

ASA 200
(October 2009)

Explanatory Statement

ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards

Issued by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

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This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board Phone: (03) 8080 7400
Level 7 Fax: (03) 8080 7450
600 Bourke Street E-mail: enquiries@auasb.gov.au
Melbourne Victoria 3000
AUSTRALIA

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

For approval

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Reasons for Issuing Auditing Standard ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* 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 Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

The Auditing Standard conforms with ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

Operative Date

ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* is operative for financial reporting periods commencing on or after 1 January 2010.

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Purpose of Auditing Standard ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards

The purpose of the Auditing Standard is to establish requirements and to provide 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.

Main Features

The Auditing Standard:

- (a) sets out the overall objectives of the auditor;
- (b) explains the nature and scope of an audit designed to assist the auditor in meeting those objectives;
- (c) explains the scope, authority and structure of Australian Auditing Standards; and
- (d) establishes the general responsibilities of the auditor, applicable in all audits, including the obligation to comply with the Australian Auditing Standards.

Preamble

ASA 200 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

Process of making Australian Auditing Standards

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

- have a clear public interest focus and are of the highest quality;

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- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the requirements or the application and other explanatory material; and
- included other amendments as necessary.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 15/08 *Proposed Auditing Standard: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (Re-issuance of ASA 200), was issued on 10 November 2008 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;

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- the significant costs, if any, and benefits, of compliance with any additional requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

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

Regulatory Impact Statement

A *Regulatory Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in “clarity” format, including *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

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

The main differences between the 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:

1. Auditing Standard ASA 200 is written in the “clarity” format using the equivalent 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*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.

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2. The following requirements included in the Auditing Standard are in part, or full, additional to the extant Auditing Standard:
- (a) 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. 18)
 - (b) 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. 19)
 - (c) 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:
 - (i) 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
 - (ii) Evaluate whether sufficient appropriate audit evidence has been obtained. (Ref: Para. 21)
 - (d) 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 (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ASA 230. (Ref: Para. 24)
3. Certain guidance material in the extant Auditing Standard has been elevated to requirements.

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4. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.
5. Application and other explanatory material, linked to the additional requirements listed at 2. above, is also included in the Auditing Standard.

For approval