

(April 2006)

Explanatory Statement

ASA 210 Terms of Audit Engagements

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



Australian Government

Auditing and Assurance Standards Board

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Reasons for Issuing ASA 210 *Terms of Audit Engagements*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 210 *Terms of Audit Engagements* 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 implemented a process of thorough review and reissuance that has:

- addressed the enforceability of mandatory requirements;
- clarified implied obligations;
- provided for neutrality in terms of sector and size; and
- included improvements to reflect the enhanced corporate governance requirements.

Purpose of Auditing Standard ASA 210 *Terms of Audit Engagements*

The purpose of Auditing Standard ASA 210 is to establish mandatory requirements and to provide explanatory guidance on:

- (a) agreeing and documenting the terms of the audit engagement with the entity; and
- (b) the auditor's response to a request by the entity to change the terms of the audit engagement to one that provides a lower level of assurance.

Auditing Standard ASA 210 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 204 (June 2000) *Terms of Audit Engagements*

The main differences between ASA 210 and AUS 204 are that in ASA 210:

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 204 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 204 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 requirement, not contained in AUS 204, is included:
 - (a) the terms of the engagement shall identify the applicable financial reporting framework (paragraph 17).
4. The following additional explanatory guidance, not contained in AUS 204, is included:
 - (a) the auditor independence requirements of the *Corporations Act 2001* (paragraphs 13 and 14).
5. The example engagement letter at Appendix 1 has been reworded based on the example engagement letter in the equivalent ISA 210 *Terms of Audit Engagements*, and also

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includes matters relating to auditor independence and the entity's annual general meeting.

Consultation prior to issuing this Auditing Standard

The AUASB has consulted publicly as part of its due process of developing this Auditing Standard. Exposure Draft ED 9/05 *Proposed Auditing Standard: Terms of Audit Engagements (Re-issuance of AUS 204)* 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 due process of developing and finalising this Auditing Standard.