



**Australian Government**

**Auditing and Assurance Standards Board**

This document has been prepared for constituents as part of the AUASB ASA Redrafting Communications Plan

# Redrafting ASAs Drafting Policies and Rules

7 November 2008

## **DISCLAIMER**

This document has been prepared for constituents as part of the AUASB ASA Redrafting Communications Plan and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Australian 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.

# Table of Contents

1. Introduction .....	3
2. Overall AUASB Redrafting Approach.....	4
3. Drafting Policies.....	4
4. Drafting Rules .....	6
4A. <i>The Basic Rules</i> .....	6
4B. <i>Amendments to the Basic Rules - Legal</i> .....	7
4C. <i>Amendments to the Basic Rules – Legislative</i> .....	8
4D. <i>Amendments to the Basic Rules – Legislative</i> .....	9
4E. <i>Amendments to the Basic Rules - Other Necessary Amendments</i> .....	10

# 1. Introduction

These drafting policies and rules are provided to inform all interested parties as to the AUASB's overall technical approach to the redrafting process.

## The AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, statutory of the Australian Government, established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended. Under section 336 of the *Corporations Act 2001*, the AUASB may make Australian Auditing Standards for the purposes of the corporations legislation. Australian Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

## Background to the AUASB ASAs Redrafting Project

Under the Strategic Direction given to the AUASB by the Financial Reporting Council, 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 (ASAs). The IAASB has undertaken a programme to redraft, and in some cases, revise, in "clarity" format, the entire suite of ISAs. The redrafted ISAs will be effective for audits of financial statements for financial reporting periods beginning on or after 15 December 2009.

The AUASB announced in October 2007 that it would redraft the ASAs using the "clarity" form ISAs as the underlying Auditing Standards. The redrafted ASAs will conform to the redrafted ISAs, with minimal necessary amendments, whilst maintaining their enforceability in the Australian legislative environment.

The redrafted ASAs will be "made" under section 336 of the *Corporations Act 2001*, and until such time will be described as "ASA XXX (Revised and Redrafted)", to distinguish them from the current issued ASAs. Once the redrafted ASAs are operative, the "(Revised and Redrafted)" will be removed from the title of each Auditing Standard.

The AUASB Board preliminary approval process for the redrafted ASAs will occur progressively from July 2008 and will result in *all* Auditing Standards being finalised in the second half of 2009. The Parliamentary process will follow. There will be no transition period, and the current issued ASAs (extant ASAs) will be replaced by the redrafted ASAs for financial reporting periods commencing on or after 1 January 2010.

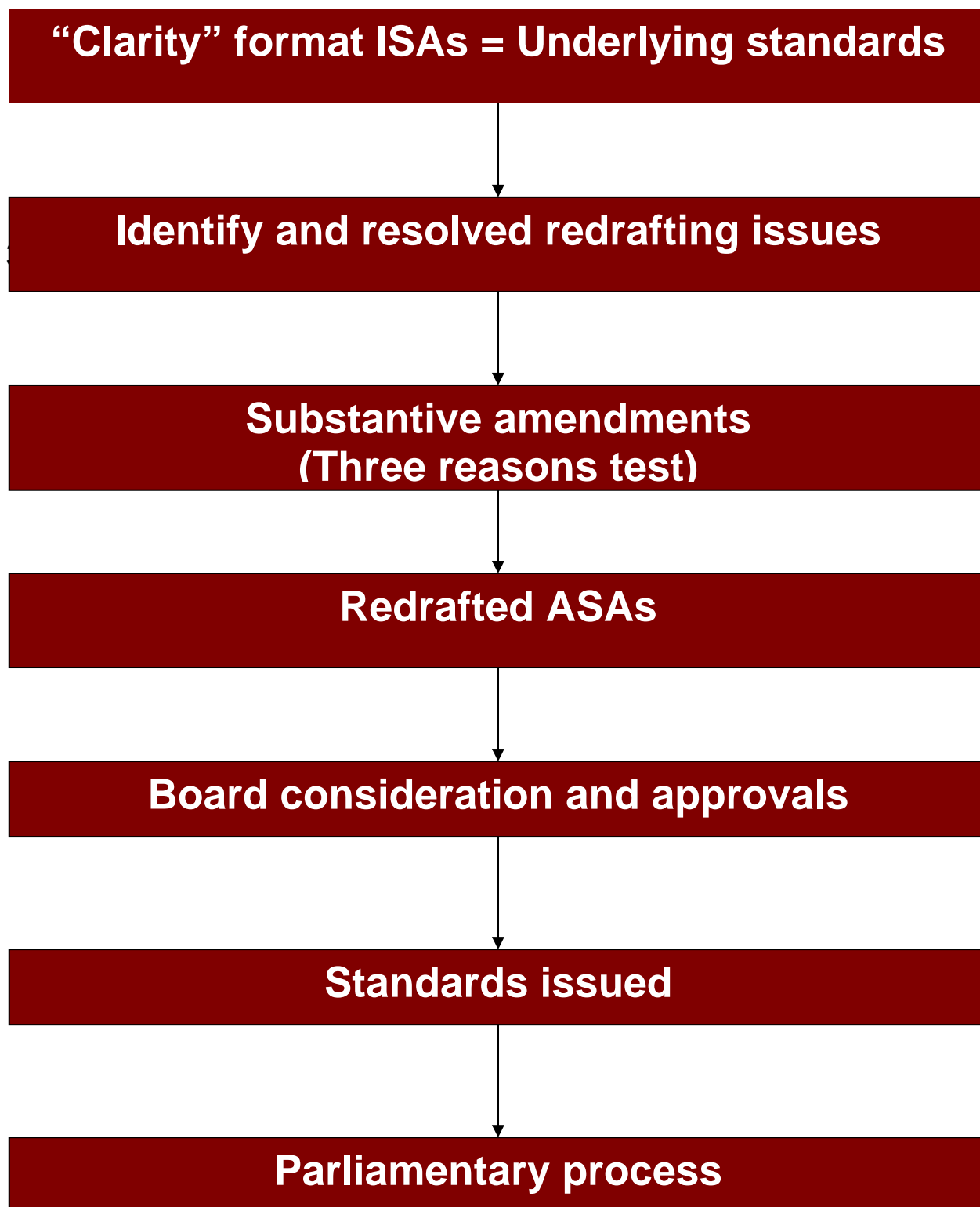
*ASA 100 – Preamble to the Auditing Standards* (the interpretative Standard), which sets out the intentions of the AUASB as to how the Auditing Standards are to be understood, interpreted, and applied, will be developed throughout the project to reflect changes in the form and content of the Auditing Standards, and the AUASB's policies.

## AUASB Pronouncements subject to these Drafting Policies and Rules

There are 43 AUASB pronouncements subject to the redrafting process:

- All 35 current ASAs (including ASRE 2410);
- Five ISAs without current equivalent ASAs; and
- Three other AUASB pronouncements (Glossary, Framework, and Foreword).

## 2. Overall AUASB Redrafting Approach



### 3. Drafting Policies

#### The Basic Principle

The basic principle adopted for the redrafting process is that Australian Auditing Standards continue to reflect world practice, and accordingly, the “clarity” format ISAs are used as the underlying Auditing Standards for the ASAs redrafting process.

#### Amendments

The underlying Standards will be amended for one of three substantive reasons - “three reasons test”. These are:

##### **Reason 1: Where the Auditing Standard must address Australian legal and/or regulatory requirements**

Examples:

- References to the *Corporations Act 2001*
- References to ASIC Class Orders

##### **Reason 2: Where the Auditing Standard must comply with Australian Legislative instrument requirements**

Examples:

- Use of Australian spellings
- Inclusion of the “inability to comply” Requirement

##### **Reason 3: Where the Auditing Standard needs to address “additional public interests” matters**

Examples:

- Changes that, in the AUASB’s view, add value in the Australian context, such as maintaining extant ASA Requirements and Explanatory Guidance.

Where changes are made to an Auditing Standard, as a consequence of the above three reasons, they will be considered in light of their effect (i.e. conforming amendments) on any other Auditing Standards.

#### **Other Necessary Amendments**

Some editorial and format changes to the Auditing Standards are required.

## 4. Drafting Rules

Drafting rules provide the necessary detail to implement the Drafting Policies. The rules provide for consistency in the application of any changes made to the Auditing Standards.

### 4A. The Basic Rules

NO.	DIFFERENCES BETWEEN REDRAFTED ISAs & EXTANT ASAs	AUASB APPROACH
1	ISA “clarity” format—style changes; including the use of ‘normal’ typeset style for both Requirements and Application and Other Explanatory Material (hereafter called “AOEM”); as well layout changes, including the AOEM section directly following the Requirements section	Adopt ISA
2	New ISA Requirement not included in the extant ASA	Adopt ISA
3	ISA Requirement included as extant ASA Explanatory Guidance (elevation of guidance)	Adopt ISA
4	Similar Requirement wording in extant ASA and ISA, where the extant ASA Requirement has <i>not</i> been diminished	Adopt ISA
5	Previously anchored extant ASA Explanatory Guidance included as an ISA Requirement (elevation of guidance)	Adopt ISA
6	Extant ASA Requirement(s) included in another ISA	Adopt ISA
7	ISA AOEM included as extant ASA Requirement	Retain extant ASA requirement only when it meets the “three reasons” test
8	Significant new <i>or</i> existing ISA AOEM not included in the extant ASA	Adopt ISA
9	Similar guidance wording in extant ASA and ISA	Adopt ISA
10	ISA AOEM included as extant ASA Appendix	Adopt ISA, subject to “additional public interest” test
11	Insertion of Australian specific paragraph(s) into Requirements or AOEM (which have met the “three reasons” test)	Use the prefix “Aus” to identify Australian insertions. Maintain the ISA paragraph numbering sequence

## 4B. Amendments to the Basic Rules - Legal

**Reason 1: Where the Auditing Standard needs to address Australian legal and/or regulatory requirements.**

- Amendments may be to the wording or format either in a single standard or unilaterally
- Refer to the table below for the relevant drafting rules:

NO.	DIFFERENCES BETWEEN ISAs & EXTANT ASAs	AUASB APPROACH
1	Extant ASA references to Australian applicable laws/regulations within Requirements or Explanatory Guidance, not included in the ISA	Retain extant ASA references, where applicable
2	ISA references to “financial statement(s)”	Retain extant ASA references - “financial report(s)”
3	ISA references to “Ethics”	Retain extant ASA reference – “ <i>APES 110 Code of Ethics for Professional Accountants</i> ” (issued by APESB)
4	<i>ISRE 2410</i> has not been included in the IAASBs “clarity” redrafting process. ASRE 2410 will be subject to the ASA redrafting process.	ASRE 2410 “ <i>Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity</i> ”, will be used as the underlying Standard, with its format/layout consistent with the “clarity” format

## 4C. Amendments to the Basic Rules – Legislative

**Reason 2: Where the Auditing Standard needs to comply with Australian legislative instrument requirements.**

- Require wording or format amendments to comply with Requirements
- Refer to the table below for the relevant drafting rules:

NO.	DIFFERENCES BETWEEN ISAs & EXTANT ASAs	AUASB APPROACH
1	ISA terminology uses “U.S. English”	Retain “Australian English” spelling
2	ISA includes the phrase “auditor shall obtain” in AOEM	Retain extant ASA reference - “auditor shall endeavour to obtain”
3	AUASB “Application” and “Operative Date” sections not included in the ISAs	Retain AUASB sections
4	<p>The ASAs do not give auditors the option of using professional judgement in determining whether to comply with a Requirement.</p> <p>The ISAs, however, in rare and exceptional circumstances, permit the auditor to use professional judgement to depart from a relevant Requirement, by performing alternative audit procedures to achieve the aim of the Requirement.</p>	Maintain the existing ASA principle –see “inability to comply” paragraphs in ASA 200 and ASA 100

## 4D. Amendments to the Basic Rules – Legislative

**Reason 3: Where the Auditing Standard needs to address “additional public interests” matters.**

- These are changes that in the AUASB’s view, add value to the Auditing Standard, in particular, to its application.
- Such a change could be defined as:
  - those that are deemed helpful to users;
  - those where the omission of particular (Australian) content is seen as a clear diminution in the redrafted Auditing Standard; and
  - where there are Australian contextual reasons for maintaining the current content or format status quo.
- Refer to the table below for the relevant drafting rules:

NO.	DIFFERENCES BETWEEN ISAs & EXTANT ASAs	AUASB APPROACH
1	Extant ASA Requirement not included in the ISA	Retain extant ASA Requirement
2	Significant extant ASA Explanatory Guidance, related to an ISA Requirement, that is not included as AOEM in the ISA	Retain extant ASA guidance only if it continues to meet the “additional public interest” test and is consistent with the equivalent ISA
3	Significant extant ASA Explanatory Guidance, not related to a ISA Requirement, that is not included as AOEM in the ISA	Retain extant ASA guidance only if it continues to meet the “additional public interest” test and is consistent with the equivalent ISA
4	Extant ASA Appendix not included in the ISA	Retain extant ASA Appendix only if it continues to meet the “additional public interest” test and is consistent with the equivalent ISA
5	Extant ASA Appendix included in the ISA within the AOEM section	Retain extant ASA Appendix only if it continues to meet the “additional public interest” test and is consistent with the equivalent ISA

#### 4E. Amendments to the Basic Rules - Other Necessary Amendments

- Where there are editorial and format changes made required to the redrafted ASAs.
- Refer to the table below for the relevant drafting rules:

NO.	TYPES OF DIFFERENCES BETWEEN ISAs & EXTANT ASAs	AUASB APPROACH
1	ISA conforming amendments	Adopt ISA
2	Conforming amendments, resulting from the insertion of Australian specific paragraphs into Requirements or AOEM	Adopt Australian specific conforming amendments
3	AUASB Exposure Draft sections, not included in the ISAs: "Preface", "Main Features", "Main Changes" "Request for Comments", "Authority Statement" "Application" "Operative Date" and "Tables of Differences"	Retain AUASB sections
4	AUASB Auditing Standard sections not included in the ISAs: "Preface", "Authority Statement"; "Application" and "Operative Date"	Retain AUASB sections
5	AUASB "Conformity with International Standards on Auditing" paragraph not included in the ISAs	Retain AUASB section
6	Other editorials	Use the best form of expression