

(April 2006)

# **Explanatory Statement**

## ***ASA 230 Audit Documentation***

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 230 *Audit Documentation***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 230 *Audit Documentation* 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:

- have a clear public interest focus and are of the highest quality;

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- 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 230 *Audit Documentation***

The purpose of Auditing Standard ASA 230 is to establish mandatory requirements and to provide explanatory guidance on audit documentation.

Auditing Standard ASA 230 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 208 (July 2002) *Documentation***

The main differences between ASA 230 and AUS 208 are that in ASA 230:

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 208 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 208 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 mandatory requirements, not contained in AUS 208 are included:
  - (a) The auditor shall prepare, on a timely basis, audit documentation that provides a sufficient and appropriate record of the basis for the auditor’s report, and evidence that the audit was carried out in accordance with Auditing Standards and applicable legal and regulatory requirements (paragraph 5).
  - (b) The auditor shall prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand the audit work performed, the results and audit evidence obtained, and the significant matters identified and conclusions reached thereon (paragraph 11).
  - (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 document the circumstances surrounding the

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- inability to comply, the reasons for the inability to comply, and justification of how alternative audit procedures achieve the objectives of the mandatory requirement (paragraph 23).
- (d) New requirements regarding the form, content and extent of audit documentation in regard to identifying characteristics, discussions with those charged with governance, management and others, contradictory information and identification of preparer and reviewer (paragraphs 14, 18, 20 and 26).
  - (e) The auditor shall complete the assembly of the final audit file on a timely basis after the date of the auditor's report (paragraph 28).
  - (f) The auditor shall not delete or discard audit documentation before the end of its retention period, and shall document all modifications and additions (paragraphs 31 and 34).
  - (g) When exceptional circumstances arise after the date of the auditor's report that require the auditor to perform new or additional audit procedures or that lead the auditor to new conclusions, the auditor shall document certain matters (paragraph 35).
  - (h) The auditor shall adopt appropriate procedures for maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of the audit documentation (paragraph 37).
4. The following explanatory guidance not contained in AUS 208 is included:
- (a) Under section 307B of the *Corporations Act 2001*, the auditor or member of an audit firm is required to "retain all audit working papers prepared by or for, or considered or used by, the auditor in accordance with the requirements of the Auditing Standards until:

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- (i) the end of 7 years after the date of the audit report prepared in relation to the audit or review to which the audit working papers relate; or
  - (ii) an earlier date determined by ASIC for the audit working papers” (paragraph 32).
- (b) For audits other than those conducted under the *Corporations Act 2001*, the auditor ordinarily retains all audit documentation for not less than 7 years from the date of the audit report (paragraph 33).
- (c) Under quality control requirements for firms issued by a professional accounting body, firms are required to establish policies and procedures to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of audit documentation. Engagement teams are ordinarily entitled to rely on the firm’s systems, unless information provided by the firm or other parties suggests otherwise (see ASA 220 for further guidance) (paragraph 38).

**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 11/05 *Audit Documentation (Re-issuance of AUS 208)* 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.