



The Revised and Redrafted *Clarity* Australian Auditing Standards

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Presented by AUASB Technical Group



Introduction and Background



Background

- Reasons for change
- Significance of changes
- Operative dates
- Use of IAASB *Clarity* Standards
- AUASB *Clarity* Auditing Standards
- Major improvements
- AUASB drafting approach
- *Clarity* structure
- Web site resources



Reasons for Change

AUASB mandate:

- *ASIC Act 2001* legally enforceable standards
- FRC strategic direction to AUASB
 - Use ISAs as underlying standards
 - Have regard to revisions of the IAASB
 - Amend AUASB Auditing Standards



Reasons for Change

- Public Interest
- Improved global Auditing Standards
- Need to improve audit quality



Significance of Changes

- Driven by global improvements to auditing standards and practice
- Legally enforceable Auditing Standards operative in Australia since 2006
- Previous ASAs had greater linkages between requirements and explanatory guidance than ISAs
- *Clarity* provides a basis for further improvements to Auditing Standards in Australia



Operative dates

- Firms required to implement systems of quality control by 1 January 2010 (ASQC1)
- Audits and reviews for financial reporting periods commencing on or after 1 January 2010 (all other ASAs and ASRE 2410)



Use of IAASB *Clarity* Standards

37 *Clarity* Standards issued by IAASB

➤ 15 revised and redrafted ISAs + 1 new ISA	16
➤ 20 redrafted ISAs + ISQC1	21
	<hr/>
	37



AUASB *Clarity* Standards

41 *Clarity* Standards issued by AUASB comprise:

37 ASAs using *Clarity* ISAs & ISQC1 as underlying standards

+

ASA 101 *Preamble to ASAs*

+

ASA 102 *Compliance with Ethical Requirements*

+

ASA 502 *Specific Considerations for Litigation & Claims*

+

ASRE 2410 *Review of a Financial Report by the Auditor*



AUASB *Clarity* Auditing Standards

Under *Corporations Act 2001*:

- ASQC 1 Quality Control – firms

- ASAs Auditing Standards for
financial report audits

- ASRE 2410 Review engagements



AUASB *Clarity* Auditing Standards

Other Auditing Standards:

- *ASA 805 Audits of Single Financial Statements*
- *ASA 810 Summary Financial Statements*



AUASB *Clarity* Auditing Standards

New Australian Standards:

- *Quality Control for Firms* ASQC 1
- *Preamble* ASA 101
- *Compliance with Ethical Requirements* ASA 102
- *Communicating Deficiencies in Internal Control* ASA 265



AUASB *Clarity* Auditing Standards

Note restructured changes:

- *Evaluation of Misstatements* ASA 450
- *Estimates and Fair Value* ASA 540
- *Group Audits* ASA 600
- *Audit Reporting* ASAs 705, 706, 805, 810



Major improvements

- Clear statement of objectives
- The auditor “shall” (already in existing ASAs)
- Improved format assists readability and understandability
- Considerations specific to SMEs and public sector



AUASB drafting approach

Changes to address:

- Australian laws and regulations
- Form of Australian standards as legislative instruments
- Public interest considerations



AUASB drafting approach

- Australian specific paragraphs
 - “Aus” prefix
- Appendices
 - Illustrative examples e.g. audit reports
- Footnotes – refer to Australian regulatory requirements
- Conformity Statements highlight major differences (if any) from ISAs
- Regulatory impact assessment



Clarity Auditing Standards structure

- Application Clause (AUASB)
- Operative Date (AUASB)
- Scope
- Objectives
- Definitions
- Requirements
- Application and Other Explanatory Material
- Appendices



Web Site Resources

- AUASB website

<http://www.auasb.gov.au>

- IAASB *Clarity* Centre

<http://web.ifac.org/clarity-center/support-and-guidance>



Overview, Pointers and Changes



Introduction

- Helpful Pointer
 - Selection of standards
 - Some of the changes
 - Some important aspects

- Handouts



ASQC 1 – Quality Control for Firms

- New Auditing Standard
- Related standard ASA 220—premise that ASQC 1 used
- Operative on 1 January 2010
- Underlying standard is ISQC 1
- Points to ASA 102 (consistent with APES 320)
- Definitions



ASQC 1

- Objective
Systems of Quality Control provide reasonable assurance that:
 - Firm and personnel comply with AUASB Standards, relevant ethical requirements and applicable laws/regulations
 - Reports issued are appropriate
- Documentation of firm's compliance (Para. 53 & 57)



ASA 101 - Preamble

- *Preamble to Auditing Standards* (1 January 2010)
- Requirements not included elsewhere
- Not replacing or amending ASA 100
Preamble to AUASB Standards



ASA 101

- Authority of paragraphs
- Consider the whole text of the Standard
(Para. 10 **and** ASA 200, Para. 19)
- Not required to document why a requirement is not relevant, in the circumstances, under ASA 200 Para. 22 (Para. 12)



ASA 102 – Ethical Requirements

- Applies when all assurance standards apply, including ASQC 1
- Auditor; assurance practitioner; QA reviewer; and firm shall comply with relevant ethical requirements



ASA 102

- Para. A1...have regard to APES 110
- In Australia, relevant ethical requirements include:
 - APES 110
 - *Corporations Act 2001* (independence)
 - Other applicable laws/regulations
[Definitions at Para. 4(e)]



ASA 200 – Overall Objectives and Conduct of an Audit

- Overall objectives:
 - To obtain reasonable assurance whether the financial report is free from material misstatement
 - To report and communicate
- All other Auditing Standards to be read in conjunction with ASA 200



ASA 200

- Auditor *uses* objectives in individual standards to meet overall objectives [Para. 21]
- Auditor determines whether any additional procedures are necessary:
 - to meet the stated objectives [Para. 21(a)]
 - because evidence not sufficient or appropriate [Para. 21(b)]
- Guidance material **Para. A67 to A76**



ASA 200

- Shall comply with relevant requirements, unless:
 - The entire standard is not relevant
 - Requirement is conditional (explicit/implicit A73)
 - Classes of transactions, accounts or disclosures that the auditor has determined are immaterial
(Para. 22)
- Rare and exceptional circumstances outside the auditor's control – status quo (Para. Aus 23.1)



ASA 200

- **Definitions** (Para. 13)
 - Financial reporting framework
 - Fair presentation
 - Compliance
 - Financial statement, complete set of financial statements & financial reports
- **Ethics, professional scepticism and professional judgement** (Para. 14-16)
- **Understand entire text of the standard** (Para. 19)



ASA 210 – Terms of Engagement

- Management, and where appropriate, those charged with governance (Para. 5)
- Preconditions for an audit
 - Determine the framework is acceptable
 - Obtain management's agreement on responsibilities



ASA 210

- Important Guidance on acceptability of frameworks (A2 – A10)
- Determining the acceptability of general purpose frameworks (Appendix 2)
- 1 January 2010:
 - ½ year; and
 - groups with Dec. year-end



ASA 240 – Fraud

- Where responses from management or those charged with governance are inconsistent, the auditor shall investigate
(Para. 14)



ASA 240

- Management override = a significant risk (Para.31)
- Responses (Para.32) :
 - Appropriateness of journal entries
 - Enquiries of those who process J/Es
 - Test at end of reporting period
 - Consider testing throughout the period
 - Estimates, bias & retrospective reviews
 - Transactions outside normal business



ASA 240

- Determine additional procedures in response to risk of management override of controls (Para. 33)
- Documentation
 - Specific requirements including reasons revenue risk of material misstatement is *not* applicable
- 35 requirements paragraphs *but* most are conditional or performed concurrently with requirements in other standards



ASA 250 - Laws and Regulations

- Recognised as having a direct effect on the financial report
- Other laws/regulations that do *not* have a direct effect but compliance with which may be fundamental to the operations, going concern or to avoid material penalties
- Para. 17: Para. 12-16



ASA 260 - Communications

- **Specific matters** (Para 14 to 16):
 - The auditor's responsibilities and independence
 - Overview of planned scope and timing
 - Auditor's views:
 - Qualitative aspects of accounting practices (Appendix 2)
 - Accounting policies, estimates and disclosures
 - Significant difficulties, findings and matters relating to oversight of financial reporting
 - Written representations



ASA 260

- Listed entities – auditor to advise of total fees (audit and non-audit) (Para. 17)
- Assess adequacy of the two-way communication for the audit (Para. 22)
- Document – where matters required by the standard are communicated orally
- **Appendix 1:** 16 references to other standards that require specific communications



ASA 265 - Significant Deficiencies in Internal Control

- New Standard - requires auditor to communicate
- “Significant Deficiencies” = sufficiently important to merit the attention of those charged with governance
- Communicate in writing (Para. 9)



ASA 300 - Planning

- Para. 5 – Partner to be involved



ASA 315 - Risk Assessment

- Standards with links to ASA 315
- 220, 230, 240, 250, 260, 265, 300, 320, 330, 402, 500, 505, 510, 520, 540, 550, 570, 600, 610, 800 and 2410



ASA 320 - Materiality

- 3 levels
 - For the financial report as a whole
 - If applicable, particular classes of transactions; account balances; or disclosures
 - Performance



ASA 540 – Estimates & Fair Value

- Existing standards:
 - 540 Estimates
 - 545 Fair Values

- New risk assessment procedures (Para. 8 onwards)
 - Outcome of prior year estimates
 - Evaluate the degree of estimation uncertainty (Def: Para. 7(c))



ASA 540

- Response to estimation uncertainty:
 - Predominantly substantive – but can include testing the operating effectiveness of controls (Para. 13)
 - Use a specialist (Para. 14)
- Response to significant risks (Para. 15)
 - Management’s consideration of alternatives, reasonableness of assumptions, intended courses of action and ability to do so



ASA 540

- Sufficient appropriate evidence of compliance with applicable financial reporting framework (Para. 17)
- Bias in management's judgements and decisions (Para. 21)



ASA 540

- Written representations – whether assumptions in making estimates are reasonable (Para. 22)
 - Where not provided - modification (See also ASA 580)
- Documentation (Para. 23)
 - Reasonableness of estimates and disclosures giving rise to significant risk
 - Indications of possible management bias



ASA 600 – Group Audits

- 1 January 2010
- Component may be an entity or a business activity
- Defines and distinguishes:
 - Group engagement partner; and
 - Group engagement team



ASA 600

- Materiality – 4 levels:
 - Overall group
 - If applicable, material classes of transactions, account balances or disclosures
 - Component
 - Threshold above which misstatements cannot be regarded as trivial



ASA 600

- Extensive requirements regarding nature, timing and extent of audit procedures (Para. 15 onwards)
 - Overall strategy and plan
 - Understanding of group
 - Differing requirements if component is significant or not
 - Consolidation process & subsequent events
 - Communications



ASA 600

- Documentation
 - Analysis of components
 - Group engagement team involvement in component team's work
 - Communications

- Reporting



ASA 700- Forming an opinion and Reporting

- Overarching Standard
- Reporting Framework [ASA 200 Para. 13(a)]
 - Fair presentation
 - Compliance



ASA 700

- Financial report adequately refers to the applicable financial reporting framework (Para. 15)
- Changes in report format:
 - Need not refer to management (only)
 - Components of the financial report (terminology)
 - Management's responsibility re internal controls
 - "Auditor" dropped from sub-headings



ASA 700

- **Compliance framework** – evaluate whether misleading? (Para. 19)
- Format of the opinion:
...is prepared, in all material respects, in accordance with (the applicable financial reporting framework)



ASA 700

- If law/regulations prescribe specific wording or layout – may refer to Australian Auditing Standards only when the auditor’s report contains the elements listed at Para. 43 (Para. A42)
- Para. A27 – reference to ASA 210 (Para. 21), auditor to evaluate if user might misunderstand the assurance obtained, whether explanation can mitigate, if not but required by law/regulations, cannot refer to Australian Auditing Standards



ASA 700

- IFRS (AASB 101) – status quo (Para. Aus 37.1)
- Example reports in appendices
- Under the Act - illustration references “A”
e.g. 1A and 3A



ASA 705 – Modifications to the Opinion

- When opinion is modified:
 - amend the description of the auditor's responsibilities paragraph—evidence obtained is sufficient and appropriate



ASA 706 – Emphasis of Matter & Other Matter Paragraphs

- General concepts – does not lay down specific circumstances when an *Emphasis of Matter* paragraph or an *Other Matter* paragraph is required
- Appendices 1 and 2 list other standards containing specific requirements



ASA 706

- *Other Matter* paragraph
 - Auditor wishes to communicate information that is, in the auditor's judgement, relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report



ASA 706

- If auditor expects to include an *EOM* or an *OM* must communicate with those charged with governance regarding that expectation and proposed wording (Para. 9)



ASA 800 – Special Purpose Frameworks

- ASA 805 and ASA 810
- Special considerations when reporting on a financial report prepared in accordance with a special purpose financial framework
- When forming an opinion and reporting, shall apply **ASA 700** (Para. 11)



ASA 800

- Acceptable framework - Para. 8
 - Auditor to understand:
 - Purpose of the report
 - Intended users
 - Steps taken by management to ensure framework is acceptable
 - Para. A6 and A7 – formalised frameworks
 - Para. A8 – refers to ASA 210 Appendix 2



ASA 800

- ASA 210 Appendix 2, Para. 3 Acceptable financial reporting frameworks normally exhibit the following attributes:
 - Relevance and completeness
 - Reliability
 - Reflects economic substance
 - Reasonably consistent evaluation, measurement, presentation and disclosure
 - Neutral - free from bias
 - Understandability - not subject to significantly different interpretation
- Para. A8 relative importance of attributes = professional judgement



ASA 800

- *Emphasis of Matter* paragraph – alert the reader that the financial report may not be suitable for other purposes (Para. 14)
- Not standalone: **ASA 100 – ASA 700** apply



ASA 805 - Special Considerations Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

- Standard not made under the *Corporations Act 2001* – no link



ASA 805

- Acceptability of financial reporting framework (Para. 8)
- Will result in adequate disclosures – enable users to understand:
 - The information conveyed; and
 - The effect of material transactions and events on the information conveyed



ASA 805

- Auditor to determine the effect on the report of a modification to the auditor's report on the financial report.
 - Cannot issue an unmodified report if the report on the financial report is adverse or disclaimed (Para. 15)
- **ASAs 100 to 700** apply, and **ASA 800** if the financial information prepared in accordance with a special purpose framework (Para. 1 and 10)
- Forming an opinion and auditor's report - apply **ASA 700** as necessary (Para. 11)



ASA 810 – Summary Financial Statements

- Derived from a financial report that has been audited by the same auditor
- Not made under the *Corporations Act 2001* – no direct link



ASA 810

- Para. 6 - Auditor to:
 - determine the acceptability of the criteria applied by management
 - obtain the agreement of management that it acknowledges and understands its responsibilities
- Auditor's report to include details if modification to the auditor's report on the financial report



ASA 810

- Concise Financial Report is an example of a summary report
- Para. Aus 1.1 refers to AUASB *Guidance Statement GS 001* (Dec 2008)



ASA 810

- GS 001 Para. 29
 - *...the auditor adheres to the principles contained in the ASAs, to the extent that they are applicable in meeting the objectives of the audit of the concise financial report*
- Accordingly, auditor applies ASA 810 to the extent applicable in meeting the objective of the concise financial report audit
- Revision of GS 001 (due in March 2010) contains direct references to ASA 810



ASA 810

- Intended to be stand-alone
 - Form and content of auditor's report specified in the standard (not ASA 700 or ASA 800)
 - Auditor required to conclude on the procedures in ASA 810, not those contained in other Auditing Standards (Para. 14(e))



ASRE 2410 - Reviews

- No longer refers to an “interim financial report”
- Auditor must establish that the preconditions for a review exist prior to agreeing the terms of the engagement (Para. 11)
 - Acceptable framework
 - Management/those charged with governance acknowledge and understand their responsibilities



ASRE 2410

- Auditor is required to consider adding an *Emphasis of Matter* paragraph to highlight a significant uncertainty (other than a going concern problem) (Para. 42)
- **Guidance specific to public sector entities**
(Para. A57 to A59)



Reporting

- *Explanatory Guide: Auditor's Reports*
- AUASB Web site: Link at the end of the list of clarity standards



Questions ?