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 report.
- A38. 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

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lack of sufficient working capital to continue operations or a declining industry characterised 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 to address identified risks that threaten the achievement of the entity's objectives relevant to preparation of the entity's financial report. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial report, 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 Standards provide the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures to be performed.¹⁵
- A40. The Australian Auditing Standards do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "risks of material misstatement." However, 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. ASA 315 (Revised and Redrafted) establishes requirements and provides guidance on identifying and assessing the risks of material misstatement at the financial 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

¹⁵ See ASA 330 (Revised and Redrafted), "The Auditor's Responses to Assessed Risks," paragraphs 7-17.

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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:

- adequate planning;
- proper assignment of personnel to the engagement team;
- the application of professional scepticism; and
- supervision and review of the audit work performed,

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. ASA 300 (Revised and Redrafted)¹⁶ and ASA 330 (Revised and Redrafted) establish requirements and provide guidance on planning an audit of a financial report 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 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

¹⁶ See ASA 300 (Revised and Redrafted), "Planning an Audit of a Financial Report."

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- 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 involves 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 items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgements that may be made. Consequently, some financial report items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures. For example, this is 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 judgements.¹⁷

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 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 organised 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

¹⁷ 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".

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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 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 "*Framework for the Preparation and Presentation of Financial Statements*"). Therefore, there is an expectation by users of a financial report that the auditor will form an opinion on the financial report 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 contain requirements for the planning and performance of the audit and require the auditor, among other things, to:

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- Have a basis for the identification and assessment of risks of material misstatement at the financial report and assertion levels by performing risk assessment procedures and related activities;¹⁸ 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.¹⁹

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 ASA 240 (Revised and Redrafted) for further discussion.
- The existence and completeness of related party relationships and transactions. See ASA 550 (Revised and Redrafted)²⁰ for further discussion.
- The occurrence of non-compliance with laws and regulations. See ASA 250 (Revised and Redrafted)²¹ for further discussion.
- Future events or conditions that may cause an entity to cease to continue as a going concern. See ASA 570 (Revised and Redrafted)²² for further discussion.
- Relevant Australian Auditing Standards identify specific audit procedures to assist in mitigating the effect of the inherent limitations.

¹⁸ See ASA 315 (Revised and Redrafted), paragraphs 5-10.

¹⁹ See ASA 330 (Revised and Redrafted); ASA 500 (Revised and Redrafted); ASA 520 (Revised and Redrafted), "Analytical Procedures;" and ASA 530 (Revised and Redrafted), *Audit Sampling*.

²⁰ See ASA 550 (Revised and Redrafted), *Related Parties*.

²¹ See ASA 250 (Revised and Redrafted), *Consideration of Laws and Regulations in an Audit of Financial Statements*.

²² See ASA 570 (Revised and Redrafted), *Going Concern*.

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A52. Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial report may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards. Accordingly, the subsequent discovery of a material misstatement of the financial report resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with Australian Auditing Standards. 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 Standards is determined by the audit 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

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

A53. The Australian Auditing Standards, taken together, provide the standards for the auditor's work in fulfilling the overall objectives of the auditor. The Australian Auditing Standards 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 Auditing Standard is made clear in the Auditing Standard. Unless otherwise stated in the Auditing Standard, the auditor is permitted to apply an 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 Australian Auditing Standards. Australian Auditing Standards do not override laws and regulations that govern an audit of a financial report. In the event that those laws and regulations differ from the Australian Auditing Standards, an audit conducted only in accordance with laws and regulations will not automatically comply with Australian Auditing Standards.

A56. The auditor may also conduct the audit in accordance with both Australian Auditing Standards and Auditing Standards of a specific

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jurisdiction or country. In such cases, in addition to complying with each of the 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 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 directives, government policy requirements, or resolutions of the legislature, which may encompass a broader scope than an audit of a financial report in accordance with the Australian Auditing Standards. These additional responsibilities are not dealt with in the Australian Auditing Standards. They may be dealt with in the pronouncements of the International Organisation of Supreme Audit Institutions or national standard setters, or in guidance developed by government audit agencies.

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

A58. In addition to objectives and requirements (requirements are expressed in the Australian Auditing Standards using "shall"), an 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 Auditing Standard, and definitions. The entire text of an Auditing Standard, therefore, is relevant to an understanding of the objectives stated in an Auditing Standard and the proper application of the requirements of an Auditing Standard.

A59. Where necessary, the application and other explanatory material provides further explanation of the requirements of an Auditing Standard 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

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Standard. The application and other explanatory material may also provide background information on matters addressed in an Auditing Standard.

- 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 or within the title and introduction of the appendix itself.
- A61. Introductory material may include, as needed, such matters as explanation of:
- The purpose and scope of the Auditing Standard, including how the Auditing Standard relates to other Auditing Standard.
 - The subject matter of the Auditing Standard.
 - The respective responsibilities of the auditor and others in relation to the subject matter of the Auditing Standard.
 - The context in which the Auditing Standard is set.
- A62. An Auditing Standard may include, in a separate section under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of the Australian Auditing Standards. These are provided to assist in the consistent application and interpretation of the Australian Auditing Standards, 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. The *AUASB Glossary* contains a complete listing of terms defined in the Australian Auditing Standards. It also includes descriptions of other terms found in Australian Auditing Standards 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. These additional considerations assist in the application of the requirements of the Auditing Standard 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.

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Aus A63.1 In conducting an audit in accordance with the Australian Auditing Standards, the auditor ordinarily considers Guidance Statements applicable to the audit engagement. Guidance Statements provide guidance on procedural matters and on entity, or industry, specific matters.

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 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 have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities.

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A66. The Australian Auditing Standards 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 *Forming an Opinion and Reporting on a Financial Report* (Revised and Redrafted), the auditor’s report is required to refer to the audit having been conducted in accordance with the Auditing Standards and ISAs only when the auditor has complied fully with all of the Auditing Standards and ISAs relevant to the audit.

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

A67. Each Auditing Standard 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 serve to focus the auditor on the desired outcome of the Auditing Standard, 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. 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. This is because, as indicated in paragraph A53, the Australian Auditing Standards deal in some cases with general responsibilities and in others with the application of those responsibilities to specific topics. For example, this Auditing Standards requires the auditor to adopt an attitude of professional scepticism; this is necessary in all aspects of planning and performing an audit but is not repeated as a requirement of each Auditing Standard. At a more detailed level, ASA 315 (Revised and Redrafted) and ASA 330 (Revised and Redrafted) contain, among other things, objectives and requirements

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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 Auditing Standard dealing with specific aspects of the audit (for example, ASA 540 (Revised and Redrafted)) may expand on how the objectives and requirements of such Australian Auditing Standards as ASA 315 (Revised and Redrafted) and ASA 330 (Revised and Redrafted) are to be applied in relation to the subject of the Auditing Standard but does not repeat them. Thus, in achieving the objective stated in ASA 540 (Revised and Redrafted), the auditor has regard to the 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 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 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):

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- 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 appropriate audit evidence and is required by the Australian Auditing Standards 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 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 ASA 610 (Revised and Redrafted)²³ is relevant.
- A73. Within a relevant Auditing Standard, 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:
- The requirement to modify the auditor's opinion if there is limitation of scope²⁴ represents an explicit conditional requirement.
 - The requirement to communicate significant deficiencies in internal control identified during the audit to those charged with governance,²⁵ which depends on the existence of such identified significant deficiencies; and the requirement to obtain sufficient appropriate audit evidence regarding the

²³ See ASA 610 (Revised and Redrafted), *Using the Work of Internal Auditors*

²⁴ See ASA 705 (Revised and Redrafted), *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 13.

²⁵ See ASA 265 *Communicating Deficiencies in Internal Control*, paragraph 10.

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presentation and disclosure of segment information in accordance with the applicable financial reporting framework,²⁶ which depends on that framework requiring or permitting such disclosure, represent implicit conditional requirements.

Inability to Comply with a Requirement (Ref: Para. 23)

A74. ASA 230 (Revised and Redrafted) establishes documentation requirements in those exceptional circumstances where the auditor departs from a relevant requirement.²⁷ The Australian Auditing Standards do not call for compliance with a requirement that is not relevant in the circumstances of the audit.

Aus A74.1 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, compliance with Australian Auditing Standards can still be represented provided the auditor has complied with the requirements of paragraph 23 of this Auditing Standard.

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

A75. 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, 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. 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 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

²⁶ See ASA 501 (Revised and Redrafted), "Audit Evidence Regarding Specific Financial Report Account Balances and Disclosures," paragraph 14.

²⁷ See ASA 230 (Revised and Redrafted), paragraph 12.

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objectives in accordance with paragraph 21, for example due to a limitation in the available audit evidence.

- A76. Audit documentation that meets the requirements of ASA 230 (Revised and Redrafted) and the specific documentation requirements of other relevant Australian Auditing Standards 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.

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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 Requirement that is not included as a Requirement in ISA 200:

“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.”

Compliance with this Auditing Standard enables compliance with ISA 200.

Tables of Differences — ASA 200 (Revised and Redrafted) and Extant ASA 200

Underlying Standard

ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* (Revised and Redrafted) is used as the underlying Auditing Standard for the purpose of re-drafting this proposed Auditing Standard. The underlying Auditing Standard will be amended for the following matters:

- Australian Laws and Regulations (including the *Corporations Act 2001*);
- Changes considered necessary because this Auditing Standard is a legislative instrument; and
- Changes considered necessary in the public interest.

Summary of Main Differences — ASA 200 (Revised and Redrafted) and Extant ASA 200

The table below details the main differences (excluding editorial amendments) between this proposed Auditing Standard and extant ASA 200.

Requirements in ASA (Revised and Redrafted) not in Extant ASA

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Objectives - Scope			
1	1-9	1. This Australian Auditing Standard establishes the independent auditor’s overall responsibilities when conducting an audit of a financial report in accordance with Australian Auditing Standards. 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 Australian Auditing Standard s, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the	New Objectives included.

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>obligation to comply with the Australian Auditing Standards. The independent auditor is referred to as “the auditor” hereafter.</p> <p>2. Australian Auditing Standards are written in the context of an audit of a financial report by an auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.</p> <p>An Audit of a Financial Report</p> <p>3. The purpose of an audit is to enhance the degree of confidence of intended users in the financial report. This is achieved by the expression of an opinion by the auditor on whether the financial report is 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 presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with Australian Auditing Standards and relevant ethical requirements enables the auditor to form that opinion. (Ref: Para. A1)</p> <p>4. The financial report subject to audit are those of the entity, prepared and presented by management of the entity with oversight from those charged with governance. 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 is conducted on the premise that management and, where appropriate, those charged with governance have responsibilities that are fundamental to the</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>conduct of the audit. The audit of the financial report does not relieve management or those charged with governance of those responsibilities. (Ref: Para. A2-A11)</p> <p>5. As the basis for the auditor’s opinion, Australian Auditing Standards require the auditor to obtain reasonable assurance about whether the financial report as a whole is 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 materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, 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. (Ref: Para. A28-A52)</p> <p>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. 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. Judgements 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, and by the size or nature of a misstatement, or a combination of both. The auditor’s opinion deals with the financial report as a whole and therefore the auditor is not</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>responsible for the detection of misstatements that are not material to the financial report as a whole.</p> <p>7. The Australian Auditing Standards contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The Australian Auditing Standards require that the auditor exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit and, among other things:</p> <ul style="list-style-type: none"> • 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 based on conclusions drawn from the audit evidence obtained. <p>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)</p> <p>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 Australian Auditing Standards or by applicable laws or regulations.</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Overall Objectives			
2	11-12	<p>11 In conducting an audit of a financial report, the overall objectives of the auditor are:</p> <ul style="list-style-type: none"> (a) To obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework; and (b) To report on the financial report, and communicate as required by the Australian Auditing Standards, in accordance with the auditor’s findings. <p>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, the Australian Auditing Standards require that the auditor disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted.</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Definitions			
3	13	<p>For purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:</p> <p>(a) Applicable financial reporting framework – The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial report that is acceptable in view of the nature of the entity and the objective of the financial report, or that is required by law or regulation.</p> <p>The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:</p> <p>(i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or</p> <p>(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. Such departures are expected to be necessary only in extremely rare circumstances.</p> <p>The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.</p>	<p>New Definitions included.</p> <p>(1) Shaded text includes Definitions not included in extant ASA or <i>AUASB Glossary</i>. Definitions are not inconsistent with existing concepts in other ASAs.</p> <p>(2) Bold text extends or contains different wording, with different meaning from the existing definition in the extant ASA or AUASB Glossary.</p> <p>(3) Unshaded/non bold text has Definitions contained in <i>AUASB Glossary</i></p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>(b) Audit evidence – 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 and other information. For purposes of the Australian Auditing Standards:</p> <ul style="list-style-type: none"> (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. (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. <p>(c) Audit risk – The risk that the auditor expresses an inappropriate audit opinion when the financial report is materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.</p> <p>(d) Auditor – “Auditor” 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 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.</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>(e) Detection risk – 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.</p> <p>(f) Financial report – 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 report” 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.</p> <p>(g) Historical financial information – 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.</p> <p>(h) Management – 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.</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>(i) Misstatement – A difference between the amount, classification, presentation, or disclosure of a reported financial 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.</p> <p>When the auditor expresses an opinion on whether the financial report is presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor’s judgement, are necessary for the financial report to be presented fairly, in all material respects, or to give a true and fair view.</p> <p>(j) Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted – 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. That is, responsibility:</p> <p>(i) For the preparation and presentation of the financial report 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 financial report that are free from material misstatement, whether due to fraud or error; and</p> <p>(ii) To provide the auditor with:</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>a. All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial report;</p> <p>b. Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and</p> <p>c. Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.</p> <p>In the case of a fair presentation framework, the responsibility is for the preparation and fair presentation of the financial report in accordance with the financial reporting framework; or the preparation of financial report that give a true and fair view in accordance with the financial reporting framework. This applies to all references to “preparation and presentation of the financial statements” in the Australian Auditing Standards.</p> <p>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.”</p> <p>(k) Professional judgement – 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.</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>(l) Professional scepticism – 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.</p> <p>(m) Reasonable assurance – In the context of an audit of financial report, a high, but not absolute, level of assurance.</p> <p>(n) Risk of material misstatement – The risk that the financial report is materially misstated prior to audit. This consists of two components, described as follows at the assertion level:</p> <p>(i) Inherent risk – 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.</p> <p>(ii) Control risk – 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.</p> <p>(o) Those charged with governance – The person(s) or organisation(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</p>	

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		example, executive members of a governance board of a private or public sector entity, or an owner-manager.	
Ethical Requirements Relating to an Audit of a Financial Report			
4	14	The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial report audit engagements. (Ref: Para. A14-A17)	(1) Shaded text has no extant ASA equivalent. (2) Unshaded text is equivalent in meaning to extant ASA [Extant ASA 200 para 7—equivalent Requirement]
Sufficient Appropriate Audit Evidence and Audit Risk			
5	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)	Elevation of extant ASA Explanatory Guidance [Extant ASA 200 para 33—equivalent Explanatory Guidance]
Conduct of an Audit in Accordance with Australian Auditing Standards			
6	18	The auditor shall comply with all Australian Auditing Standards relevant to the audit. An Auditing Standard is relevant to the audit when the Auditing Standard is in effect and the circumstances addressed by the Auditing Standard exist. (Ref: Para. A53-A57)	(1) Shaded text has no extant ASA equivalent. (2) Unshaded text is equivalent in meaning to extant ASA [Extant ASA 200 para 9 & 14—equivalent Requirement]

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
7	19	The auditor shall have an understanding of the entire text of an Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A58-A66)	No extant ASA equivalent.
8	21	<p>To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant Australian Auditing Standards in planning and performing the audit, having regard to the interrelationships among the Australian Auditing Standard, to: (Ref: Para. A67-A69)</p> <p>(a) Determine whether any audit procedures in addition to those required by the Australian Auditing Standards are necessary in pursuance of the objectives stated in the Australian Auditing Standards; and (Ref: Para. A70)</p> <p>(b) Evaluate whether sufficient appropriate audit evidence has been obtained. (Ref: Para. A71)</p>	<p>(1) Shaded text has not extant ASA equivalent.</p> <p>(2) Unshaded text is elevation of extant ASA Explanatory Guidance.</p> <p>[Extant ASA 200 para 13—equivalent Explanatory Guidance].</p>
9	24	If an objective in a relevant Auditing Standard 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, 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 230 (Revised and Redrafted). (Ref: Para. A75-A76)	No extant ASA equivalent.

Significant Differences in Guidance — ASA (Revised and Redrafted) and Extant ASA

Item #	ASA (Revised and Redrafted) #	ASA (Revised and Redrafted) Guidance	Commentary
An Audit of a Financial Report			
1	A5-A13	<p>A5 The applicable financial reporting framework often encompasses financial reporting standards established by an authorised or recognised standards setting organisation, or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial reporting standards established by an authorised or recognised standards setting organisation and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable 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:</p> <ul style="list-style-type: none"> • 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 organisations; 	<p>(1) Bold text is equivalent in meaning to extant ASA Explanatory Guidance [Extant ASA 200 para 44 or para 6— contains equivalent Explanatory Guidance].</p> <p>(2) Shaded text is equivalent in meaning to extant ASA Explanatory Guidance [Extant ASA 200 para 42 — contains equivalent Explanatory Guidance].</p> <p>(3) Unshaded/non-bold text represents ASA (Revised and Redrafted) Guidance not in extant ASA. Guidance is more extensive in describing the applicable financial reporting framework.</p>

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		<ul style="list-style-type: none"> • Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organisations; • General and industry practices widely recognised and prevalent; and • Accounting literature. <p>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.</p> <p>Aus A5.1 In Australia, 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 <i>Corporations Act 2001</i>, for entities covered by that Act, or other relevant legislation that may be applicable to other entities.”</p> <p>A6. The requirements of the applicable financial reporting framework determine the form and content of the financial report. Although the framework may not specify how to account for or</p>	

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		<p>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.</p> <p>A7. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. Financial reporting frameworks that encompass primarily the financial reporting standards established by an organisation that is authorised or recognised to promulgate standards to be used by entities for preparing and presenting a general purpose financial report are often designed to achieve fair presentation, for example, International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).</p> <p>A8 The requirements of the applicable financial reporting framework also determine what constitutes a complete financial report. In the case of many frameworks, a financial report is intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a complete financial report would include a balance</p>	

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		<p>sheet; an income statement; a statement of changes in equity; a cash flow statement; and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete financial report:</p> <ul style="list-style-type: none"> • For example, the International Public Sector Accounting Standard (IPSAS), “<i>Financial Reporting Under the Cash Basis of Accounting</i>” 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: <ul style="list-style-type: none"> ○ 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’ 	

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		<ul style="list-style-type: none"> ○ equity. ○ Statement of revenue and expenses. ○ Statement of operations by product lines. <p>Aus A8.1 A financial report prepared by reference to Australian Accounting Standards is intended to provide information about the financial position, performance and cash flows of an entity. A financial report as defined under sections 295 and 303 of the Corporations Act 2001 and AASB 101 Presentation of Financial Statements, consists of the financial statements for the year and the half-year respectively, notes to the financial statements and the directors' declaration about the statements and notes.</p> <p>A9. ASA 210 (Revised and Redrafted) establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework. ASA 800 (Revised and Redrafted) deals with special considerations when the financial report is prepared in accordance with a special purpose framework.</p>	

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		<p>A12. The opinion expressed by the auditor is on whether the financial report is 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 report; for such frameworks, preparation of the financial report in accordance with the applicable financial reporting framework includes presentation.</p> <p>A13. Where the financial reporting framework is a fair presentation framework, as is generally the case for a general purpose financial report, the opinion required by the Australian Auditing Standards is on whether the financial report is presented fairly, in all material respects, or give a true and fair view. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial report is prepared, in all material respects, in accordance with the framework. Unless specifically stated otherwise, references in the Australian Auditing Standards to the auditor’s opinion cover both forms of opinion.</p>	

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Professional Judgement (Ref: Para. 16)			
2	A23-A27	<p>A23. Professional judgement is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and the 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 is necessary in particular regarding decisions about:</p> <ul style="list-style-type: none"> • Materiality and audit risk. • The nature, timing, and extent of audit procedures used to meet the requirements of the Australian Auditing Standards 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 and thereby, the overall objectives of the auditor. • The evaluation of management’s judgements in applying the entity’s applicable financial reporting framework. • The drawing of conclusions based on the audit evidence obtained, for 	<p>(1) Shaded text is equivalent in meaning to extant ASA Explanatory Guidance [Extant ASA 200 para 22 — contains equivalent Explanatory Guidance].</p> <p>(2) Unshaded text represents ASA (Revised and Redrafted) Guidance not in extant ASA. Guidance is more extensive in describing professional judgement.</p>

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		<p>example, assessing the reasonableness of the estimates made by management in preparing the financial report.</p> <p>A24. The distinguishing feature of the professional judgement 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 judgements.</p> <p>A25. The exercise of professional judgement 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 ASA 220 (Revised and Redrafted), assist the auditor in making informed and reasonable judgements.</p> <p>A26. Professional judgement can be evaluated based on whether the judgement 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.</p>	

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		<p>A27. Professional judgement 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 judgements made in reaching conclusions on significant matters arising during the audit. Professional 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.</p>	
Sufficient Appropriate Audit Evidence and Audit Risk			
3	A28-A31	<p>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) 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</p>	<p>(1) Shaded text is equivalent in meaning to extant ASA Explanatory Guidance [Extant ASA 200 para 31 — contains equivalent Explanatory Guidance].</p> <p>(2) Unshaded text represents ASA (Revised and Redrafted) Guidance not in extant ASA. Guidance is more extensive in describing the applicable financial reporting framework.</p>

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		<p>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.</p> <p>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.</p>	

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		<p>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 of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.</p> <p>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. ASA 500 (Revised and Redrafted) and other relevant Australian Auditing Standards establish additional requirements and provide further guidance applicable throughout the audit regarding the auditor’s considerations in obtaining sufficient appropriate audit evidence.</p>	
Audit Procedures			
4	A46-A50	<p>The Nature of Financial Reporting</p> <p>A46. The preparation of a financial report involves judgement by management in applying the requirements of the entity’s applicable financial reporting framework to the facts and circumstances of the</p>	Guidance not in extant ASA.

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		<p>entity. In addition, many financial report items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgements that may be made. Consequently, some financial report items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures. For example, this is 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 judgements.</p> <p>The Nature of Audit Procedures A47. There are practical and legal limitations on the auditor's ability to obtain audit evidence. For example:</p> <ul style="list-style-type: none"> • 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 or that has been requested by the auditor. Accordingly, 	

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		<p>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.</p> <ul style="list-style-type: none"> • Fraud may involve sophisticated and carefully organised 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. 	

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		<p>Timeliness of Financial Reporting and the Balance between Benefit and Cost</p> <p>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 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 “<i>Framework for the Preparation and Presentation of Financial Statements</i>”). Therefore, there is an expectation by users of a financial report that the auditor will form an opinion on the financial report 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.</p>	

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		<p>A49. Consequently, it is necessary for the auditor to:</p> <ul style="list-style-type: none"> • 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. <p>A50. In light of the approaches described in paragraph A49, the Australian Auditing Standards contain requirements for the planning and performance of the audit and require the auditor, among other things, to:</p> <ul style="list-style-type: none"> • Have a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels by performing risk assessment procedures and related activities; 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. 	

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Conduct of an Audit in Accordance with Australian Auditing Standards			
5	A53-A76	<p>Nature of the Australian Auditing Standards (Ref: Para. 18)</p> <p>A53. The Australian Auditing Standards, taken together, provide the standards for the auditor’s work in fulfilling the overall objectives of the auditor. The Australian Auditing Standards 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.</p> <p>A54. The scope, effective date and any specific limitation of the applicability of a specific Auditing Standard is made clear in the Auditing Standard. Unless otherwise stated in the Auditing Standard, the auditor is permitted to apply an Auditing Standard before the effective date specified therein.</p> <p>A55. In performing an audit, the auditor may be required to comply with legal or regulatory requirements in addition to the Australian Auditing Standards. The Australian Auditing Standards do not override laws and regulations that govern an audit of a financial report. In the event that those laws and regulations differ from the Australian Auditing Standards, an audit conducted only in accordance with laws and regulations will not automatically</p>	<p>(1) Shaded text is equivalent in meaning to extant ASA Explanatory Guidance [Extant ASA 200 para 16, 11 and 17 respectively — contains equivalent Explanatory Guidance].</p> <p>(2) Bold text is equivalent in meaning to extant ASA Explanatory Guidance [Extant ASA 200 para 19 — contains equivalent Explanatory Guidance].</p> <p>(3) Unshaded text represents ASA (Revised and Redrafted) Guidance not in extant ASA. Guidance is more extensive in describing the conduct of an audit in accordance with Australian Auditing Standards.</p>

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		<p>comply with Australian Auditing Standards.</p> <p>A56. The auditor may also conduct the audit in accordance with both Australian Auditing Standards and auditing standards of a specific jurisdiction or country. In such cases, in addition to complying with each of the Australian 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.</p> <p>Considerations Specific to Audits in the Public Sector</p> <p>A57. The Australian Auditing Standards 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 directives, government policy requirements, or resolutions of the legislature, which may encompass a broader scope than an audit of a financial report in accordance with the Australian Auditing Standards. These additional responsibilities are not dealt with in the Australian Auditing Standards. They may be dealt with in the pronouncements of the International Organisation of Supreme</p>	

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		<p>Audit Institutions or national standard setters, or in guidance developed by government audit agencies.</p> <p>Contents of the Australian Auditing Standards (Ref: Para. 19)</p> <p>A58. In addition to objectives and requirements (requirements are expressed in the Australian Auditing Standards using “shall”), an 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 Auditing Standard, and definitions. The entire text of an Auditing Standard, therefore, is relevant to an understanding of the objectives stated in an Auditing Standard and the proper application of the requirements of an Auditing Standard.</p> <p>A59. Where necessary, the application and other explanatory material provides further explanation of the requirements of an Auditing Standard and guidance for carrying them out. In particular, it may:</p> <ul style="list-style-type: none"> • Explain more precisely what a requirement means or is intended to cover. • Include examples of procedures that may be appropriate in the circumstances. 	

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		<p>While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an Auditing Standard. The application and other explanatory material may also provide background information on matters addressed in an Auditing Standard.</p> <p>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 or within the title and introduction of the appendix itself.</p> <p>A61. Introductory material may include, as needed, such matters as explanation of:</p> <ul style="list-style-type: none"> • The purpose and scope of the Auditing Standard, including how the Auditing Standard relates to other Auditing Standards. • The subject matter of the Auditing Standard. • The respective responsibilities of the auditor and others in relation to the subject matter of the Auditing Standard. • The context in which the Auditing Standard is set. 	

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		<p>A62. An Auditing Standard may include, in a separate section under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of the Australian Auditing Standards. These are provided to assist in the consistent application and interpretation of the Australian Auditing Standards, 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. The <i>AUASB Glossary</i> contains a complete listing of terms defined in the Australian Auditing Standards. It also includes descriptions of other terms found in Australian Auditing Standards to assist in common and consistent interpretation and translation.</p> <p>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. These additional considerations assist in the application of the requirements of the Auditing Standard 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</p>	

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		<p>Auditing Standards.</p> <p>Aus A63.1 In conducting an audit in accordance with Australian Auditing Standards, the auditor ordinarily considers Guidance Statements applicable to the audit engagement. Guidance Statements provide guidance on procedural matters and on entity or industry specific matters.</p> <p>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:</p> <ul style="list-style-type: none"> (a) Concentration of ownership and management in a small number of individuals (often a single individual – either a 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: <ul style="list-style-type: none"> (i) Straightforward or uncomplicated transactions; (ii) Simple record-keeping; (iii) Few lines of business and few products within 	

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		<p>(iv) business lines; (v) Few internal controls; Few levels of management with responsibility for a broad range of controls; or (vi) Few personnel, many having a wide range of duties.</p> <p>These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.</p> <p>A65. The considerations specific to smaller entities included in the Australian Auditing Standards have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities.</p> <p>A66. The Australian Auditing Standards 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.”</p> <p>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 <i>The Forming an Opinion and Reporting on a Financial Report</i> (Revised and Redrafted), the auditor’s</p>	

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		<p>report is required to refer to the audit having been conducted in accordance with Australian Auditing Standards and ISAs only when the auditor has complied fully with all of the Auditing Standards and ISAs relevant to the audit.</p> <p>Objectives Stated in Individual Auditing Standards (Ref: Para. 21)</p> <p>A67. Each Auditing Standards 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 serve to focus the auditor on the desired outcome of the Auditing Standard, while being specific enough to assist the auditor in:</p> <ul style="list-style-type: none"> • 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. <p>A68. Objectives are to be understood in the context of the overall objectives of the auditor stated in paragraph 11 of this Auditing Standard. 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.</p>	

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		<p>A69. In using the objectives, the auditor is required to have regard to the interrelationships among the Australian Auditing Standards. This is because, as indicated in paragraph A53, the Australian Auditing Standards deal in some cases with general responsibilities and in others with the application of those responsibilities to specific topics. For example, this Auditing Standard requires the auditor to adopt an attitude of professional scepticism; this is necessary in all aspects of planning and performing an audit but is not repeated as a requirement of each Auditing Standard. At a more detailed level, ASA 315 (Revised and Redrafted) and ASA 330 (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 Auditing Standard dealing with specific aspects of the audit (for example, ASA 540 (Revised and Redrafted)) may expand on how the objectives and requirements of such Australian Auditing Standards as ASA 315 (Revised and Redrafted) and ASA 330 (Revised and Redrafted) are to be applied in relation to the subject of the Auditing</p>	

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		<p>Standard but does not repeat them. Thus, in achieving the objective stated in ASA 540 (Revised and Redrafted), the auditor has regard to the objectives and requirements of other relevant Auditing Standards.</p> <p>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 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</p>	

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		<p>objectives specified in the Australian Auditing Standards.</p> <p>Use of Objectives to Evaluate Whether Sufficient Appropriate Audit Evidence Has Been Obtained (Ref: Para. 21(b))</p> <p>A71. The auditor is required 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):</p> <ul style="list-style-type: none"> • 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. <p>Where none of the above is expected to be practical or possible in the circumstances, the auditor will not be able to obtain sufficient appropriate audit evidence and is required by the Australian Auditing Standards to determine the effect on the auditor’s report or on the auditor’s ability to complete the engagement.</p>	

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		<p>Complying with Relevant Requirements Relevant Requirements (Ref: Para. 22)</p> <p>A72. In some cases, an 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 ASA 610 (Revised and Redrafted) is relevant.</p> <p>A73. Within a relevant Auditing Standard, 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:</p> <ul style="list-style-type: none"> • The requirement to modify the auditor’s opinion if there is a limitation of scope represents an explicit conditional requirement. • The requirement to communicate significant deficiencies in internal control identified during the audit to those charged with governance, 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, which depends on that framework requiring or permitting 	

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		<p>such disclosure, represent implicit conditional requirements.</p> <p>Inability to Comply (Ref: Para. 23) A74. ASA 230 (Revised and Redrafted) establishes documentation requirements in those exceptional circumstances where the auditor departs from a relevant requirement. Australian Auditing Standards do not call for compliance with a requirement that is not relevant in the circumstances of the audit.</p> <p>Aus A76.1 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, compliance with Australian Auditing Standards can still be represented provided the auditor has complied with the requirements of paragraph 23 of this Auditing Standard.</p>	

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		<p>Failure to Achieve an Objective (Ref: Para. 24) A75. 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, 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. Accordingly, circumstances that may give rise to a failure to achieve an objective include those that:</p> <ul style="list-style-type: none"> • Prevent the auditor from complying with the relevant requirements of an 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, for example due to a limitation in the available audit evidence. 	

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		<p>A76. Audit documentation that meets the requirements of ASA 230 (Revised and Redrafted) and the specific documentation requirements of other relevant Australian Auditing Standards 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.</p>	

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