

**ASA 502**  
(October 2009)

# Explanatory Statement

## *ASA 502 Audit Evidence— Specific Considerations for Litigation and Claims*

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

### DISCLAIMER

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



**Australian Government**

**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Explanatory Statement**

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

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**Reasons for Issuing Auditing Standard ASA 502 *Audit Evidence—Specific Considerations for Litigation and Claims***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 502 *Audit Evidence—Specific Considerations for Litigation and Claims* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is as 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.

**Operative Date**

ASA 502 *Audit Evidence—Specific Considerations for Litigation and Claims* is operative for financial reporting periods commencing on or after 1 January 2010.

**Purpose of Auditing Standard ASA 502 *Audit Evidence—Specific Considerations for Litigation and Claims***

The purpose of the Auditing Standard is to establish Requirements and to provide Application and Other Explanatory Material regarding specific considerations by the auditor in obtaining sufficient appropriate audit evidence with respect to certain aspects of litigation and claims in an audit of a financial report.

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**Main Features**

The Auditing Standard:

- (a) requires the auditor to design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement;
- (b) requires the auditor to endeavour to communicate in writing with the entity's external legal counsel, if a risk of material misstatement regarding litigation and claims is identified, or where audit procedures performed indicate that other material litigation and claims may exist;
- (c) requires the auditor to endeavour to communicate in writing with the entity's internal legal counsel, if in-house legal counsel has the primary responsibility for litigation and claims involving both in-house and external legal counsel; and
- (d) describes the auditor's responsibilities:
  - (i) when the response from legal counsel contains a material disagreement with management's original evaluation of a particular matter; and
  - (ii) when management refuses to give the auditor permission to communicate with legal counsel, or legal counsel refuses to respond appropriately and the auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures.

**Preamble and Overall Objectives**

ASA 502 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 502 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.

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 15/09 *Proposed Auditing Standard: Litigation and Claims* (Re-issuance of ASA 508), was issued on 17 April 2009 with a 30 day comment period.

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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 502 *Audit Evidence—Specific Considerations for Litigation and Claims*.

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 508 Enquiry Regarding Litigation and Claims (April 2006)**

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 508 *Enquiry Regarding Litigation and Claims* (April 2006), are:

1. Auditing Standard ASA 502 is written in the 'clarity' format using the equivalent International Standard on Auditing (ISA 501 *Audit Evidence—Specific Considerations for Selected Items*) 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. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.
3. Certain guidance material in the extant Auditing Standard has been elevated to Requirements.

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