

(April 2006)

**Explanatory Statement**  
***ASA 200 Objective and  
General Principles  
Governing an Audit of a  
Financial Report***

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Explanatory Statement**

### **Reasons for Issuing ASA 200 *Objective and General Principles Governing an Audit of a Financial Report***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 200 *Objective and General Principles Governing an Audit of a Financial Report* 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. The AUASB has reviewed the Auditing Standards and has proceeded to make them as legally enforceable Auditing Standards under the *Corporations Act 2001*.

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:

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- 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 200 *Objective and General Principles Governing an Audit of a Financial Report***

The purpose of Auditing Standard ASA 200 is to establish mandatory requirements and to provide explanatory guidance on the objective and general principles governing an audit of a financial report.

Auditing Standard ASA 200 is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

## **Operative Date**

This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

## **Main changes from Auditing Standard AUS 202 (February 2004) *Objective and General Principles Governing an Audit of a Financial Report***

The main differences between ASA 200 and AUS 202 are that in ASA 200:

1. The word ‘shall’, in the **bold-type** paragraphs, is the terminology used to describe an auditor’s mandatory requirements, whereas an auditor’s degree of responsibility is described in AUS 202 by the word ‘should’.
2. The explanatory guidance paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas in AUS 202 some obligations are implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.
3. The following additional mandatory requirements are included (these mandatory requirements are either not contained in AUS 202 or have been expanded or re-worded in this Auditing Standard):
  - (a) The auditor shall comply with relevant ethical requirements relating to audit engagements (paragraph 7). In AUS 202, the auditor should comply with the ethical requirements of CPA Australia and the Institute of Chartered Accountants in Australia.
  - (b) In determining the audit procedures to be performed in conducting an audit in accordance with Auditing Standards, the auditor shall comply with each of the Auditing Standards relevant to the audit (paragraph

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14). In AUS 202, the audit procedures required to conduct an audit in accordance with AUSs should be determined by the auditor having regard to the requirements of AUSs, relevant professional bodies, legislation, regulations and, where appropriate, the terms of the audit engagement and reporting requirements.

- (c) Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant mandatory requirement, the auditor shall:
- (i) if possible, perform appropriate alternative audit procedures; and
  - (ii) in accordance with ASA 230 *Audit Documentation*, document in the working papers:
    - the circumstances surrounding the inability to comply;
    - the reasons for the inability to comply; and
    - justification of how alternative audit procedures achieve the objectives of the mandatory requirement.

When the auditor is unable to perform appropriate alternative audit procedures, the auditor shall consider the implications for the auditor's report (paragraph 15).

- (d) The auditor shall not represent compliance with Auditing Standards unless the auditor has complied fully with all of the Auditing Standards relevant to the audit (paragraph 18).

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- (e) The auditor shall plan and perform an audit by exercising professional judgement (paragraph 20).
  - (f) The auditor shall obtain reasonable assurance as to whether the financial report taken as a whole is free from material misstatement, whether due to fraud or error, when conducting an audit in accordance with Auditing Standards (paragraph 24).
4. Explanatory guidance relating to the following matters, not contained in AUS 202, is included:
- (a) professional judgement;
  - (b) responsibility for the financial report; and
  - (c) expressing an opinion on a financial report.

The explanatory guidance on relevant ethical requirements relating to an audit of a financial report and the conduct of an audit of a financial report has also been expanded.

**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 8/05 *Proposed Auditing Standard: Objective and General Principles Governing an Audit of a Financial Report (Re-issuance of AUS 202)* 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.