

ASA 2017-2
(May 2017)

Auditing Standard ASA 2017-2 *Amendments to Australian Auditing Standards*

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



Australian Government

Auditing and Assurance Standards Board

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Contact Details

Auditing and Assurance Standards Board
Podium Level 14, 530 Collins Street
Melbourne Victoria 3000
AUSTRALIA

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

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

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PREFACE

Reasons for Issuing ASA 2017-2

The AUASB issues Auditing Standard ASA 2017-2 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a Non Corporate Commonwealth Entity, 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 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, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Auditing Standard makes amendments to the requirements and/or application & other explanatory material of the following Auditing Standards:

- | | |
|---------|---|
| ASQC 1 | <i>Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements (27 October 2009)</i> |
| ASA 210 | <i>Agreeing the Terms of Audit Engagements (27 October 2009)</i> |
| ASA 220 | <i>Quality Control for an Audit of a Financial Report and Other Historical Information (27 October 2009)</i> |
| ASA 240 | <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report (27 October 2009)</i> |
| ASA 260 | <i>Communication with Those Charged with Governance (1 December 2015)</i> |
| ASA 450 | <i>Evaluation of Misstatements Identified During the Audit (27 October 2009)</i> |
| ASA 500 | <i>Audit Evidence (27 October 2009)</i> |

The amendments arise from changes made by the International Auditing and Assurance Standards Board (IAASB) to ISA 250. 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 IAASB for the revision and enhancement of the International Standards on Auditing and to make appropriate consequential amendments to the Australian Auditing Standards.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2017-2 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: 30 May 2017

Roger Simnett
Chair - AUASB

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes. It contains a series of amendments to various Australian Auditing Standards (as shown) arising from the revision of the existing ASA 250. These amendments, in the main, reflect similar amendments made to the equivalent International Standards on Auditing (ISAs).

Compliance with the amended Australian Auditing Standards enables compliance with the amended ISAs.

AUDITING STANDARD ASA 2017-2

Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:
 - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

3. This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2018 with early adoption permitted.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to the Australian Auditing Standards. The amendments arise from consequential changes arising from ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

Objective

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
 - (a) ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (27 October 2009)
 - (b) ASA 210 *Agreeing the Terms of Audit Engagements* (27 October 2009)
 - (c) ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Information* (27 October 2009)
 - (d) ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* (27 October 2009)
 - (e) ASA 260 *Communication with Those Charged with Governance* (1 December 2015)
 - (f) ASA 450 *Evaluation of Misstatements Identified During the Audit* (27 October 2009)
 - (g) ASA 500 *Audit Evidence* (27 October 2009)

Definition

6. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

Amendments to Auditing Standards

Amendments to ASQC 1

7. Footnote * to paragraph Aus 12.13 is amended to read as follows:

For example, ~~the Institute of Chartered Accountants in Australia and New Zealand~~, CPA Australia and the Institute of Public Accountants.

8. Footnote * to paragraph A53 is amended to read as follows:

For example, ~~the professional accounting bodies in Australia~~ comprises the Institute of Chartered Accountants in Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

9. Paragraph A56 is amended to read as follows:

Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there are responsibilities under law, regulation or relevant ethical requirements is a legal or professional duty to do so.¹ Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

Amendments to ASA 210

10. Footnote 11 to paragraph A11 is amended to read as follows:

See ASA 200, paragraph ~~A4A2~~

11. Footnote 14 to paragraph A16 is amended to read as follows:

See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph ~~A54A46~~.

12. Footnote 15 to paragraph A18 is amended to read as follows:

See ASA 315, paragraph ~~A59A51~~ and Appendix 1.

Appendix 1 is amended to read as follows:

... (Ref: Para. ~~A23-A26A24~~)

...

13. Paragraph A26 is amended to read as follows:

When relevant, the following points could also be made in the audit engagement letter:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other staff of the entity.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.

¹ See, for example, Section 140.7 and Section 225.35 of APES 110 *Code of Ethics for Professional Accountants*.

- A reference to, and description of, the auditor’s responsibilities under law, regulation or relevant ethical requirements that address reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- Any restriction of the auditor’s liability when such possibility exists.
- A reference to any further agreements between the auditor and the entity.
- Any obligations to provide audit working papers to other parties.

An example of an audit engagement letter is set out in Appendix 1.

Amendments to ASA 220

14. Footnote # to paragraph 7(p) is amended to read as follows:

For example, ~~the Institute of Chartered Accountants in Australia and New Zealand~~, CPA Australia and the Institute of Public Accountants.

15. A new paragraph after existing paragraph A8 is inserted as follows:

Law, regulation, or relevant ethical requirements² may require the auditor to request, prior to accepting the engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor’s judgement, the auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, where the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the APES 110 Code of Ethics for Professional Accountants requires that the predecessor auditor, on request by a proposed successor auditor, provides all such facts and other information concerning such non-compliance that, in the predecessor auditor’s opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.³

16. Existing paragraph A29 is moved above to above existing paragraph A28 and the heading *Engagement Quality Control Review of Listed Entities* (ref para Aus 21.1).
17. As a result of the change made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

Amendments to ASA 240

18. Footnote 3 to paragraph 5 is amended to read as follows:

See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph ~~A53-A54~~A54.

19. Footnote 4 to paragraph 6 is amended to read as follows:

See ASA 200, paragraph ~~A53~~A54.

20. A new paragraph after existing paragraph 8 is inserted as follows:

² See, for example, Sections 210.14 of APES 110 *Code of Ethics for Professional Accountants*.

³ See, for example, Sections 225.31 of APES 110 *Code of Ethics for Professional Accountants*.

The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including fraud, which may differ from or go beyond this and other Australian Auditing Standards, such as:
(Ref: Para. A6)

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of a group financial report); and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other Australian Auditing Standards (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

21. Existing paragraph 12 is amended to read as follows:

In accordance with ASA 200⁴, the auditor shall maintain professional scepticism throughout the audit, recognising the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A8-A9)

22. Existing paragraph 40 is amended to read as follows:

If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis ~~with~~ the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. ~~A61-A62~~~~A60~~)

23. Existing paragraph 41 is amended to read as follows:

Unless all of those charged with governance are involved in managing the entity, if the auditor has identified or suspects fraud involving:

- (a) management;
- (b) employees who have significant roles in internal control; or
- (c) others where the fraud results in a material misstatement in the financial report,

the auditor shall communicate these matters ~~with~~ those charged with governance on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions ~~with~~ those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation. (Ref: Para. ~~A61, A63~~~~A60~~ -~~A65~~~~A63~~)

⁴ ASA 200, paragraph 15

24. Existing paragraph 42 is amended to read as follows:

The auditor shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in the auditor's judgement, relevant to their responsibilities. (Ref: Para. ~~A66~~A64)

25. The heading above existing paragraph 43 is amended to read as follows:

~~Communications to Regulatory and Enforcement Authorities~~ Reporting Fraud to an Appropriate Authority Outside the Entity

26. Existing paragraph 43 is amended to read as follows:

If the auditor has identified or suspects a fraud, the auditor shall determine whether law, regulation or relevant ethical requirements; ~~there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances.~~
(Ref: Para. ~~A67~~~~65~~–~~A68~~67)

- (a) Require the auditor to report to an appropriate authority outside the entity.
(b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

27. New headings are inserted after existing paragraph A5 as follows:

Responsibility for the Prevention and Detection of Fraud

Responsibilities of the Auditor (Ref: Para. 9)

28. A new paragraph after existing paragraph A5 (and new heading) is inserted as follows:

Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations to other auditors within a group, including a group engagement partner, component auditors or other auditors performing work at components of a group for purposes other than the audit of the group financial report.⁵

29. Existing Footnote 14 to existing paragraph A9 is amended to read as follows:

See ASA 200, paragraph ~~A49~~47.

30. The heading above existing paragraph A60 is amended to read as follows:

Communications to Management and with Those Charged With Governance (Ref: Para. 41-43)

31. A new paragraph before existing A60 is inserted as follows:

In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with management and those charged with governance. 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, including alerting the entity,

⁵ See Sections 225.21–225.22 of APES 110 *Code of Ethics for Professional Accountants*.

for example, when the auditor is required to report the fraud to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

32. The heading above existing paragraph A65 is amended to read as follows:

Communications to Regulatory and Enforcement Authorities Reporting Fraud to an Appropriate Authority outside the Entity (Ref: Para. 4443)

33. Existing paragraph A65 is amended as follows:

ASA 250⁶ provides further guidance with respect to the auditor's determination of whether reporting identified or suspected non-compliance with laws or regulations to an appropriate authority outside the entity is required or appropriate in the circumstances, including consideration of the auditor's duty of confidentiality. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting fraud to a party outside the client entity. However, the auditor's legal responsibilities vary by country and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some countries, the auditor of a financial institution has a statutory duty to report the occurrence of fraud to supervisory authorities. Also, in some countries the auditor has a duty to report misstatements to authorities in those cases where management and those charged with governance fail to take corrective action.

34. Existing paragraph A66 is amended to read as follows:

The determination required by paragraph 44 may involve complex considerations and professional judgements. Accordingly, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider it appropriate to obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular determine the appropriate course of action in the circumstances, the purpose of which is to ascertain the steps necessary in considering the public interest aspects of identified fraud.

35. As a result of the changes made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

Amendments to ASA 260

36. Existing paragraph 7 is amended to read as follows:

In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In some these circumstances, the issues considered by the auditor potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, and the auditor may consider it appropriate to obtaining legal advice.

37. Footnote 3 to paragraph A1 is amended to read as follows:

⁶ ASA 250, *Consideration of Laws and Regulations in an Audit of a Financial Report*, paragraphs A28-A34

As described in paragraph ~~A6863~~ of ASA 700 *Forming an Opinion and Reporting on a Financial Report*, having responsibility for approving in this context means having the authority to conclude that all the statements that comprise the financial report, including the related notes, have been prepared.

38. Footnote 20 to paragraph A25 is amended to read as follows:

See ASA 700, paragraphs ~~Aus 46.145 and A58~~.

39. Footnote 21 to paragraph A25 is amended to read as follows:

See ASA 700, paragraph ~~4140~~.

40. Footnote 22 to paragraph A26 is amended to read as follows:

See ASA 300, *Planning an Audit of a Financial Report*, paragraph ~~A1543~~.

41. Footnote 23 to paragraph A28 is amended to read as follows:

See paragraphs 19–22 and ~~A2423–A3332~~ of ASA 220, *Quality Control for an Audit of a Financial Report*.

42. Footnote 27 to paragraph A52 is amended to read as follows:

See ASA 315, paragraph ~~A7877~~

43. Appendix 1 is amended to read as follows:

...

- *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report* - paragraphs ~~15, 2019 and 2322–2524~~

...

- ~~ASA 700 *Forming an Opinion and Reporting on a Financial Report* — paragraph 46~~

...

Amendments to ASA 450

44. Existing paragraph 8 is amended to read as follows:

The auditor shall communicate, unless prohibited by law or regulation, on a timely basis all misstatements accumulated during the audit with the appropriate level of management, ~~unless prohibited by law or regulation~~.⁷ The auditor shall request management to correct those misstatements. (Ref: Para. ~~A710–A912~~)

45. Existing paragraph 9 is amended to read as follows:

... (Ref: Para. ~~A1340~~)

46. Existing paragraph 10 is amended to read as follows:

... (Ref: Para. ~~A14A11–A15A12~~)

47. Existing paragraph 11 is amended to read as follows:

⁷ See ASA 260, *Communication with Those Charged with Governance*, paragraph 7

... (Ref: Para. ~~A16A13–A22A17~~, ~~A24A19–A25A20~~)

... (Ref: Para. ~~A23A18~~)

48. Existing paragraph 12 is amended to read as follows:

... (Ref: Para. ~~A26A21–A28A23~~)

49. Existing paragraph 14 is amended to read as follows:

... (Ref: Para. ~~A29A24~~)

50. Existing paragraph 15 is amended to read as follows:

... (Ref: Para. ~~A30A25~~)

...

51. Existing paragraph A11 is amended to read as follows:

~~In some jurisdictions, law or regulation may restrict the auditor's communication of certain misstatements to management, or others, within the entity. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with law or regulation to an appropriate authority pursuant to anti-money laundering legislation. In some of these circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the issues considered by the auditor may be complex* and the auditor may consider seeking it appropriate to obtain legal advice.~~

52. Existing paragraph A20 is amended to read as follows:

Determining whether a classification misstatement is material involves the evaluation of qualitative considerations, such as the effect of the classification misstatement on debt or other contractual covenants, the effect on individual line items or sub-totals, or the effect on key ratios. There may be circumstances where the auditor concludes that a classification misstatement is not material in the context of the financial report as a whole, even though it may exceed the materiality level or levels applied in evaluating other misstatements. For example, a misclassification between balance sheet line items may not be considered material in the context of the financial report as a whole when the amount of the misclassification is small in relation to the size of the related balance sheet line items and the misclassification does not affect the income statement or any key ratios. ~~Depending on the circumstances, misstatements in disclosures could also be indicative of fraud, and, for example, may arise from:~~

- ~~• Misleading disclosures that have resulted from bias in management's judgements; or~~
- ~~• Extensive duplicative or uninformative disclosures that are intended to obscure a proper understanding of matters in the financial report.~~

~~When considering the implications of misstatements in classes of transactions, account balances and disclosures, the auditor exercises professional scepticism in accordance with ASA 200.⁸~~

53. Existing paragraph A22 is amended to read as follows:

* See, for example, Part 9.4AAA of the *Corporations Act 2001*.

⁸ See ASA 200, paragraph 15.

ASA 240⁹ explains how the implications of a misstatement that is, or may be, the result of fraud ought to be considered in relation to other aspects of the audit, even if the size of the misstatement is not material in relation to the financial report. Depending on the circumstances, misstatements in disclosures could also be indicative of fraud, and, for example, may arise from:

- Misleading disclosures that have resulted from bias in management’s judgements; or
- Extensive duplicative or uninformative disclosures that are intended to obscure a proper understanding of matters in the financial report.

When considering the implications of misstatements in classes of transactions, account balances and disclosures, the auditor exercises professional scepticism in accordance with ASA 200.¹⁰

Amendments to ASA 500

54. Existing paragraph 7 is amended to read as follows:

When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. (Ref: Para. A26–A34~~33~~)

55. Existing paragraph A26 is amended to read as follows:

As noted in paragraph A1, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, for example, previous audits, in certain circumstances, ~~and~~ a firm’s quality control procedures for client acceptance and continuance and complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity’s non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

56. A new paragraph after existing paragraph A33 is inserted as follows:

ASA 250¹¹ provides further guidance with respect to the auditor complying with any additional responsibilities under law, regulation or relevant ethical requirements regarding an entity’s identified or suspected non-compliance with laws and regulations that may provide further information that is relevant to the auditor’s work in accordance with Australian Auditing Standards and evaluating the implications of such non-compliance in relation to other aspects of the audit.

57. As a result of the changes made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

⁹ See ASA 240, paragraph 35.

¹⁰ See ASA 200, paragraph 15.

¹¹ See ASA 250, *Consideration of Laws and Regulations in an Audit of a Financial Report*, paragraph 9