

ASA 805
(October 2009)

Explanatory Statement

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

Issued by the Auditing and Assurance Standards Board

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Australian Government

Auditing and Assurance Standards Board

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Contact Details

Auditing and Assurance Standards Board
Level 7
600 Bourke Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

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

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Reasons for Issuing Auditing Standard ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* 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 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* is operative for financial reporting periods commencing on or after 1 January 2010.

Purpose of Auditing Standard ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

The purpose of the Auditing Standard is to establish mandatory Requirements and to provide Application and Other Explanatory Material to auditors regarding special considerations in the application of Australian Auditing Standards to an audit of a single financial statement or of a specific element, account or item of a financial statement.

Main Features

The Auditing Standard:

- (a) describes the auditor's considerations in accepting an engagement covered by this Standard;
- (b) requires the auditor to consider the practicalities of accepting an engagement to audit a single financial statement, or a specific element, account or item of a financial statement if the auditor is not already engaged to audit the financial report from which the single financial statement, or a specific element, account or item of a financial statement is derived;
- (c) requires the auditor to apply the Australian Auditing Standards as appropriate when planning and performing the audit;
- (d) requires the auditor to form an opinion and report on the single financial statement, or a specific element, account or item of a financial statement by applying, as appropriate, the Requirements of *ASA 700 Forming an Opinion and Reporting on a Financial Report*; and
- (e) requires the auditor to consider the type of audit opinion expressed on the financial report from which the single financial statement, or a specific element, account or item of a financial statement is derived.

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Preamble and Overall Objectives

ASA 805 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 805 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of the 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

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- 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 07/09 *Proposed Auditing Standard: Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* (Re-issuance of ASA 800), 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.

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 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

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 800 *The Auditor's Report on Special Purpose Audit Engagements* (April 2006, as amended)

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 800 *The Auditor's Report on Special Purpose Audit Engagements* (April 2006, as amended), are:

1. Auditing Standard ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* is written in the 'clarity' format using the equivalent International Standard on Auditing (ISA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The extant Auditing Standard contains additional mandatory obligations and guidance paragraphs dealing with audits of financial reports, or a complete set of financial statements, that are prepared in accordance with a special purpose framework. These additional mandatory obligations and guidance paragraphs are now incorporated into two other Auditing Standards, ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* and ASA 810 *Engagements to Report on Summary Financial Statements*.
3. The following Requirements included in the Auditing Standard are in part, or full, additional compared to the extant Auditing Standard:
 - (a) ASA 200 states that Australian Auditing Standards are written in the context of an audit of a financial report; they are to be applied as necessary in the circumstances when applied to audits of other historical financial information. In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall apply all Australian Auditing Standards relevant to the audit as necessary in the circumstances of the engagement. (Ref: Para 10)

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- (b) If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's financial report, ASA 705 does not permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of that financial report or on a specific element that forms part of that financial report. This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's financial report. (Ref: Para 15)
 - (c) The auditor shall not express an unmodified opinion on a single financial statement that forms part of a financial report if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial report. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of that financial report. (Ref: Para 17)
4. Application and Other Explanatory Material, linked to the Requirements listed at 3. above is also included in the Auditing Standard.