



Attachment to Board Meeting Summary Paper

Subject: Proposed ASA 102 *Compliance with Ethical Standards when Performing Audits, Reviews and Other Assurance Engagements*

Prepared by: AUASB Technical Group

Date: 14 October 2009

Issues

The following issues are provided for the AUASB’s consideration and resolution, where applicable:

Item #	Issues
1	<p>Background</p> <p>In February 2009, the AUASB received the views of the FRC Secretariat in Treasury that references to relevant ethical requirements in AUASB standards currently are problematic for a number of reasons. This advice was subsequently confirmed by the AUASB’s legal advisers, who then provided suggestions as to how to deal with the issues.</p> <p>The two key issues are:</p> <ol style="list-style-type: none"> 1. Standards cannot incorporate other instruments by footnotes, i.e. a footnote to a legislative instrument is not part of the instrument, and so cannot have any legal effect. ‘Other instruments’ includes, for example, APES 110 <i>Code of Ethics for Professional Accountants</i>. 2. Standards should not generally incorporate instruments “as in force from time to time”. The effect of this phrase in respect of APES 110, and other instruments, is that the form of APES 110 as it exists when the auditing standards are made, remains ‘frozen in time’. In other words, it would only be the text of the ethical standards as they exist at that time that would be taken to be part of the auditing standards. Later amendments to the ethical standards simply do not take effect as part of the auditing standard, i.e. a “time-locking” problem. <p>Existing Auditing Standards and certain proposed ‘clarity’ standards, as initially drafted, (for example, ASA 200, ASA 220, ASQC 1 and other standards) exhibited these problems.</p> <p>Proposed Solution</p> <p>In September 2009, the AUASB approved the exposure draft of proposed Auditing Standard ASA 102 <i>Compliance with Ethical Standards when Performing Audits, Reviews and Other Assurance Engagements</i>, which was developed to address the issues described above.</p> <p>Proposed ASA 102 continues the requirement that exists in current Auditing Standards for compliance with relevant ethical requirements and removes references to APES 110 from the footnotes and places them in the application and other explanatory material, i.e. APES 110 is to be taken into account in determining whether the requirements of the Auditing Standards are met.</p> <p>The second issue is addressed through conforming amendments made to ‘clarity’ standards’ (ASQC 1, ASA 200, ASA 220 and other standards), together with proposed ASA 102. Other standards now refer to “relevant ethical requirements,... as defined in ASA 102”.</p> <p>This approach achieves consistency with the <i>Legislative Instruments Act 2003</i> and exposes the AUASB to considerably less risk that the requirements of “extraneous material” would not be enforceable because they are worded in a manner not suitable for a legal instrument, or are inconsistent with the <i>Corporations Act 2001</i>. This approach also means that when APES 110 is amended or revised, Auditing Standards other than ASA 102 would not need to be remade; only the particular provisions referring to APES 110 would need to be amended in ASA 102 only.</p> <p>Other ‘clarity’ standards have been redrafted to refer to ASA 102, rather than to APES 110. In time, other AUASB standards will also be amended to refer to ASA 102.</p>

This document contains preliminary views and/or staff recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

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	<p><u>Recommendation:</u> that the Board issue ASA 102 to address the concerns raised by the FRC Secretariat and the AUASB’s legal advisers.</p>																		
2	<p>Issue: Is the proposed treatment of each difference, listed in the <i>Tables of Differences</i>, appropriate?</p> <p><u>Recommendation:</u> Yes, the treatment is appropriate. Key issues are detailed further in 3-5 below.</p>																		
3	<p>Issue: ED respondents commented that the term <i>relevant ethical requirements</i> should be defined in ASA 102.</p> <p>The AUASB Technical Group agrees with the comment. It is proposed that a new definition of <i>relevant ethical requirements</i> be included in ASA 102, as follows:</p> <p><i>Relevant ethical requirements</i> means ethical requirements that apply to the auditor, assurance practitioner, engagement quality control reviewer and firm. In Australia, these include the applicable requirements of APES 110 <i>Code of Ethics for Professional Accountants</i> issued by the Accounting Professional and Ethical Standards Board (February 2008), the applicable provisions of the <i>Corporations Act 2001</i> and other applicable law or regulation.</p> <p><u>Recommendation:</u> Yes, definition is appropriate, to be included in ASA 102.</p>																		
4	<p>Issue: One respondent commented that the proposed new standard may impact on conformity with the ISAs.</p> <p>The AUASB Technical Group is of the firm view that proposed ASA 102 conforms with the ISAs.</p> <p>The requirement and application and other explanatory material in proposed Standard ASA 102 reflect and restate the requirements and guidance in key International Standards on Auditing (ISAs), as follows:</p> <table border="1" data-bbox="304 1048 1126 1637"> <thead> <tr> <th data-bbox="304 1048 644 1115">Proposed ASA 102</th> <th data-bbox="644 1048 1126 1115">Equivalent ISAs</th> </tr> </thead> <tbody> <tr> <td data-bbox="304 1115 644 1223">Paragraph 5 (requirement)</td> <td data-bbox="644 1115 1126 1223">ISA 200 paragraph 14 (requirement) ISA 220 paragraphs 9-11 (requirements) ISQC 1 paragraph 20 (requirement)</td> </tr> <tr> <td data-bbox="304 1223 644 1267">Paragraph A1</td> <td data-bbox="644 1223 1126 1267">ISA 200 paragraph A14</td> </tr> <tr> <td data-bbox="304 1267 644 1312">Paragraph A2</td> <td data-bbox="644 1267 1126 1312">ISA 200 paragraph A15</td> </tr> <tr> <td data-bbox="304 1312 644 1420">Paragraph A3</td> <td data-bbox="644 1312 1126 1420">ISQC 1 paragraph A7 ISA 200 paragraph A15 ISA 220 paragraph A4</td> </tr> <tr> <td data-bbox="304 1420 644 1464">Paragraph A4</td> <td data-bbox="644 1420 1126 1464">ISQC 1 paragraph A8</td> </tr> <tr> <td data-bbox="304 1464 644 1509">Paragraph A5</td> <td data-bbox="644 1464 1126 1509">ISA 200 paragraph A16</td> </tr> <tr> <td data-bbox="304 1509 644 1554">Paragraph A6</td> <td data-bbox="644 1509 1126 1554">ISQC 1 paragraph A9</td> </tr> <tr> <td data-bbox="304 1554 644 1637">Paragraph A7</td> <td data-bbox="644 1554 1126 1637">ISQC 1 paragraph A10 ISA 220 paragraph A5</td> </tr> </tbody> </table> <p>As the content of the requirement and application and other explanatory material in proposed Standard ASA 102 are the same as the requirements and guidance in key International Standards on Auditing (ISAs), there can be no uncertainty about conformity.</p> <p>The changes reflect Australian legislative drafting requirements.</p>	Proposed ASA 102	Equivalent ISAs	Paragraph 5 (requirement)	ISA 200 paragraph 14 (requirement) ISA 220 paragraphs 9-11 (requirements) ISQC 1 paragraph 20 (requirement)	Paragraph A1	ISA 200 paragraph A14	Paragraph A2	ISA 200 paragraph A15	Paragraph A3	ISQC 1 paragraph A7 ISA 200 paragraph A15 ISA 220 paragraph A4	Paragraph A4	ISQC 1 paragraph A8	Paragraph A5	ISA 200 paragraph A16	Paragraph A6	ISQC 1 paragraph A9	Paragraph A7	ISQC 1 paragraph A10 ISA 220 paragraph A5
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5	<p>Issue: Some respondents queried the use of the term “have regard to”. One suggested using “shall comply with” instead.</p> <p>The AUASB Technical Group notes that APES 110 applies only to members of the professional accounting bodies and, therefore, it is inappropriate to use the words “shall comply with [APES 110]” in ASA 102. Use of the term “have regard to” in paragraph A1 of the proposed standard is intentional, based on legal advice, and aims to extend the ethical requirement to all auditors and assurance practitioners,</p>																		

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	<p>beyond those who are members of the professional accounting bodies. For example, this may include:</p> <ul style="list-style-type: none"> • auditors of self managed superannuation funds, conducting audits under the Superannuation Industry (Supervision) Act 1993, who are not members of any of the Australian professional accounting bodies; • environmental auditors, who are not members of the Australian professional bodies; and • an auditor-general who is a registered company auditor, but not a member of any of the Australian professional accounting bodies. <p>By using the words “are to have regard to”, all auditors and assurance practitioners, whether or not they are members of the professional accounting bodies, are as a minimum, to take APES 110 into account when conducting an engagement under AUASB standards.</p>