

April 2017

# **Basis for Conclusions** ***ASA 2017-2 Amendments to Australian*** ***Auditing Standards***

Draft

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



**Australian Government**

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**Auditing and Assurance Standards Board**

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ISSN 2201-3628

Basis for Conclusions ASA 2017-2 *Amendments to Australian Auditing Standards* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 250.

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## BASIS FOR CONCLUSIONS

### *ASA 250 Consideration of Laws and Regulations in the Audit of a Financial Report*

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, ASA 2017-2 *Amendments to Australian Auditing Standards*, and is not a substitute for reading the Standard.

#### Background

1. The IAASB issued the final revised ISA 250 on 5 October 2016. In summary the changes in ISA 250 relate to:
  - Align aspects of ISA 250 (Revised) to the NOCLAR (non-compliance with laws and regulations) provisions in the IESBA Code, particularly the definition of non-compliance and the examples of laws and regulations within the scope of ISA 250 (Revised) (see paragraphs 12, A6 and A9–A10 of ISA 250 (Revised)).
  - Clarify the requirement regarding the auditor’s determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity and the auditor’s duty of confidentiality, in order to recognize the different provisions of laws, regulations, or relevant ethical requirements (see paragraphs 29 and A28–A34 of ISA 250 (Revised)).
  - Highlight that the auditor may have additional responsibilities under law, regulation, or relevant ethical requirements regarding identified or suspected NOCLAR. This also includes additional emphasis of the possible documentation requirements contained in law, regulation or relevant ethical requirements (see paragraph 9 of ISA 250 (Revised)).
  - Highlight the implications of identified or suspected NOCLAR on the audit, for example, the reliability of management’s representations, the implications for the auditor’s report, and the consideration of whether to withdraw from the engagement (see paragraphs 22 and A23–A27 of ISA 250 (Revised)).
  - Emphasise the requirements in the IESBA Code relating to the communication of identified or suspected NOCLAR to a group engagement partner or an auditor at a component (see paragraph A8 of ISA 250 (Revised)).
  - Draw attention to the fact that, in certain cases, communication with management or those charged with governance may be restricted or prohibited by law or regulation, for example law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (see paragraphs 20, 23 and A21 of ISA 250 (Revised)).
  - Furthermore, conforming amendments were also made to a number of other International Standards to reflect the matters indicated above or clarify the expected work effort with regard to identified or suspected NOCLAR. These include ISQC 1; ISA 210; ISA 220; ISA 240; ISA 260; ISA 500; ISRE 3000, ISAE 3402; ISAE 3410; and ISRS 4410. These amendments are reflected in ASA 2017-2 *Amendments to Australian Auditing Standards*.
2. Due to the extensive use of references to the changes in the APESB Code, the final issuance of ASA 250 and ASA 2017-2 will be held back pending the APESB release of their standard.

*AUASB*

3. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's (FRC) *Strategic Direction*, the AUASB's policy is to adopt the IAASB's ISAs, unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so.
4. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB).
5. The AUASB's principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB's website:  
[http://www.auasb.gov.au/admin/file/content102/c3/Aug14\\_IAASB-NZAuASB\\_Principles\\_of\\_Convergence\\_and\\_Harmonisation.pdf](http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB-NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf)
6. The AUASB has decided to adopt the revised ISA 800, into the Australian Auditing Standards that are made under section 336 of the *Corporations Act 2001* (the Act). Prior to implementation, the AUASB is required to consult with stakeholders and accordingly has issued Exposure Drafts **ED 06/16** for public exposure and comment. All comments received from stakeholders are considered by the AUASB prior to finalisation of the revised standard.

*Public Exposure*

7. The revised Australian standard, including the amendments described below, were published for public comment in ED 06/16: Proposed Auditing Standard ASA 2016-1 *Amendments to Australian Auditing Standards* issued on 23 December 2016 and closed on 15 March 2017.

**Proposed Amendments to the ASAs on Public Exposure in Australia**

8. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the NZAuASB (see paragraphs 5 to 8). The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so.

*AUASB Drafting Conventions*

9. The changes to auditor reporting relate solely to Australian Auditing Standards issued under section 336 of the Act. Accordingly, the AUASB makes format and other editorial changes from the ISAs, such as spelling and terminology changes, to accord with Australian legislative requirements, particularly those relating to legislative instruments.

*Other General Changes*

10. The AUASB made other general changes from the ISAs which reflect ongoing policies and include:
  - (a) Replacement of requirements, guidance and references to international ethical requirements with requirements, guidance and references to relevant Australian ethical requirements; and
  - (b) Replacing references to international standards and international standard-setters with references to relevant Australian standards and standard-setters.

**Major Issues raised by Respondents on Exposure**

There were no major issues raised by respondents on Exposure.

**Conclusion**

The AUASB voted to approve and issue ASA 2017-2 on TBD

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