

ASA 500
(October 2009)

Explanatory Statement

ASA 500 Audit Evidence

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

For approval



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

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Reasons for Issuing Auditing Standard ASA 500 *Audit Evidence*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 500 *Audit Evidence* 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 500 *Audit Evidence*.

Operative Date

ASA 500 *Audit Evidence* is operative for financial reporting periods commencing on or after 1 January 2010.

Purpose of Auditing Standard ASA 500 *Audit Evidence*

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material to auditors regarding what constitutes audit evidence in an audit of a financial report, and to deal with the auditor’s responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion.

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Main Features

The Auditing Standard:

- (a) requires the auditor to consider the relevance and reliability of the information to be used as audit evidence;
- (b) describes the responsibilities of the auditor when the information to be used as audit evidence has been prepared using the work of a management's expert;
- (c) describes the responsibilities of the auditor when the information to be used as audit evidence has been produced by the entity;
- (d) describes requirements for selecting items for testing to obtain audit evidence; and
- (e) describes the auditor's responsibilities when there is inconsistency in audit evidence obtained from different sources or doubts over the reliability of information to be used as audit evidence.

Preamble and Overall Objectives

ASA 500 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. ASA 500 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

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;
- 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.

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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 1/09 *Proposed Auditing Standard: Audit Evidence (Re-issuance of ASA 500)*, was issued on 6 March 2009 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;
- 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.

Regulation Impact Statement

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in “clarity” format, including ASA 500 *Audit Evidence*.

The RIS considered both 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 500 Audit Evidence (April 2006)

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 500 *Audit Evidence* (April 2006), are:

1. Auditing Standard ASA 500 is written in the “clarity” format using the equivalent International Standard on Auditing (ISA 500 *Audit Evidence*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The following requirements included in the Auditing Standard are in part, or full, additional to the extant Auditing Standard ASA 500, but were included in other extant Auditing Standards:
 - (a) If information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall, to the extent necessary, having regard to the significance of that expert’s work for the auditor’s purposes:
 - (i) Evaluate the competence, capabilities and objectivity of that expert;
 - (ii) Obtain an understanding of the work of that expert; and
 - (iii) Evaluate the appropriateness of that expert’s work as audit evidence for the relevant assertion.
(Extant Ref: ASA 620)

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- (b) When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. (Extant Ref: ASA 530)
3. The following requirements included in the extant Auditing Standard ASA 500 have been included in other Auditing Standards:
- (c) The auditor shall obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. (Extant Ref: Para. 5, included in ASA 200)
 - (d) The auditor shall use assertions for classes of transactions, account balances, and presentation and disclosures in sufficient detail to form a basis for the assessment of risks of material misstatement and the design and performance of further audit procedures. (Extant Ref: Para. 20, included in ASA 315)
4. Certain guidance material in the extant Auditing Standard has been elevated to requirements.
5. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.
6. Application and other explanatory material linked to the requirements listed in 2. above is also included in the Auditing Standard.