

(April 2006)

Explanatory Statement

ASA 100 Preamble to AUASB Standards

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



Australian Government

Auditing and Assurance Standards Board

Explanatory Statement

Reasons for Issuing ASA 100 *Preamble to AUASB Standards*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 100 *Preamble to AUASB Standards* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, 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*.

Process of making Auditing Standards

Section 1455 of the *Corporations Act 2001* and *Corporations Regulation 10.5.01* gave interim legal endorsement from 1 July 2004 to the majority of Auditing Standards made by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation (AARF). The AUASB has reviewed the Auditing Standards and has proceeded to make them as legally enforceable Auditing Standards under the *Corporations Act 2001*.

The *Preamble to AUASB Standards* is a new interpretive Auditing Standard and is not a revision of an existing Auditing Standard, made by the former Auditing & Assurance Standards Board.

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The Auditing Standards have been made also in accordance with the Financial Reporting Council's Strategic Direction to the AUASB dated 6 April 2005, pursuant to section 225 of the *ASIC Act*.

The Strategic Direction, *inter alia*, provides that the AUASB develops 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 a base;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the Strategic Direction, the AUASB has undertaken a process of thorough review and revision that has:

- addressed the enforceability of mandatory requirements;
- clarified auditors' obligations under the Auditing Standards;
- provided for sector neutrality in the Auditing Standards; and
- included other amendments as necessary.

Purpose of Auditing Standard ASA 100 *Preamble to AUASB Standards*

The *Preamble to AUASB Standards* sets out the AUASB's intentions as to how AUASB Standards are to be understood, interpreted and applied. The AUASB issues AUASB Standards comprising:

- (a) Auditing Standards ("ASAs");
- (b) Standards on Review Engagements ("ASREs");
- (c) Standards on Assurance Engagements ("ASAEs"); and

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(d) Standards on Related Services (“ASRSs”).

The *Preamble to AUASB Standards* is the primary interpretive document for the AUASB Standards.

AUASB Standards are to be read in conjunction with the *Preamble to AUASB Standards*. An auditor is required to apply AUASB Standards in conjunction with the *Preamble to AUASB Standards*.

The *Preamble to AUASB Standards* comprises the following elements:¹

- (a) an Introduction, setting out:
 - the source of the AUASB’s functions and powers;
 - the application of:
 - Auditing Standards made under section 336 of the *Corporations Act 2001*; and
 - Auditing and Assurance Standards for other purposes;
- (b) the Authority of the Paragraphs in AUASB Standards;
- (c) explanation of Mandatory Requirements being the statements of auditor’s obligations;
- (d) explanation of Explanatory Guidance paragraphs;
- (e) explanation of Other Important Elements of the AUASB Standards, namely:
 - Authority Statements;
 - Application Paragraphs;
 - the Operative Date;
 - Definitions; and

¹ Use of Upper Case letters denotes the title of an element in the *Preamble to AUASB Standards*.

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- Conformity Paragraphs;
- (f) application to Types of Entity;
- (g) how AUASB Standards are to be applied:
 - professional judgement; and
 - ethics;
- (h) requirements when an auditor has an Inability to Comply with Mandatory Requirements;
- (i) an introduction to Auditing Standards Made Under Section 336 of the *Corporations Act 2001*; and
- (j) the AUASB Drafting Approach, including the meanings of words and phrases.

Operative Date

The *Preamble to AUASB Standards* is operative for financial reporting periods commencing on or after 1 July 2006.

Consultation prior to issuing this Auditing Standard

The AUASB has consulted publicly as part of its due process in developing this Auditing Standard. Exposure Draft ED 7/05 *Proposed Auditing Standard: Preamble to AUASB Standards* was issued on 28 October 2005 with a 45 day comment period. Submissions were received by the AUASB and it has considered these submissions as part of the development and finalisation of this Auditing Standard.